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NEWS INSIDE

YEAR IN REVIEW

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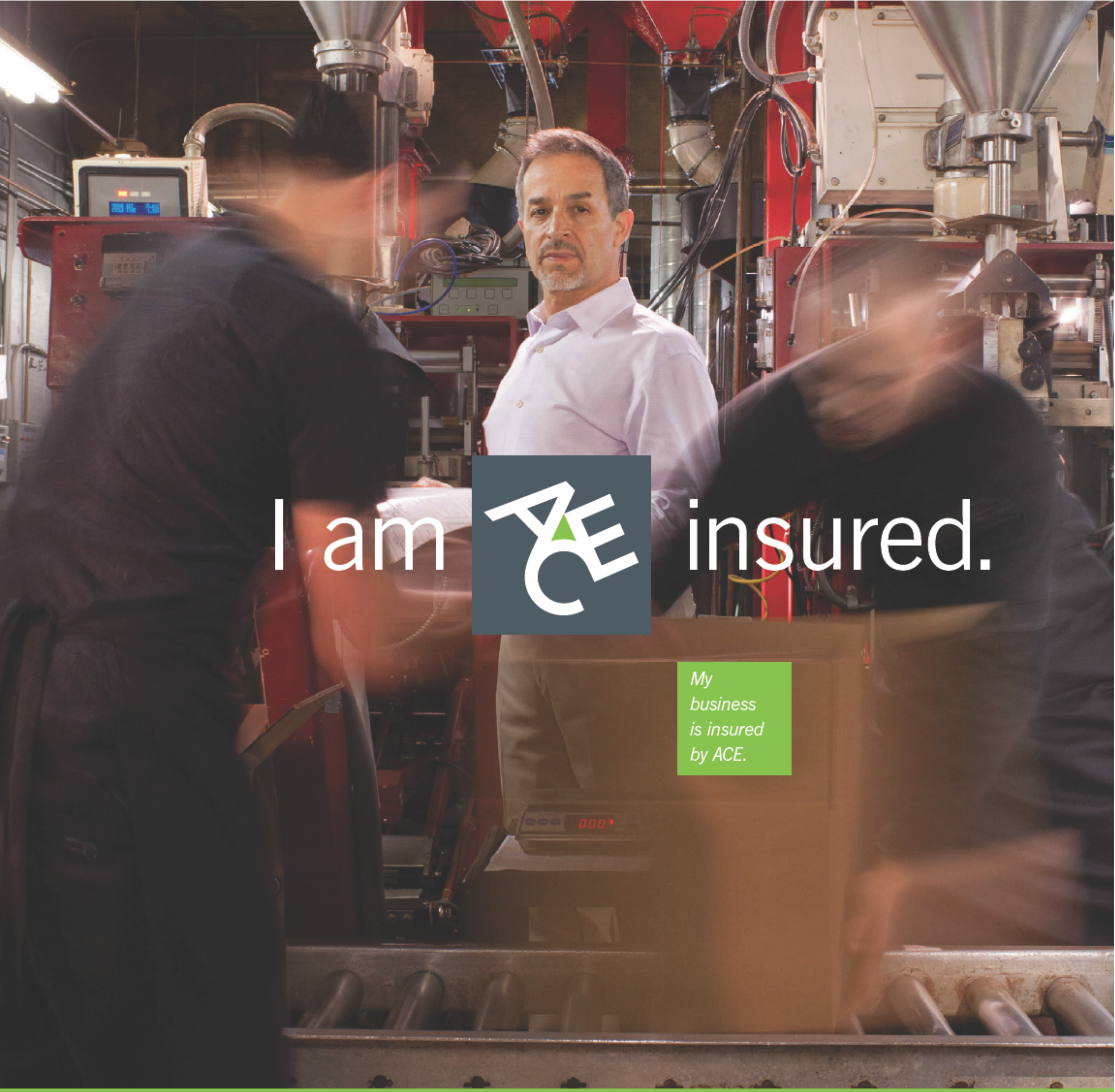

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EDITORIAL VIEW

There was no shortage of insurance news to come out of Latin America in 2013. M&A, solvency-based regulation, launches and ambitious corporate insurance strategies have given players across the risk transfer chain plenty to mull over in the New Year.

