

# Insurance Markets in Latin America: Assessing Obstacles to Growth

INTERNATIONAL INSURANCE FOUNDATION SYMPOSIUM

FINANCIAL GLOBALIZATION:  
ITS POTENTIAL FOR RISK MANAGEMENT

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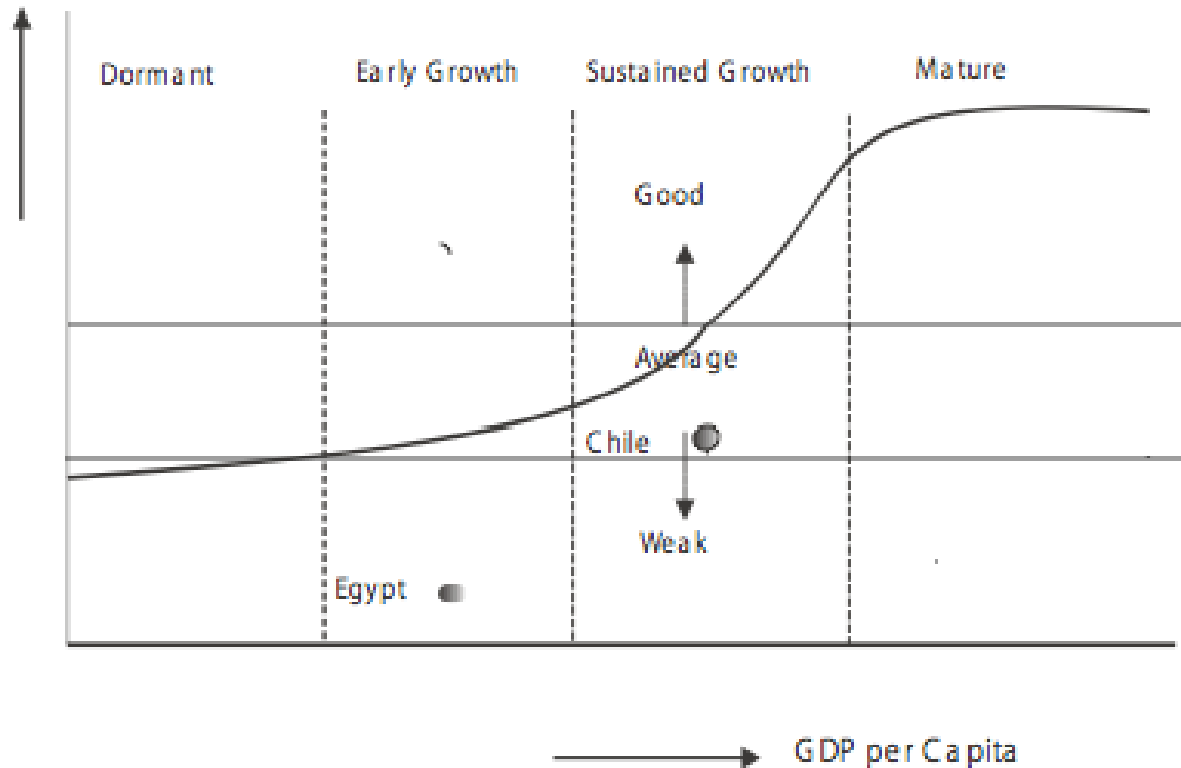
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## S - Curve

Insurance Penetration (Premium as % of GDP)



# Impediments to Market Development in Latin America

- Is Consumer demand low?
  - Inadequate appreciation of insurance
  - Low income
- Is Insurance Supply Inadequate?
  - Price too high
  - Availability scarce



**Table 3. Factors Influencing Insurance Demand**

<b>General factors</b>	<b>Specific factors</b>
Economic growth	Products offered
Wealth distribution of income	Distribution channels
Religion, culture	Risk awareness
Education	Insurance regulation
Property rights, legal certainty	Trust in insurance
<b>Non-life Insurance</b>	
Compulsory insurance	Economic stability (e.g., inflation, currency)
Natural catastrophe exposure	Savings rate
Public role in health and worker compensation insurance	Demography
Claims awards	Tax benefits
	Pension system
<b>Life Insurance</b>	

