

The Latin American INSURANCE market in 2011–2012

CENTRO DE ESTUDIOS
FUNDACIÓN MAPFRE

MACROECONOMIC PICTURE ¹

The Latin American economy remained upbeat in 2011, albeit with a certain slowdown in its growth rate, ending the year with a 4.3% GDP increase against the 6.1% rise of the year before. The growth slowdown commenced during the second half of the year, caused mainly by the international financial markets' growing qualms about the eurozone debt crisis and, to a lesser degree, the lacklustre growth of the US economy. Lower growth prospects in the region slowed capital inflows, reversing the currency appreciation trend of the first half of the year.

The biggest GDP growths were recorded by Panama (10.6%), Argentina (8.9%), Ecuador (7.8%) and Peru (6.9%). The slowdown in Brazil's growth rate accounts for much of the reduction in regional growth as a whole.

¹ The economic comments of this report are based on the ECLAC publications *Economic Survey of Latin America and the Caribbean 2011-2012* and *Preliminary overview of the economies of Latin America and the Caribbean*.



For yet another year domestic demand was the economy's main driving force, on the strength of the positive performance of the labour markets, high credit availability and, in some countries, increased remittances, above all from the United States. In some countries there was also an appreciable increase in the investment in construction and capital goods.

As regards foreign trade, the first half of 2011 saw a high demand for the region's export goods, this tailing off during the second half of the year as the main purchasing economies contracted. Nonetheless exports did benefit from the increase in

the prices of basic export goods, enhancing once more the terms of trade.

Inflation increased during the year, driven up by the rise in international food- and oil-prices, albeit more moderately in the second half. In 11 of the 19 countries making up the study the Consumer Price Index was higher than in the previous year. Venezuela and Argentina once more recorded the highest rates, 27.6% and 9.5%, respectively, although Argentina's inflation rate fell 1.4 percentage points on the previous year. Puerto Rico (1.8%) and Colombia (3.7%) reported the lowest rates.

Economic growth continued to slow down in the first half of 2012 though most countries remained upbeat and in the black. Private demand is still the main driving force of the economy; exports were affected by the price fall in most of the region's main export goods and flagging demand, especially from Europe and Asia. In this context ECLAC forecasts a 2012 GDP growth rate of 3.2%.

INSURANCE MARKET

In 2011 Latin America's insurance market once more showed signs of strength², with mean nominal growth in local currency of 17.1% and a real growth rate of 9.6%, both up on 2010 (14.2% and 7.5%, respectively). Nonetheless the depreciation of local currencies against the euro in 2011 tended to check the growth in Latin American insurance premiums in euros, with premium revenue of 104,221 billion euros, representing a rise of 14.1% (19.3% in 2010).

All the countries recorded nominal growth in local currency, most with two-figure rates. The highest were recorded by Argentina (34.9%), Venezuela (25.9%), Paraguay (24.1%) and Guatemala (24.0%). In real terms there were also

² According to Swiss Re figures published in its report on worldwide insurance, Latin America in 2011 held a 3.4% share of the world insurance market, a zero-point-four percentage point rise on 2010.



IN 2011, LATIN AMERICA'S INSURANCE MARKET ONCE MORE SHOWED SIGNS OF STRENGTH, WITH MEAN NOMINAL GROWTH IN LOCAL CURRENCY OF 17.1% AND A REAL GROWTH RATE OF 9.6%, BOTH UP ON 2010

Figure 1. Variation in premium volume in 2011 in Latin America.