LatAm Insurance Review looks back at the main stories of 2013 while asking industry leaders about their predictions for 2014 (*see p.11*). Excess capacity, competitive markets and a potentially shifting reinsurance business model have crept into discussions about expectations and concerns.

Globally, third-party capital flows into the reinsurance industry have brought speculation around how the traditional business model will be affected; a similar concern has arisen in Latin America, although caused by a different source of capital.

As large international carriers flock to the region, their ability to deploy capital means reinsurers will need to review business strategies. Saturated or competitive business environments will further encourage innovation in the industry, in some cases signifying the need to diversify to other markets.

IRB Brasil Re's "follow the customer" approach is one such example of innovation. In an exclusive interview (*see p.4*) the CEO of Brazil's former sector monopoly reveals its expansion plans after outgrowing domestic opportunities. RB has also announced IPO plans in the next five years, making it one to watch.

The near future holds a number of potential headlines in the region, and if 2013 is anything to go by, there will be plenty more to talk about in the New Year.

Roberto Barros
Senior correspondent

EXPANSION

Latin America part of AMA Seguros' expansion plan

Spanish mutual insurer Agrupacion Mutual Aseguradora (AMA) has revealed plans to enter Latin America as part of its expansion strategy.

The decision to enter the region was reached during the firm's Extraordinary General Meeting, held on 23 December 2013, in which 98.4% of assembly members voted in favour of expanding into Latin America.

In a statement to members, Diego Murillo Carrasco, president of AMA, said the fact that the three largest Spanish insurers are present in the region means the company should not miss out on the opportunity to offer products there. ■

STRATEGY

IRB Brasil Re views opportunities beyond Brazil

IRB Brasil Re is seeking to expand its footprint outside of Brazil based on the logic that Brazilian companies now operating in several countries will need regional or even global insurance programmes.

Speaking to *LatAm Insurance Review*, Leonardo Paixão, CEO of recently privatised IRB Brasil Re, said Latin America's largest reinsurer would apply a "follow the customer" approach to its organic strategy by continuing to provide Brazil's corporate giants with reinsurance solutions as they expand beyond Brazil.

"These Brazilian companies that now have operations in several countries will need regional or even global insurance programmes," he said, adding that Africa and Latin America are the main regions Brazilian corporations expand to, and where IRB will follow.

He added that considering IRB Brasil Re controls 35%-40% of the Brazilian reinsurance market, which includes over 100 competitors, he does not see much room to grow domestically in Brazil.

Paixão commented: "The company's strategy going forward, which was suggested by the controlling shareholder, and will now be ratified by the new control block, is to follow Brazilian multinationals as they expand to other jurisdictions."

He added that, though the reinsurer's strategy is to grow organically, it would not be closed to acquisitions should opportunities arise in the countries it is looking to focus on, as demonstrated by the acquisition of a 4.8% stake in Africa Re in April 2012.

"We do not have a deliberate strategy where we are targeting acquisitions, but obviously if interesting opportunities arise – as they did with Africa Re's capital increase that provided an opportunity for us to enter the shareholder agreement – we will analyse them."

IRB Brasil Re, established in 1939, held a monopoly of the Brazilian reinsurance industry until 2007, when the market opened to private competitors. Its privatisation process reached a conclusion in October 2013. ■

INDUSTRY

Fitch: Outlook stable for Mexican insurance market in 2014

Mexico's insurance industry is expected to remain stable in 2014, with a better economic environment to be reflected in good premium growth in the year, according to Fitch Ratings.

The environment will be mitigated by claims and additional costs resulting from the new insurance law (LISF) and the tax reform currently under discussion, the ratings agency said.

It added that insurers will be allowed to adapt gradually to the new regulations, which will mitigate costs. However, some insurers will not be able to meet capital requirements, which will encourage M&A activity.

Fitch said it expects premium growth of 10% in 2013 and 13% in 2014, reflecting the momentum of solid demand for insurance due to the expected economic recovery in 2014 and good prospects for bancassurance products.

The insurance market recorded real premium growth of 8.8% in Q3 2013 over Q3 2012. This growth benefited from the multiyear renewal of Petroleos Mexicanos' (PEMEX) policy on June 2013. However, growth without this effect was 6% for Q3 2013, Fitch Ratings said.

The insurance sector's combined ratio (excluding catastrophic reserve adjustments) remained at historically low levels – 99% versus 103% in 2009-2012 – as underwriting costs and loss ratios reached 30% and 69% of earned premiums.

The sector benefited from the absence of major catastrophes and price increases in some P&C lines. Fitch estimates a year-end 2013 combined ratio of 98% but a slight decline in 2014 due to the possible additional costs of new regulation and a less benign catastrophe result.

Fitch Ratings added that it expects the enforcement of a risk-based capital (RBC) regime from April 2015 to strengthen industry capitalisation, as it will require insurers to cope not only with underwriting risk but with other risks as well, possibly resulting in larger capital bases in the medium term. ■

STRATEGY

AIG developing more than 100 insurance products for Latin America

AIG is developing more than 100 insurance products that it hopes to launch in Latin America as part of a strategy to double its revenues in the region within the next five years, the group's regional CEO has told *LatAm Insurance Review*.

Latin America represents $1.5bn in revenues for the group, and Jim Dwane, president and CEO, Latin American and the Caribbean at AIG, said the provider is "very optimistic" about opportunities in the region.

In the past year alone, the group launched 30 products in the region, either as new to Latin America or which it is "borrowing" from other parts of the world, Dwane said.

The product offering encompasses both traditional product types – including casualty, property and financial lines – and specialist lines including marine, environmental, surety and trade credit.

"We are very focused on organic growth. We placed a tremendous amount of focus on three countries in particular: Brazil, Colombia and Mexico," he said.

"AIG has selected nine markets in the world through which it will invest heavily in the future. Within Latin America we have three of them. That gives you a perspective of what type of investments we are looking to make organically."

Asked whether AIG was looking at acquisitions in the near future, Dwane said: "We are not closed to that option, but it is not our strategic focus at this point."

He added: "That said, when you are in a marketplace as dynamic from an economic, political and regulatory point of view, you can't ignore the 'inorganic' market." ■

Read the full interview with Jim Dwane on p.20-21.

STRATEGY

Patria Re opens in London as part of international expansion drive

Mexico City-based specialist insurer and reinsurer Patria Re has opened a marketing office aimed at the Lloyd's and London market, as the company looks to strengthen its position as an international (re) insurance specialist.

The launch of the venture, called Patria Re Marketing Services (PRMS), will be supported by Ambant Underwriting Services.

Ingrid Carlou, CEO of Patria Re told *LatAm Insurance Review* that the new office will help Patria Re to be nearer the "pulse of the trends and developments" in the global reinsurance industry, aligned with plans to position the company as an international reinsurer with a specialty in Latin America.

She said: "An office in London does not only facilitate our international expansion, we also believe it reinforces our position in our home markets, helping us to provide a better service and a wider spectrum of products.

"The London market is without doubt one of the main centres for international reinsurance; a local presence gives us access to a very large number of offers that we would not see were we to operate or to seek international expansion based in our home countries."

Carlou added that the firm's focus will be on traditional property lines in both proportional and non-proportional treaties.

Danny Maleary, CEO of Ambant Underwriting Services, said: "Patria Re is an example of a forward thinking international insurance and reinsurance specialist looking to enter this market the smart way."

Founded in 1953, Patria Re operates primarily in the Mexican and Latin American markets but has expanded outside Latin America in the last decade. ■

INDUSTRY

Brazil's CNSeg predicts insurance revenue growth of 15.6% in 2014

Brazil's insurance market revenue is expected to grow 15.6% year on year (YoY) in 2014 according to the country's insurance confederation, CNSeg.

The figure includes sales in the P&C, life, private pension and surety segments, as well as health and capitalisation bond providers.

While the P&C insurance market is expected to grow 12.8%, pension plans will grow 15%, capitalisation bond sectors is to grow by 23%, and supplementary health is expected to grow 16.7%, CNSeg said.

Meanwhile, CNSeg announced it expects total YoY insurance industry revenue growth of 14.3% for 2013, reaching R$290.6bn ($123bn).

Marco Antonio Rossi, president of CNSeg commended the growth of the investment portfolio of the insurance market in 2014, which represented 12.9% of GDP, with R$559bn ($239bn) invested in the months leading to October 2013.

"These numbers in the insurance industry are consistent and significant," he said. ■

PEOPLE MOVES

Beazley hires head of business development for Latam

London-based specialist insurer Beazley has appointed Ricardo Ortega to spearhead the development of its business in Latin America.

The move follows the opening of a Latam office in Miami as the company looks to expand its footprint in the region.

Ortega will join the company's broker relations team, headed by Dan Jones, and will work closely with brokers throughout Latin America to develop opportunities in the markets in which Beazley specialises, according to the company.

He joins from loss adjusters Crawford & Company, where he was country manager for Brazil.

Prior to joining Crawford in 2010, Ortega was managing director of Interbrok Group, an independent insurance and reinsurance broker in Brazil. He has also previously worked in the UK at Marsh, where he was responsible for the placement of large industrial Latin American insurance programmes into London.

Beazley chief executive Andrew Horton said: "A strong insurance industry will be essential for Latin America to continue to realise its potential among the world's most dynamic economies.

"Ricardo's experience and expertise will be enormously valuable to us as we seek, in close collaboration with local brokers, to grow our business in the region."

Ortega said: "I believe there will be strong demand in Latin America for Beazley's skills and high quality claims service, across many lines of business."

Beazley said construction and engineering risks present an area of opportunity in the region due to infrastructure investments. The firm is a member of the Lloyd's construction consortium, which can cover risks of up to $166m on a probable maximum loss (PML) basis.

Ortega will be based in Rio de Janeiro. ■

PEOPLE MOVES

Aon Benfield names Joe Smith as Chile CEO

Aon Benfield has appointed Joe Smith as chief executive officer of its Chile team.

Smith, who has 20 years of experience with Aon, was previously treaty director at Aon Benfield Chile, a role that remains within his responsibilities as CEO of Aon Benfield Chile.

The appointment is one of several changes to Aon Benfield Chile, which will allow the global reinsurance broker to increase its strategic focus on the market, the company said.

Aon Benfield has also hired Mariana Muli as chief financial officer, Martin Soto Quintus as director of the facultative department, and Miguel Pizarro as head of product development for Aon Benfield Chile.

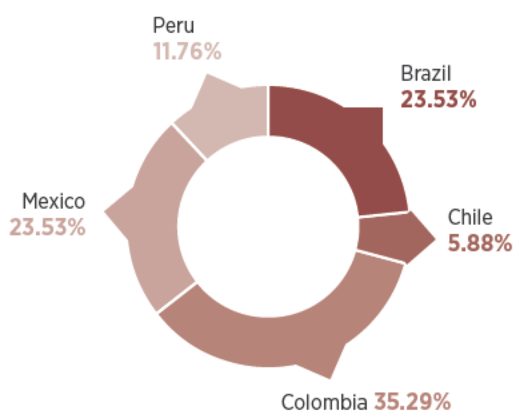
Commenting on the appointments, Smith said: "As part of an ongoing investment in client solutions and services across the Latin America reinsurance market, we are continuing to strengthen our Chile team, which is committed to driving the development of the Chilean reinsurance market."

Mike Hughes, CEO of Aon Benfield Latin America, said: "In addition to these structural enhancements to our firm in the Chile reinsurance market, Aon Benfield Chile clients will continue to receive the full benefits of the Aon Benfield global network." ■

> **"We are continuing to strengthen our Chile team, which is committed to driving the development of the Chilean reinsurance market"**
> Joe Smith, Aon Benfield

READER SURVEY

Which Latin American insurance markets have the most potential in terms of attracting business in 2014?



Argentina **0%**
Bolivia **0%**
Ecuador **0%**
Paraguay **0%**
Uruguay **0%**
Venezuela **0%**
CENTRAL AMERICAN MARKETS (Panama, Guatemala, Costa Rica, El Salvador, Nicaragua) **0%**

NEWS ANALYSIS

By **Jatin Sharma**, business development leader, at specialist insurer GCube

Capitalising on Latam's clean energy markets

As renewable energy proliferates into new global regions, there are a number of emerging markets that have been quick to see the advantages of diversifying their legacy power facilities into new, cleaner forms of energy.

In the Americas, this growth has been led largely by Brazil, but with more recent clean energy adopters, such as Chile, Nicaragua, Uruguay and Mexico, the industry is now starting to make strong headway across the region.

Like any other emerging industry it does of course carry its own risks, which are divided between those that are inherent in the industry – such as technology – and those that are specific to each country, such as infrastructure, natural perils or political support.

From an underwriter's perspective, the technology risks are well understood. Wind energy technology has been in existence for 25 years, with the industry seeing a commercial boom in Europe and North America over the past 10 years.

Most designs from the major manufacturers have pros and cons that are well documented, enabling insurers to price risk accordingly. The underlying challenge will be to ensure that compliance with local content rules does not increase risk of defective design.

In Latin America, like many other emerging markets, the risk to equipment comes largely during the installation phase. The road network is not as well developed in many Latin American countries, and some new projects are in very remote locations.

Risk to equipment during loading and unloading, vibration from road transit, or storm damage while the equipment is at site storage is higher than in European projects. Turbine blades or nacelles (turbine housing structures) have been damaged during transport and storage and greater project management oversight is needed to manage this project interface.

Once construction has commenced, there is also the risk that the supporting grid infrastructure still has to catch up. In Brazil, for example, with infrastructure spending at 1.5% of GDP in 2013 compared with 3% in other Latin American countries, there is the potential for developers to have stranded assets while waiting for the grid to be built out.

"Wind energy technology has been in existence for 25 years, with the industry seeing a commercial boom in Europe and North America over the past 10 years"

From a wider perspective, political support for renewables in Latin America has yet to be seriously tested. So far, most clean energy targets have been fairly conservative, reducing the likelihood that governments will scale back the targets at short notice.

This should, at least, provide some early confidence to investors and developers looking to support projects in the region.

Public spending has to be contrasted with wider political risks, such as corruption or the nationalisation of assets, although with clean energy this scenario is yet to be seen anywhere in the world.

Generally, operating as an insurer in Latin America is a positive experience. Where most issues arise, notably in Brazil, is with a lack of data in infrastructure claims, making it hard for insurers to price risk effectively.

This means in practice that there is still a fair amount of movement and competition on price.

The Latin American renewable energy markets, while embryonic, will certainly prove to be an interesting market for insurers as clean energy becomes more widespread. The trick will be picking the right projects in the right countries. ■

AN ENLIGHTENED APPROACH

Marcia Ribeiro, insurance specialist at Light, one of Brazil's leading utility companies, tells *LatAm Insurance Review* about her rigorous approach to risk management and why she is "investigative by nature" BY ROBERTO BARROS

Marcia Ribeiro may be a risk and insurance specialist on paper, but the unspecified responsibilities of her position include being a student, an engineer, and even, at times, what feels like a role as a therapeutic counsellor.

As head of the insurance unit at Rio de Janeiro-based power utility company Light, Ribeiro says this diversity of duties is what still fascinates her about risk management and insurance after landing a job in the space more by chance than choice in 1999.

Above all though, she is a researcher, and an innate curiosity is what drives her daily efforts to find the best risk management solutions, negotiate the best policy terms and coverage conditions, and understand market limitations, she says.

"There is no use sitting in front of your computer and waiting for the best risk management solution to magically appear," she explains. "You need to get out into the field and ask the relevant questions to those in the industry, as well as your own employees before deciding on a course of action."

> **"You need to get out into the field and ask the relevant questions to those in the industry, as well as your own employees before deciding on a course of action"**
>
> MARCIA RIBEIRO, LIGHT

Describing herself as "investigative by nature", she says risk management involves constantly expanding a broad spectrum of knowledge and expertise through relationships with different contacts.

Sometimes this means taking a "therapeutic approach" to the practice by patiently listening to employees' qualms in different segments of Light's corporate pyramid, before going to the insurance market to hear – and counter - proposals.

As one of Brazil's main power suppliers, holding company Light has invested in generation, transmission, and distribution of electricity in the state of Rio de Janeiro for over 100 years, operating five hydroelectricity plants and a 115km transmission line.

On the supply side, the firm is highly dependent on contractor labour, outsourcing around 8,000 jobs to third part firms. This, says Ribeiro, adds a further tier to the aggregate risk matrix, implying the need for often exhaustive assessments of risk profiles across the firm's structure to prevent a liability slip-up.

"We have to work with painstaking detail for each activity, casting our gaze well beyond the entire operational boundaries of the company," she says, adding that analysing the supply side means looking at the final customer, and this often involves close interaction with Light's legal department, where questions around judicial proceedings are asked.

An eye for detail is not limited to the analysis process, however, being applied in case a decision is made to transfer a risk.

"We give brokers a lot of extra homework," she says, half-jokingly. "I always try to be as thorough as possible when looking at coverage, because in a lot of cases, policies leave information gaps and unanswered questions about what is covered and what is excluded."

Light's main insurance programmes on the casualty side include D&O and general liability (including third-party coverage); while the company's property programme (including operational risks) is its largest, covering total assets worth R$5.2bn ($2.25bn), according to the most recent corporate property audit, Ribeiro says.

And being able to obtain the best solutions from the market means having a "direct and narrow" bond with the industry: "Having a familiar relationship with the insurance market is crucial; not only with brokers, but also insurers and reinsurers; and it is a strategy we heavily employ here. I try to get to know everyone, because sometimes solutions come from the least expected sources."

Door to door

When asked whether she has ever found it difficult to transfer a risk, Ribeiro says she sometimes needs to go "door to door" to find a solution.

For example, when recently sourcing cover for a hydropower project involving a pressure tunnel, finding an engineer with knowledge of the specific risk in the market proved difficult, exposing the industry's limitations, she says.

"There is still a shortage of talent within the Brazilian insurance industry, especially when it comes to analysing more sophisticated risks."

When it comes to serving the power industry, one aspect insurers need to improve on is providing more attention to individual companies' characteristics and risk management needs, she says.

"A lot of insurers take a generic view of the power sector, but each company has its own policies, politics, geographical characteristics, risk profiles, and management procedures. There is still a large gap to be filled."

Sourcing cover

Though Ribeiro says at the moment all of her insurance needs are sourced domestically, she reveals the group has considered seeking cover in the international markets; most recently during the renewal of the group's property programme.

She explains that during the renewal, restrictions were added to conditions of the programme due to changes in the corporate policy of the main reinsurer involved – former sector monopoly IRB Brasil Re, which was recently restructured following its privatisation.

Ribeiro confirms IRB has been a longstanding partner of Light, and that there have been some changes to the way it deals with insurance contracts since the privatisation process, which coincidentally occurred less than a month after Light's property policy was renewed.

"I was forced to look at every option available, which is not a bad thing, as it gives you knowledge and strength in looking at future opportunities" she says, adding that the firm is open to annual roadshows or sourcing international insurance coverage in future.

However, the same methodical approach to understanding the policies which has ensured a low-claims environment will remain, irrespective of the insurance partners used in Light's future programmes, Ribeiro confirms.

"Some colleagues in the energy sector have had difficulties in purchasing or renewing insurance policies because it is not easy to fully understand the product or, alternatively, to absorb the risk in Brazil. Luckily, we have not yet experienced this, but it may happen in future".

The infrequent claims disputes that have occurred were all dealt with through arbitration. The reason for this, Ribeiro adds, is that very same approach to risk management applied throughout her career: "Risk management is investigating, understanding, and then acting within your company's policies, and within the limitations of the market. As long as I am in this business, I will not stop asking the necessary questions." ■

IN NUMBERS: LIGHT S.A.

Source: Light

1907
Year Light was inaugurated in Rio de Janeiro

31
Municipalities served by Light in the state of Rio de Janeiro

4 million
Clients supplied with electricity by Light

855 MW
Installed capacity

5
Hydroelectric plants in operation

115km
Electricity transmission line

230 kV (kilovolt)
Electricity transmitted

IN THE NEWS

Light's share price rose in November 2013, according to Bloomberg data, witha 9.6% gain reportedly the best performance by a Brazilian electricity stock during the month.

This follows the winning of a reprieve from Brazilian president Dilma Rousseff's commitment to lower energy prices.

According to Ribeiro, one of the reasons for winning the reprieve was the sheer amount of events planned for Rio de Janeiro in the coming years, including the Olympics and FIFA World Cup.

Asked whether Rio de Janeiro is prepared to host the events from a risk management perspective, she says: "The amount of responsibility is worrying. It is going to be a huge opportunity for Rio de Janeiro to prove its worth on the world stage.

"For Brazilians, there is still a reactive approach to risk management, although the preventive approach has been evolving gradually."

2014: THE ROAD AHEAD

Following a busy year of mergers and acquisitions, record-breaking IPOs, and market-changing regulation *LatAm Insurance Review* looks back on the main headlines of 2013, and asks what 2014 will look like for the Latin American insurance industry

BY ROBERTO BARROS

ON THE LOOK OUT: IPOs, LAUNCHES, EXPANSIONS, AND M&A ACTIVITY

M&A Round-up

The interest in Latin America from a primary insurance stand-point is made clear by the amount of M&A activity and launches in the region.

In total, more than 100 M&A deals – international and domestic – have been finalised between June 2009 and June 2013 in the region, according to Clyde & Co.

Just a few of the international groups that entered or further developed a presence in Latam include Ace, with the acquisition of ABA Seguros as well as Fianzas Monterrey, in Mexico; Axa, with the acquisition of Colpatria in Colombia; and Liberty Mutual, which reached an agreement to purchase surety underwriter Primero Fianzas in Mexico.

Of the large regional players, Colombian holding company Grupo Sura – which completed the acquisition of Mexican life insurer Primero Seguros Vida for approximately $11.8m in early December 2013 – will be one to look out for in 2014.

In an exclusive interview with *LIR* in August 2013, Gonzalo Pérez, CEO of Suramericana – part of the Medellin-based financial services group – confirmed it is "keeping an eye out" for acquisitions, with a particular focus on Peru, Colombia and Mexico.

Meanwhile, the largest domestic deals in Latin America saw P&C insurer Yasuda Seguros (part of non-life Japanese insurer Sompo Japan) acquiring a 37% stake in Maritima Seguros for $98m. Mikio Okumura, president of Sompo Japan in Brazil told *LIR* the main goal was to unite personal lines and corporate lines into one company to capitalise on the country's growth prospects.

Largest IPO: BB Seguridade

Brasilia-based insurer BB Seguridade held one of the world's largest IPOs in 2013, reaching $5.7bn in what was arguably the largest insurance story to come out of Latin America in the past 12 months.

The insurer looks set to enjoy strong growth rates on the back of Banco do Brasil's (Latin America's largest bank by assets) distribution network and huge customer base of 60 million.

Asked about the interest in BB Seguridade, Marcelo Labuto, CEO, told *LIR*: "In our view, the strong interest in the company comes from two main aspects. The first would be the growth potential of the insurance segment in Brazil, which is clearly underpenetrated... [the] other aspect would be the reliability of the Banco do Brasil brand and its world-class distribution network, combined with the expertise from private partners."

Giant step: Privatisation of Latam's largest reinsurer

More than 70 years after its inauguration and five years after the opening of the reinsurance market, 2013 saw the privatisation of former sector monopoly IRB Brasil Re. Established in 1939, it held a monopoly of the reinsurance market in Brazil until 2007, when the market opened to private competitors.

In June, the government's 50% stake in IRB-Brasil Re was reduced to 48%, as part of the privatisation

GLOBAL TREND: ALTERNATIVE CAPITAL, A THREAT TO THE TRADITIONAL REINSURANCE BUSINESS MODEL?

The past 12 months have seen much speculation in the reinsurance industry on the impact of alternative capital on traditional reinsurance business.

This capital is flowing into insurance linked securities, financial instruments whose values are driven by loss events, as reinsurers are faced with a potential challenge in the form of third-party capital which may further drive a competitive pricing environment due to excess capacity.

"It has been a significant year," says Mike Van Slooten, head of market analysis – international at Aon Benfield. "Though there has been capital market involvement in the reinsurance space for 20-odd years, it has only come to the fore in the past 12 months.

"This is because the amount of money that is now flowing into that space is catching people's attention; and also, it is becoming a more important part of people's considerations when thinking about buying reinsurance."

He adds that the "structural shift" under way in terms of how capital is supplied to support the reinsurance sector will see $100bn of capital coming into that alternative space.

The Latin American insurance market will not experience a direct impact in the form of alternative capital, however, "I have not seen any examples of these new forms of capacity being deployed in the Latin American market," van Slooten says.

Commenting on the trend's impact on Latam, Felfle of Beazley, says: "To date, non-traditional capital has not really affected the pricing dynamics of the region, because, in general terms, we sit at the lower end of the food chain from a pricing stand-point.

"Pricing points for alternative capital are much higher than ours, so fortunately we are below the radar in that sense."

process, shared with state-owned bank Banco do Brasil. Private companies Itaú Seguros, Bradesco Auto/RE and private equity fund Caixa Barcelona will hold stakes of 15%, 20% and 3% respectively, it was announced.

Commenting on IRB's expectations for 2014, CEO Leaonardo Paixão told *LatAm Insurance Review*: "It is a bit difficult to predict [what will happen in 2014], but we are now going into a different stage of operation as a private company, and in January we will have strategic definitions based on decisions made by the company's new shareholders."

Paulo Pereira, president of Fenaber, the Brazilian federation of reinsurance companies, said of the privatisation: "The privatisation of IRB will give the company the tools it needs to compete in the market, consolidating its position as a market leader."

Lloyd's growing interest in Latam

Lloyd's of London has signed at least two memorandums of understanding (MoUs) in 2013 with insurance associations in Latin America (Chile's AACH and Colombia's Fasecolda), highlighting a will to increase collaboration with Latin American insurance markets as part of its wider Vision 2025 strategy, aiming to substantially grow the market's business in emerging markets. Brazil, Mexico and Colombia have been mentioned as particular areas of focus for Lloyd's and the London market.

Outlook

According to Paul A. Felfle, head of Latin America at Beazley, the coming months will only see a greater amount of launches and IPOs in Latin America. He says: "I think there is always room for more in terms of launches and IPOs because there is tremendous room for growth on the primary side, considering that insurance penetration is very still very low."

Attracted by low insurance penetration and a flurry of infrastructure developments, it is likely large international insurers will continue to flock to Latin America for the foreseeable future.

"The large multinationals will continue to look for additional companies to buy in 2014. For them, it will continue to be good business and I don't see that trend changing," says Felfle, adding that increasingly, regional carriers "will go at a premium, they will not be cheap buys."

Reinsurers have started to feel the impact of this trend. *LatAm Insurance Review's Reinsurance Outlook Survey 2013*, published in June, revealed a growing concern from reinsurers over greater primary capacity, due to an increase in M&A activity.

Steve Jackson, of Cooper Gay, commented at the time: "What we are seeing is that these big global carriers with very diversified product lines and geographies are able to deploy their capital a lot more efficiently than other insurance companies, and consequently depend less on reinsurance every day."

Further, fierce competition in the region is forcing reinsurers to focus their efforts on other areas of expertise, including specialist insurance solutions.

A survey conducted by *LIR* in June confirmed this trend. Asked how the traditional role of the reinsurer will be impacted as multinational insurers enter the region, 66.7% of respondents said reinsurers should consider writing direct insurance as multinational insurers continue to expand their footprint in Latin America.

Asked how the reinsurance space is set to develop in 2014, Felfle of Beazley says there will be "more of the same".

"On the reinsurance side it will continue to be a very competitive, highly capitalised space, and I do not foresee changes there," he says.

CATASTROPHE: A RELATIVELY QUIET YEAR FOR THE LATAM INSURANCE INDUSTRY

The most significant natural catastrophe events to come out of Latin America in 2013 were Mexican hurricanes Ingrid and Manuel.

Causing widespread damage and killing at least 23 people, Ingrid is estimated to have caused $1.5bn of damages, mainly through flooding, according to a report by Willis Re Analytics.

A least 97 people were estimated to have been killed by Hurricane Manuel, which affected areas near north-western Sinaloa state with flashfloods and land-slides, catastrophe modelling firm Eqecat said in September, when the hurricane made landfall.

Together, total economic losses from Ingrid and Manuel reached MXN75bn ($5.7bn), according to the *Global Catastrophe Recap* report by Impact Forecasting, part of Aon Benfield.

Although the hurricanes accumulated hefty amounts in damages, the insurance industry was largely left unscathed.

"A lot of times we equate the lack of major natural catastrophes to a quiet year," