Recent Developments in Insurance Markets Within the Region
Puerto Rico Insurance Summit: Untapping New Opportunities

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Vice President, Swiss Re

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Agenda

The Latin American & Caribbean insurance sector in the context of Emerging Markets

Recent developments in the insurance industry in Latin America & the Caribbean

Perspectives & challenges for the insurance sector
Premium volume in emerging markets grew on average by 11% per year during the last decade.

**Premium volume in emerging markets (EM) and real growth rates (CAGR 2001-2010)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Volume 2001 (USD bn)</th>
<th>CAGR 2001-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>USD 336bn</td>
<td>18.0%</td>
</tr>
<tr>
<td>CEE</td>
<td>USD 88bn</td>
<td>6.4%</td>
</tr>
<tr>
<td>LatAm</td>
<td>USD 128bn</td>
<td>6.9%</td>
</tr>
<tr>
<td>Africa</td>
<td>USD 67bn</td>
<td>4.3%</td>
</tr>
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<td>Middle East</td>
<td>USD 31bn</td>
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**Contribution of each region to the growth of premiums in EM between 2002 and 2010**

- **Emerging markets**: USD 488bn
- **Emerging Asia**: USD 283bn
- **Latin America**: USD 89bn
- **Eastern Europe**: USD 66bn
- **Middle East**: USD 38bn
- **Africa**: USD 24bn
- **Puerto Rico**: USD 10bn

*According to sigma definition, premiums of Puerto Rico are included in the US and as such, not included in emerging markets. Premiums of Puerto Rico (incl health care plans) increased from USD 5bn in 2001 to USD 10bn in 2010.*

Latin America and the Caribbean was the second biggest contributor to new premiums generated in emerging markets.
However, insurance penetration and density still lag behind

## Insurance penetration and density in different regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Life insurance</th>
<th>Non-life insurance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industrial markets</strong></td>
<td>5.5%</td>
<td>5.1%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>0.8%</td>
<td>0.7%</td>
<td>6.4%</td>
</tr>
<tr>
<td><strong>Emerging markets</strong></td>
<td>1.1%</td>
<td>1.6%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Emerging Asia</td>
<td>1.4%</td>
<td>2.5%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Latin America</td>
<td>0.7%</td>
<td>1.1%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>1.1%</td>
<td>0.6%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Africa</td>
<td>3.2%</td>
<td>2.5%</td>
<td>1.1%</td>
</tr>
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<td>Middle East</td>
<td>0.1%</td>
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<table>
<thead>
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<th>Region</th>
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</tr>
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<tbody>
<tr>
<td><strong>Industrial markets</strong></td>
<td>1451</td>
<td>2069</td>
<td>930</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>151</td>
<td>191</td>
<td>1165</td>
</tr>
<tr>
<td><strong>Emerging markets</strong></td>
<td>15</td>
<td>61</td>
<td>13</td>
</tr>
<tr>
<td>Emerging Asia</td>
<td>10</td>
<td>66</td>
<td>5</td>
</tr>
<tr>
<td>Latin America</td>
<td>26</td>
<td>93</td>
<td>48</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>26</td>
<td>60</td>
<td>41</td>
</tr>
<tr>
<td>Africa</td>
<td>23</td>
<td>42</td>
<td>8</td>
</tr>
<tr>
<td>Middle East</td>
<td>16</td>
<td>27</td>
<td>35</td>
</tr>
</tbody>
</table>

Source: *sigma, Swiss Re Economic Research & Consulting*

Puerto Rico is more mature than Latin America in terms of insurance penetration and density.
Size, CAGR and Penetration 2001-2010

CAGR

Premiums / GDP
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Impressive growth of insurance premiums in Latin America

Total premiums in Latin America & the Caribbean, and Puerto Rico

Source: Swiss Re Economic Research & Consulting, sigma

Also in Puerto Rico premiums grew strongly – doubled in 10 years.
Factors which support premium growth

Economic growth

**In recession times, insurance premiums decrease**

Variation of premium growth and GDP in Latin America

Some causes:

- Reduction in demand of single life premium products and those related to mortgages.
- Transport and credit insurance reduces due to reduction in commerce; exposure reduced due to lower production; companies reduce budgets and optimize insurance purchase; families reduce purchase of goods, etc.
- 2002 crisis was solely Argentina, while 2009 crisis was a worldwide one.