*Source:* Swiss Re Economic Research & Consulting



# Assessing Impediments: the Survey

Generate base of statistics at Regional level on Regulatory and Industry Strengths and Weaknesses

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Encourage ASSAL and FIDES to analyze insurance market challenges and their societal consequences

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Study role of insurance in helping mitigate poverty



# Regional Similarities Increase likelihood of Regional Initiatives and Market Development

L.A. Markets have similar historical roots, cultural heritages, and languages

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L.A. Markets are experiencing similar internal and external forces (economic liberalization, IAIS and FSAP)

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Essentially to get leaders in public and private sector to provide guideposts towards what areas need to be further studied



# Main Topics within Survey

- the adequacy of statistics
- strength of professional associations
- support provided to insurance markets by key institutions
- support provided to insurance consumers
- strength of industry practices
- strength of regulatory frameworks and supervisory practices.
- growth potential of insurance
- contribution of insurance to the economy



# Target Group

**Supervisors = 18**

**Insurance Associations = 19**

**Insurance Companies = 126**



# Key Topics

Education	
Future solvency threats to market	Future Threats: macroeconomic, political, financial, industry, and reinsurance stability
Historic solvency threats to market	Historic causes of insolvencies: macroeconomic, political, financial, industry, and reinsurance



# Key Topics

Institutional, legislative, and bureaucratic impediments to the development of the market	Impediments to market growth: education, quality of data, taxes, judicial or police, mandatory insurance, transparency in issuing regulations, supervisory agency financing, legal protection supervisory staff, capital market transparency and depth
Training	IAIS Principles & Standards, Reserves, financial analysis, assets, reinsurance, overall



# Key Topics

Resources available to supervisor	Salary, term of office, computer and IT, electronic access to company data, source of financing, professional background of staff, legal protection for supervisor, support given to supervisor by private sector and legislative/executive branches,
Strength of regulatory practices	Financial analysis, market data collection



# Key Topics

Strength of regulatory practices	Financial analysis, market data collection
Adequacy of institutions that support insurance markets	Judicial system, autonomy of supervisor, police, capital markets, insurance company owners, rating agency effectiveness, news agencies influence, insurance associations' influence
Strength of professional associations	Actuarial, accountant, risk manager, loss adjustor



<p>Defining characteristics of regulatory practices and framework</p>	<p>Overall approach: regulation of price, reserves (mandatory or voluntary, required formula or up to insurer discretion), inspections, sanctions, appointed actuaries, asset custodians, external auditors,</p>
<p>Defining characteristics of industry practices</p>	<p>Structure of industry, Catastrophe risk analysis, type of data used in pricing and reserving, own formulas used in reserving</p>
<p>Support provided to insurance consumers</p>	<p>Support with buying insurance, filing claims, mandatory insurance, recording complaints against companies, negotiating with insurers</p>



Data collection by type of agency and type of data	Whether data collection done by supervisor, industry association, private sector data collection firm, and type of data collected
Industry efficiency	Days from receiving to paying claims
Collaboration between industry and supervisor	Level of participation of private sector in regulatory reforms, level of disagreement within industry



Level of use of actuaries	Actuaries used for which lines of business and types of reserves , type of certification given to actuaries,
Industry standards of business practice	Existence of and extent of use
Strength of supervisory practices	Knowledge, efficiency and effectiveness with which regulatory staff supervises on-site inspections, protection to consumers, services to market, investment in market, capital adequacy, ALM, technical reserves, reinsurance, intermediaries. Strength of supervisory agency ethics code, employment practices, overall contribution to market.