Nominal growth in local currency

% VARIATION IN PREMIUM VOLUME 2011			
COUNTRY	NON-LIFE	LIFE	TOTAL
Argentina	35.0	34.2	34.9
Bolivia	16.0	18.4	16.5
Brazil	16.1	16.9	16.5
Chile	17.0	12.7	14.4
Colombia	14.8	15.0	14.8
Costa Rica	4.1	28.1	6.2
Ecuador	20.4	27.5	21.5
El Salvador	4.1	7.7	5.4
Guatemala	24.0	23.9	24.0
Honduras	6.0	19.5	9.6
Mexico	17.1	12.7	14.2
Nicaragua	11.2	13.8	11.6
Panama	19.3	0.6	14.6
Paraguay	22.2	42.1	24.1
Peru	12.4	7.1	10.1
Puerto Rico	5.3	12.3	5.9
Dominican Rep.	7.4	13.0	8.2
Uruguay	20.4	22.7	21.0
Venezuela	26.4	4.0	25.9
TOTAL	18.1	15.9	17.1

Source: Own statistics from the information published by each country's insurance oversight authority.

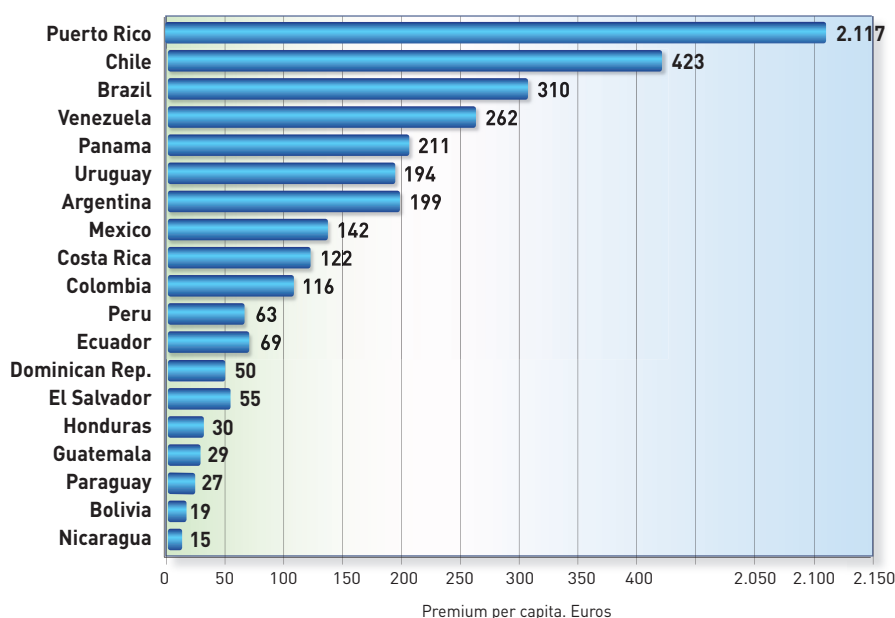
appreciable rises and only Venezuela recorded a fall, of 1.4%. In general, South America and Mexico showed a higher premium growth rate than the markets of Central America and the Caribbean (Puerto Rico and Dominican Republic).

Puerto Rico (2,117 €/inhabitant), Chile (423 €/inhabitant) and Brazil (310 €/inhabitant) are still the countries with the highest per capita expenditure, while the per capita premium in Nicaragua and Bolivia is lower than 20 euros. The per capita premium increased in practically all

countries, whereby the region's mean insurance expenditure rose from 188 euros in 2010 to 213 euros in 2011.

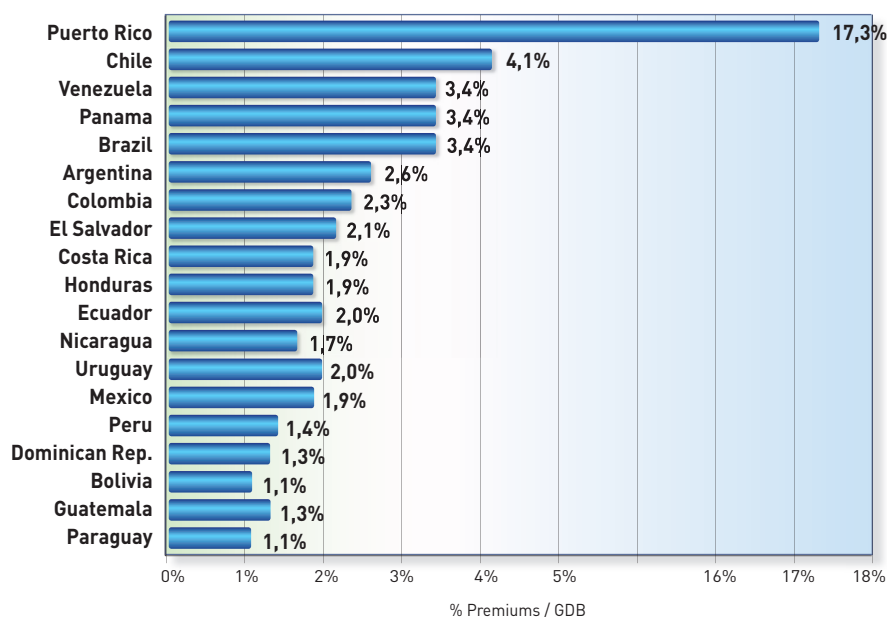
Insurance penetration, the percentage ratio of premiums to GDP, was 3% in 2011 (2.9% in 2010).

Figure 2. Latin America. Premiums per capita 2011.



Source: Own statistics from the information published by each country's insurance oversight authority and by ECLAC.

Figure 3. Latin America. Insurance penetration 2011.



Source: Own statistics from the information published by each country's insurance oversight authority and by ECLAC.

Puerto Rico and Chile still boast the highest ratios, 17.3% and 4.1%, respectively, followed by Brazil, Panama and Venezuela, with 3.4%.

The 104,221 billion euro premium volume for 2011 breaks down into 40% of Life insurance, 41.674 billion euros, 13.9% up on the previous year (33.6% in 2010). Brazil accounts for 59% of the premiums, so the behaviour of this market is a telltale sign of the region's life insurance trend.

Mexico and Chile are the two biggest markets after Brazil, with respective shares of 17% and 10%. If we add in the premiums of Colombia and Argentina, Latin America's five biggest Life markets have a share of 94%.

The insurance product VGBL (*Vida Gerador de Beneficio Livre*), a private Brazilian pension scheme with tax breaks, was again the main driving force behind growth, representing 45% of Latin America's

Figure 4. Latin America. Premium volume 2011 by country.

Data in millions of euros. Nominal growth expressed in euros

PREMIUM VOLUME 2011						
COUNTRY	NON-LIFE	%Δ	LIFE	%Δ	TOTAL	%Δ
Brazil	20,368	15.2	24,578	16.1	44,947	15.7
Mexico	8,678	12.4	7,202	6.3	15,880	9.6
Argentina	6,846	30.5	1,322	29.7	8,168	30.4
Puerto Rico	7,265	-0.7	666	5.9	7,931	-0.1
Venezuela	7,591	19.4	152	-1.8	7,743	18.9
Chile	2,956	20.7	4,363	16.3	7,319	18.0
Colombia	3,836	11.7	1,611	11.9	5,447	11.7
Peru	1,073	9.2	803	3.9	1,876	6.9
Ecuador	791	13.5	165	20.2	956	14.6
Panama	586	12.5	167	-5.1	753	8.1
Uruguay	498	18.6	159	20.9	657	19.1
Costa Rica	511	1.9	61	25.3	572	4.0
Dominican Rep.	430	-2.5	75	2.6	505	-1.8
Guatemala	349	21.5	85	21.3	434	21.4
El Salvador	219	-1.8	122	1.5	342	-0.6
Honduras	168	0.1	68	12.9	236	3.5
Bolivia	148	9.3	41	11.7	189	9.8
Paraguay	160	31.4	20	52.8	180	33.4
Nicaragua	75	0.2	13	2.6	88	0.6
TOTAL	62,547	14.2	41,674	13.9	104,221	14.1

Source: Own statistics from the information published by each country's insurance oversight authority and by ECLAC.

Life premiums with an 18.2% growth rate in 2011. Mexico recorded a more moderate growth rate of 6.3% due to the fall in group Life insurance and pension insurance. Among the main markets the biggest rise occurred in Argentina, 29.7%, thanks to across-the-board growth in individual, group and retirement Life policies.

Non-Life business still accounts for 60% of total premiums, posting a 14.2% 2011 growth rate (11.4% in 2010), slightly higher than Life insurance. This favourable performance was due mainly to the region's healthy economic situation at the moment, with increases in jobs, sale of goods and cars, and also tariff hikes in the main markets. Brazil received a huge boost from the increase in infrastructure investment due to the upcoming world events there (2014 World Cup, 2016 Olympic Games) and the beginning of drilling into its subsalt oil reserves, among other major projects.

Brazil is still the biggest market, with a share of 33%, way ahead of second-placed Mexico with 14% of premiums. Next comes Venezuela, which, after losing market share in 2010 due to the devaluation of the bolívar, jumped back ahead of Puerto Rico in revenue terms. Each one has a 12% share. Argentina holds onto fifth place in this segment with 11% of premiums. These five markets between them add up to 81% of Latin America's Non-Life premiums.

Another notable feature besides the growth of Brazil's market (15.2%) was the Non-Life trend in



NON-LIFE BUSINESS STILL ACCOUNTS FOR 60% OF TOTAL PREMIUMS, POSTING A 14.2% GROWTH RATE IN 2011 (11.4% IN 2010), SLIGHTLY HIGHER THAN LIFE INSURANCE



Argentina, with a 30.5% rise. This growth was largely fuelled by work injury compensation insurance, the second biggest line after vehicle insurance; the former put in a fine performance in 2011 (50.3%) thanks to job stability and wage rises (employers' contributions represent a remuneration percentage). Agricultural insurance also perked up, with an increase of 40.9%.

Mexico recorded two-figure growth, 12.4%, heavily influenced by the June 2011 renewal of the property insurance policy of Petróleos Mexicanos, with a two-year term. The Non-Life lines in Puerto Rico, barring health insurance, are still sluggish, recording a slight increase of 2.4% in USD but

Figure 5. Latin America. Premium volume by branch 2011.

Premiums in millions of euros

LATIN AMERICAN INSURANCE MARKET 2010-2011 PREMIUMS BY BRANCH				
LINE OF BUSINESS	2010	2011	% ^Δ	% Share
Life	36,597	41,674	13.9	40.0
Individual and group life	32,090	36,772	14.6	35.3
Private pensions plans	4,506	4,902	8.8	4.7
Non-Life	54,774	62,547	14.2	60.0
Automobile	20,643	22,682	9.9	21.8
Health	11,796	12,851	8.9	12.3
Fire and allied lines	5,054	5,944	17.6	5.7
Other lines of business	7,321	8,938	22.1	8.6
Transport	2,312	2,668	15.4	2.6
Third-party liability	1,417	1,599	12.8	1.5
Personal accident	2,813	3,448	22.6	3.3
Credit and/or Surety	1,122	1,361	21.3	1.3
Worker compensation	2,297	3,057	33.1	2.9
TOTAL	91,371	104,221	14.1	100.0

Source: Own statistics from the information published by each country's insurance oversight authority and by ECLAC.

translating into a 0.7% fall due to the dollar's depreciation against the euro. This is largely explained by the country's difficult economic juncture, aggravated by fierce competition. The increase in health insurance premiums was due to the Medicare products.

As for the behaviour of the respective business lines, it was work-accident and personal-accident

insurance that chalked up the biggest growth rates in 2011, 33.1% and 22.6%, respectively. The former rise was fuelled by significant increases in this business line in Argentina and Colombia, the main markets. The increase in personal accident insurance was driven by Brazil, a market cornering 49% of premiums and recording a 35.3% growth rate.

Another line that grew considerably in 2011 was fire and allied lines. In this case the main market is Mexico, which recorded a notable increase of 40.1% in this line.



MARKETS OF BRAZIL, MÉXICO, VENEZUELA, PUERTO RICO AND ARGENTINA ADDED UP TO 81% OF LATIN AMERICA'S NON-LIFE PREMIUMS

The most important business transactions in 2011 were the following:

- In July 2011 Banco Santander signed an agreement with Zurich Financial Services Group whereby the latter acquired 51% of the holding company pooling the insurance subsidiaries in Latin America (Argentina, Brazil, Chile, Mexico and Uruguay). Under this agreement Zurich will take on management of the companies and the bank will distribute the insurance products in each one of the abovementioned markets through its network of offices for the next 25 years.
- Grupo de Inversiones Suramericana (Grupo Sura) took over ING's pensions and Life insurance business in Latin America. The sale excludes the Dutch group's 36% stake in the Brazilian insurance company SulAmérica. In 2011 the Colombian group also took over the Dominican insurance company Proseguros and one of El Salvador's main insurance companies, Aseguradora Suiza Salvadoreña (Aseuisa).



- In April the German group Talanx announced the takeover of the Argentine and Uruguayan units of L'Union de Paris, and then in July the purchase of the Mexican company Metropolitana.
- To continue growing in Medicare Advantage, the health product that has put in the best performance over recent years in the Puerto Rican market, Triple-S announced in January the purchase of American Health's operations in Puerto Rico.
- The Brazilian company Marítima Seguros reached an agreement for selling 50% of its capital to Yasuda Seguros, belonging to the Japanese group Sampo.
- In October 2011 the Spanish group BBVA reached an agreement for the sale of its Argentine occupational-risks subsidiary, Consolidar ART, to the Argentine medical services group Galeno.
- In December 2011 ACE Group announced the purchase of the Ecuadorian company Río Guayas, the country's fourth biggest insurance company owned by Banco de Guayaquil

Latin American insurance companies, moreover, posted net 2011 results of 8,476 billion euros³, 4.5% up on the previous year, with particularly important growth rates in Argentina (69%) and Peru (46.5%). In these countries the profit stemmed mainly from the financial result since the technical result was negative, with combined ratios of over 100%. Excellent results were also posted by lesser markets such as Paraguay (70.4%), Guatemala (56.9%) and Dominican Republic (52.9%). This result was favoured by the improvement in the combined ratio (lower than 90% in Paraguay) together with a good financial result.

³ Excluding Puerto Rico

The countries recording a negative growth rate (Bolivia, Chile, Colombia, Honduras and Uruguay) suffered mainly from the lower financial result since the technical result was more favourable. In the case of El Salvador, Nicaragua, Panama and Venezuela, the net result rose in local currency so the decline has to be put down to the depreciation of their various currencies against the euro.

Natural disasters, for their part, had no significant impact on results. The main events affecting the region in 2011 were floods but insured damage was negligible. In 2012 earthquake-related insured losses affected Costa Rica and Guatemala in September and November, respectively; they are expected to be minimal.

The ongoing economic buoyancy of these countries is still driving the insurance activity, which recorded a mean nominal growth in local currency of 19.3% for the total market in the first half-year of 2012, with figures of 24.1% and 16.6% for Life and Non-Life lines, respectively. The biggest push, therefore, came from Life insurance, mainly from Brazil, which increased its production by 31.8%. Mexico, the second biggest market, also performed well, with a 13.9% rise in local currency.

Growth rates were very similar for premium volumes in euros, at 19.1% for the total market, with revenue of 60,054 billion euros, 41% of this figure corresponding to Life and 59% to Non-Life. During this period the currencies of Chile, Colombia,



LATIN AMERICAN INSURANCE COMPANIES POSTED NET 2011 RESULTS OF 8,476 BILLION EUROS, 4.5% UP ON THE PREVIOUS YEAR

Figure 6. Latin America. Net Result 2011 by countries.

NET RESULT (millions of €)			
COUNTRY	2010	2011	%
Brazil	4,745	5,392	13.6
Mexico	904	991	9.7
Argentina	352	595	69.0
Venezuela	422	402	-4.8
Chile	692	259	-62.5
Colombia	481	239	-50.4
Peru	160	234	46.5
Costa Rica	61	78	27.1
Panama	54	48	-11.5
Ecuador	38	48	25.4
El Salvador	40	39	-2.7
Guatemala	24	37	56.9
Dominicana Rep.	23	35	52.9
Honduras	30	28	-6.2
Uruguay	51	17	-66.9
Paraguay	8	14	70.4
Bolivia	14	11	-17.9
Nicaragua	10	9	-5.1
TOTAL	8,108	8,476	4.5

Source: Own statistics from the information published by each country's insurance oversight authority.

Mexico and Peru appreciated strongly against the euro, while the European currency gained ground against the other Latin American currencies.

Work injury compensation insurance is still doing the briskest business, with local currency growth rates of 35.5% in Argentina and 19.7% in

Figure 7. Latin America. Premium volume by countries, first half 2012.

Data in millions of euros. Nominal growth in euros

PREMIUM VOLUME. First half 2012						
COUNTRY	NON-LIFE	%Δ	LIFE	%Δ	TOTAL	%Δ
Brazil	10,552	6.2	14,804	24.9	25,356	16.4
Mexico	5,011	13.4	4,007	11.9	9,018	12.7
Argentina	4,497	38.7	890	25.8	5,387	36.4
Venezuela	4,764	44.8	85	19.9	4,849	44.3
Chile	1,620	19.4	2,531	16.5	4,151	17.6
Puerto Rico	3,698	2.1	379	18.4	4,077	3.5
Colombia	2,346	29.3	965	25.1	3,310	28.1
Peru	603	21.5	459	17.1	1,062	19.6
Ecuador	472	17.1	103	36.5	574	20.2
Panama	323	15.4	93	15.6	416	15.4
Costa Rica	310	26.6	54	41.1	364	28.6
Uruguay	258	23.5	101	42.0	359	28.2
Dominican Rep.	245	18.7	41	19.5	286	18.8
Guatemala	197	0.5	47	6.5	244	1.6
El Salvador	108	12.4	69	22.7	177	16.2
Honduras	99	20.3	39	26.8	138	22.1
Paraguay	104	21.0	14	34.6	118	22.5
Bolivia	92	37.0	25	25.3	117	34.3
Nicaragua	43	18.1	8	40.8	51	21.1
TOTAL	35,339	17.5	24,714	21.5	60,054	19.1

Source: Own statistics from the information published by each country's insurance oversight authority.

Colombia. Vehicle insurance, holding the biggest Non-Life share⁴, also fared very well throughout this period, with eye-catching rises in Argentina (31.3%) and Mexico (13.1%).

The most notable business transactions were the following:

- In March 2012 the Australian QBE Insurance Group announced an agreement for

purchasing HSBC La Buenos Aires. The transaction includes a 10-year agreement for offering QBE's general insurance products to HSBC clients. HSBC Seguros will continue trading in life and retirement insurance in Argentina.

⁴There are no broken-down figures for all lines in Ecuador, Puerto Rico and Venezuela.

■ On this same date HSBC announced the sale of its general insurance business in Mexico to the French group AXA. The transaction includes an exclusive 10-year distribution agreement under which HSBC will distribute these products through its network of branches.

■ In July 2012 the British group RSA completed the takeover of the Argentine companies El Comercio and Aseguradora de Créditos y Garantías, previously owned by Newbridge Latin America, a private US capital fund. The company thereby ups its profile in Argentina and increases its commercial network in the country.

■ Zurich sold to Grupo La Boliviana Ciacruz 51% of its shares in both La Boliviana Ciacruz and Zurich Boliviana Seguros Personales.

■ In September 2012 the US group Liberty Mutual announced the expansion of its operations to Ecuador through the acquisition of two companies, Panamericana and Cervantes. The company is already trading in Argentina, Brazil, Chile, Colombia and Venezuela.

■ In October 2012 MAPFRE and Galeno reached an agreement for transferring MAPFRE's Argentine occupational-risks and health activity to the Argentine company. The transaction also allows for commercial collaboration between both companies.

■ In November 2012 Grupo Sura received authorisation from the Peruvian authorities for

acquiring 63% of the local insurance company Invita, from Grupo Wiese.

Finally, a brief outline is given of the main legislation changes in the two years under study:

■ Decree (*decreto*) 2038/2012, published on 26 October 2012, passed the Occupational Accident and Professional Diseases Compensation Act (*Ley 26.773 de Régimen de ordenamiento de la reparación de los daños derivados de los accidentes de trabajo y enfermedades profesionales*), which amended Argentina's Occupational Risks act (*Ley de Riesgos del Trabajo*). The main change under the new legislation is that injured workers or their kin will have to opt exclusively between the compensation arrangements under this system or those they might be entitled to under another liability system. The different liability systems cannot be combined.

■ As for Chile's insurance legislation, in 2011 the Insurance and Securities Watchdog body (*Superintendencia de Valores y Seguros*) published a significant part of the risk-based supervision legislation, such as the General Law 309 on Corporate Governments (*Norma de Carácter General n° 309 sobre Gobiernos Corporativos*) and, at the end of the year, General Law 325 on Risk Management Systems (*NCG n°325 sobre Sistema de Gestión de Riesgos*).

Another attention-grabbing development in 2011 was modification of the Commercial Code (*Código de Comercio*) in terms of the insurance contract. This code regulates Chile's basic and fundamental insurance legislation and



THE LEY DE INSTITUCIONES DE SEGUROS Y FIANZAS, PRESENTED IN THE SENATE , BRINGS IN A NEW REGULATORY FRAMEWORK, SIMILAR TO THE SOLVENCY II SCHEME, TO GUARANTEE THAT INSURERS AND GUARANTORS HAVE SUFFICIENT RESOURCES TO COVER THEIR LIABILITIES AND RISKS



substantial amendments have been brought in to modernise the current legislation. The Bill has already been approved by the lower and upper houses (*Cámara de Diputados* and *Senado de la República*), so the new law will soon be passed. Under the deadlines laid down in the Bill, the amendments are due to come into force during the first half of 2013.

■ In October 2012 the president of Mexico, Felipe Calderón, presented an initiative in the Senate to create the Insurance and Finance Institutions Act (*Ley de Instituciones de Seguros y Fianzas*) to replace the General Mutual Insurance Societies and Institutions Act (*Ley General de Instituciones y Sociedades Mutualistas de Seguros*) and the Federal Finance Institutions Act (*Ley Federal de Instituciones de Fianzas*). The new legislation brings in a new regulatory framework, similar to the Solvency II scheme, to guarantee that insurers and guarantors have sufficient resources to cover their liabilities and risks and to meet their obligations. The *Ley* also moots reforms to the Insurance Contract Act

(*Ley Sobre el Contrato de Seguro*).

■ In March 2012 the plenum of Panama's National Assembly approved in third debate the insurance activities Bill (*Proyecto de ley 360*). The most notable reforms are the following: recognition of the Insurance and Reinsurance Supervisor (*Superintendencia de Seguros y Reaseguros*) as an autonomous state organisation, bringing it out from under the aegis of the Ministry of Trade and Industry (*Ministerio de Comercio e Industrias*); it lays down the requisites and guarantees for setting up insurance companies; it adopts the International Financial Reporting Standards (IFRS) as its accounting system and determines the requisites for marketing insurance policies through alternative outlets, etc.

■ In November 2012 Peru passed its Insurance Contract Act (*Ley del Contrato de Seguro*). This new law seeks to set up a legal framework for the insurance contract, currently regulated by the 1902 Commercial Code (*Código de Comercio*). The law also takes in the current legislation of the Consumer Code (*Código de Consumo*), with the aim of developing clear protection of the insured. Among other provisions the law forbids the use of abusive practices and clauses by insurance companies and lays down conditions on contract renewal and validity while also regulating premium default conditions, etc. ■