Fuente: Swiss Re Economic Research & Consulting, *sigma*
Factors which support premium growth

Economic growth

Growth in purchase power has boosted auto sales in Latin America, with an important impact on motor insurance.

Population is buying new cars
(New vehicles sales per year, index 2000=100)

Motor insurance premiums
(Motor insurance premiums, in LC, index 2000=100)

Purchase power growth has also increased purchase of real estate as well as appliances. Its impact in insurance is witnessed in EQ insurance and extended warrantee insurance products.
However, insurers are diversifying away from motor business.
## Factors which support premium growth

### Privatization of the pension systems

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Insurance premiums linked* to pensions as a % of Life Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>1981</td>
<td>53%</td>
</tr>
<tr>
<td>Perú</td>
<td>1993</td>
<td>63%</td>
</tr>
<tr>
<td>Colombia</td>
<td>1994</td>
<td>46%</td>
</tr>
</tbody>
</table>

*Seguros de Invalidez y Sobrevivencia, así como Rentas Vitalicias*

Source: Swiss Re Economic Research & Consulting
The introduction of savings products (VGBL) with tax incentives, boosted growth of the life market in Brazil since 2002.

In 2010, VGBL accounted for 63% of the life business in Brazil, and 38% of the life business in the region.

Factors which support premium growth
Tax Benefits

Life Premiums in Brazil and VGBL (USDm)

- Otros productos de vida y pensiones (USDm)
- VGBL (in USDm)

Fuente: SUSEP y Swiss Re Economic Research & Consulting
Alternative distribution channels, and in particular bancassurance are now established in the region.

Use of Alternative Distribution Channels: bancassurance, direct marketing (telemarketing, mailing), retail stores

Bancassurance generates 28% of the volume of individual life premiums in Mexico.

69% of life premiums are intermediated through alternative distribution channels in Chile.

**Fuente:** Asociación Mexicana de Instituciones de Seguros

**Fuente:** Asociación de Aseguradores de Chile
Local insurance companies are successfully competing with multinational companies.

Between 2003 and 2010 the market share of the 25 largest insurance companies in the market has reduced.

Higher competition will benefit insureds with new products, competitive prices, and service improvements.

Local companies have been successful in competing with international companies in the regional market.

Local insurance companies among the Top 25, have been able to increase their market share while international companies have reduced it.

Fuente: Mapfre, Ranking de grupos aseguradores en América Latina, 2003 y 2010
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Despite strong growth, there is still much potential to be exploited in Latin America

Insurance premiums in Latin America and the Caribbean** in 2010, by country (USD millions)

- Brazil: 48,711
- Mexico: 17,373
- Venezuela**: 12,832
- Argentina: 7,999
- Chile: 6,179
- Colombia: 5,278
- Peru: 1,724
- Others: 8,220
- Puerto Rico**: 10,342

Insurance penetration in 2010, by country (premiums as% of GDP)

- World
- Latin America & the Caribbean

* Using an exchange rate of VEF 2.15 per USD. In 2011, however, the fixed exchange rate became VEF 4.3 for USD, negatively affecting the premium volume in USD terms.
** According to sigma definition, Puerto Rico is not included in Latin America & the Caribbean but in the US. Premiums include USD 5.4 billion from health care plans.
Source: Swiss Re Economic Research & Consulting, sigma
It is expected that premiums will continue growing strongly in the region.

### Life and Non-life insurance premium growth by region 2011 - 2021

<table>
<thead>
<tr>
<th>Region</th>
<th>CAGR 2011-2021</th>
<th>Additional premiums in 2011-2021, USD bn</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Life</td>
<td>Non-life</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>7.9%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Emerging Asia</td>
<td>8.5%</td>
<td>8.3%</td>
</tr>
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<td>Eastern Europe</td>
<td>7.5%</td>
<td>4.9%</td>
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<tr>
<td>Latin America</td>
<td>7.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Middle East</td>
<td>8.0%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Africa</td>
<td>4.0%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Industrialised countries</td>
<td>2.9%</td>
<td>2.6%</td>
</tr>
<tr>
<td>World</td>
<td>3.9%</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

Fuente: Swiss Re Economic Research & Consulting, *sigma*

- Private consumption will benefit personal lines (life, motor, property and health).
- Credit and transport will benefit from increase in international commerce.
- Engineering will be benefiting from infrastructure investments.
It is expected that premiums will continue growing strongly in the region

**Infrastructure**
- Economic growth contributing to advancement of infrastructure projects.
- Infrastructure investment in the region is estimated to be greater than $1 Trillion over the next 5 years.
- Existing infrastructure uninsured/ underinsured as evidenced by recent flood losses in Brazil and Colombia.

**Agriculture**
- Latin America is a net food exporter and accounts for 10% of global agricultural exports.
- Investment in the agro-industrial sector representing opportunity in select markets.
- Exposure to catastrophic events and the volatility of commodity prices pose risks.

**Demographics**
- Steadily increasing middle class with rising home and vehicle ownership rates.
- Greater demand and purchasing power from the middle class for insurance products such as health insurance and home insurance.
- Massive lower class with needs that can be met through microinsurance.
- HNW individuals growth demanding large sum insurance products as well as income protection covers.
It is expected that premiums will continue growing strongly in the region.

**Financing Growth**

- Increased demand from growing middle class and business activity will require additional capital.
- Changes in regulation also requiring additional capital.

**Trade**

- Increased intraregional and international trade
- Free trade agreements will boost exports from the region
- Increased global demand for oil and other raw materials from Latin America will be a key driver for international trade

**Third Party growing exposures**

- Increased third party exposures as Latin America further integrates with the US
- Impact of FTA, in regards to covers such as Product Liability
- High Net Worth individuals seeking protection of income (liability umbrellas)

It is expected that premiums will continue growing strongly in the region.
Challenges: 2011 was almost the most expensive year for the industry

In 1Q2011, the reinsurance industry reported an average combined ratio of 154%
However, insurance companies have several challenges (1/2)

For example, increase in insurance rates

- 1Q11 cat losses reduced capital by 6%.

Capital base, though strong, is likely to be overstated due to:

- **Interest rates rising** from current low levels will lead to mark-to-market losses on bonds. A 1% point increase is estimated to decrease the capital base by approx 10%.

- **Reserve adequacy having eroded** as reserves for redundant underwriting years mature and are replaced by less sufficiently reserved years.

- **Capital requirements** having risen since 2007 as a result of the financial crisis (i.e. internal models and rating agencies).

In general, **property cat rates** have increased in Q1 renewals, which property per risk and Casualty have maintained flat.

In Latin America & the Caribbean property cat rates have increased between 3% and 15%.
Impact of low interest rates:
Need to have a lower combined ratio to compensate for lower yields

- 1 percentage point lower investment yield requires about a 3 percentage point decline in combined ratio to maintain a return on equity of 4.8%
- The interest rate shock is far more significant than the 2010-2011 natural cat losses

Sources: A.M. Best, estimates by Economic Research & Consulting based on 10-year average for the US market.
However, insurance companies have several challenges (1/2)

- Review business model to increase productivity and improve underwriting
- Increased supervision and reporting
- Administration of increased exposures due to growth (i.e. EQ and TCNA aggregates, life accumulations in transportation, pandemics)
- Service to low income segment of the population ("bottom-up" measures)
  - Develop simple and accessible products
  - Use alternative distribution methods to penetrate this segment of the population at a low cost.
- Work with governments to provide solutions to manage its risks (i.e. uninsured infrastructure, massive segments of the population which are uninsured – "top down" measures).
- Promote an insurance culture among our organizations
- Capital management
Muchas gracias.
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