<p>Strength of regulatory framework</p>	<p>Effectiveness of existing regulatory framework with respect to on-site inspections, protection to consumers, services to market, investment in market, capital adequacy, ALM, technical reserves, reinsurance, intermediaries,</p>
<p>Public satisfaction with insurance Public confidence and knowledge of insurance</p>	<p>Insurance education, confidence in supervisor, satisfaction with insurance prices, satisfaction with explanation of products, satisfaction with claims process</p>



Strength of industry practices	Strength of industry practices in the following areas: technical reserving, financial management, ALM, underwriting, marketing, claims adjusting, internal control, foreign exchange risk, reinsurance, distribution channels, data collection and analysis, fraud management, consumer risk profiling
Overall assessment of insurance markets	State of insurance market development



<p>Contribution of insurance to economic development</p>	<p>Perceived contribution of the following insurance lines to the economy: life with savings, life without savings, annuities, agro fishery, homeowners, auto, catastrophic, liability, health, environmental, business property, micro insurance, small business insurance, rural population,</p>
<p>Potential growth foreseen for specific lines of insurance</p>	<p>Growth foreseen for the following: life with savings, life without savings, annuities, agro fishery, homeowners, auto, catastrophic, liability, health, environmental, business property, micro insurance, small business insurance, rural population</p>



# RESULTS



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# Key Impediments to Market Development in Latin America

- Lack of education and appreciation of insurance: 82%
  - 47% strongly agreed
  - 35% agreed
- Inefficient or undeveloped institutions (i.e. police, justice): 62%
  - 35% strongly agreed
  - 27% agreed
- Low quality of data available to insurers: 51%
  - 7% strongly agreed
  - 44% agreed
- Excessive Taxes: 32%
  - 8% strongly agreed
  - 24% agreed



# Public Satisfaction and Confidence in Insurance

- How good is consumer knowledge of insurance in your market:
  - Poor: 59%
  - Very Poor: 13%
- How much confidence to consumers have in the supervision and reliability of insurance products:
  - Little confidence: 17%
  - Some confidence: 57%
  - Great confidence: 15%
- Consumers think they are paying too much for insurance
  - Completely agree: 22%
  - Agree: 53%



## Support Provided to Consumers

- Does Supervisor or some other neutral entity offer consumers information about how to purchase insurance
  - Yes: 33%
  - No: 57%
- Does Supervisor or some other neutral entity offer consumers information about how to make claims to insurance companies
  - Yes: 52%
  - No: 39%
- Is there a neutral mechanism or entity which negotiates on behalf of consumers with insurance companies
  - Yes: 54%
  - No: 37%



# Supervisory Effectiveness & Capacity

## To Improve Supervision

- Strengthen corporate governance practices: 58%
- Greater participation of private sector in new regulations: 43%
- Reformulate risk and financial analysis: 48%
- Reformulate objectives and priorities of supervisor: 45%



# Industry Practices and Market Development

To Help Market Develop, Need to Improve

- Managing of insurance fraud: 67%
- Collecting & analyzing information on risk profile of insured: 54%
- Marketing practices of agents and brokers: 52%
- Distribution networks: 43%
- Techniques / strategies of underwriting: 42%
- Internal control: 37%
- General insurance company management: 35%
- Collecting & analyzing data losses, investments: 33%
- ALM: 33%



## Data collection by type of agency and type of data

- Is the overall quality of the data used by the insurance industry good?  
Yes = 54%
- Is the quantity and depth of data used by the insurance industry good?  
Yes = 52%
- For nonlife, is data available to insurers for calculating reserves and prices adequate?  
Yes = 54%
- For life, is data available to insurers for calculating reserves and prices adequate?  
Yes = 52%



# Data collection by type of agency and type of data

- For nonlife, the following types of information are collected in order to underwrite and price:

Age of vehicle: 83%

Accident history of applicant: 43%

Credit risk profile of applicants: 44%

- Are mortality tables based upon up-to-date national data used?

Yes = 34%

No = 48%



# Adequacy of Institutions that Support Insurance Markets: Police and Enforcement

- More efficiency is needed in police systems: 72%
  - 33% Complete improvement needed
  - 39% Improvement in many aspects needed
- More efficiency is needed in the judicial system: 74%
  - 33% Complete improvement needed
  - 39% Improvement in many aspects needed



# Adequacy of Institutions that Support Insurance Markets: Judicial System

- Is adequate deference given by courts to the decisions of Supervisory agency: Yes = 46%
  - 9% strongly agreed
  - 37% agreed
- Is Judicial system too litigious, slow, unpredictable: Yes = 76%
  - 39% strongly agreed
  - 37% agreed
- Is improvement needed in the Judicial system: Yes = 74%
  - 35% strongly agreed
  - 39% agreed



## Institutions Which Support Insurance Markets: Capital Markets

- Is size and variety of instruments offered adequate for insurers?  
Yes = 20%
- Is liquidity of fixed-income instruments is adequate for insurers?  
Yes = 37%
- Is more transparency needed in capital markets?  
Yes = 35%
- Do rating agencies rate all insurers in your market?  
Yes = 19%



## Professional associations

- Does there exist a national actuarial association?  
Yes = 39%  
No = 52%
- Does there exist a national risk managers' association?  
Yes = 26%  
No = 61%
- Does there exist a national loss adjustors' association?  
Yes = 39%  
No = 52%
- Are most of the loss adjustors/risk managers/actuaries which work in your country subject to a code of standards and practices which regulate their activities and labor? (less than 30% for all)



## Source of Discipline, Strength & Conduct of Market

- Does the discipline, strength, good conduct of market come from investors and insurance company owners? Yes = 81%
- Does the... come from the supervisor? Yes = 72%
- Does the ... come from rating agencies? Yes = 24%
- Does the... come from the news entities? Yes = 17%



# Industry Standards of Business Practice

## Existence of Code of Ethics, Mechanisms for Monitoring Compliance

- Does Not Exist: 66%
- Exists, but with few standards: 9%
- Exists, with various standards: 7%



# Future and Historic Solvency Threats to the Market

## Future Threats

- Natural Disaster: 44%
- Political Conflicts/Events: 57%
- Insolvency of a large insurer: 50%
- Economic Recession: 74%
- Volatility in exchange rate: 44%
- Market risk (fluctuation price bonds, stocks): 43%
- Credit Risk: 39%
- Insolvency or default large reinsurer: 65%
- Insufficient reinsurance: 71%
- Volatility price/availability of reinsurance: 63%
- Volatility Loss Ratio: 72%



# Future and Historic Solvency Threats to the Market

## Future Threats

- Fluctuation administrative costs: 54%
- Ineffectiveness of Supervisor: 67%
- Regulatory Demands: 45%
- Underestimated reserves: 63%
- Liquidity crisis inadequate ALM: 54%
- Inefficient underwriting in market: 69%
- Over-concentration of sales in market: 36%



# Future and Historic Solvency Threats to the Market

## Historic Threats

- Strong price competition: 80%
- Economic Recession: 67%
- Underestimated Reserves: 50%
- Fluctuation in operating costs/expenses: 48%
- Volatility in Loss Ratio: 44%
- Ineffectiveness or inefficiency of supervisor: 34%



# Collaboration Between Industry and Supervisor

What level of participation do insurers have in the revision and issuing of new regulations:

- Extensive, with pre-established guidelines for consultation: 26%
- Formal and informal participation at discretion of supervisor: 48%
- Informal participation at discretion of supervisor: 11%
- Almost no participation: 4%



# CONCLUSIONS



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# Obstacles to Development

Education and Appreciation of Insurance

Police and Justice System

Quality of Data

Taxation



# Policy Initiatives to Undertake

## ASSAL / FIDES

- ✓ Confirm/Study conclusions at country level
- ✓ Collect statistics which can further clarify or modify conclusions
- ✓ Monitor improvement/change over time
- ✓ Promote public/private collaboration on system-wide addressing of obstacles



# Financial Globalization: Potential Benefits Accruing to Insurance Markets

- Greater flows of capital increase depth of local capital markets
  - Better ALM, improved investment performance
  - Increased demand for investment-linked products
- Greater foreign ownership brings marketing and financial managements skills
  - Better consumer education?
  - Better product transparency?

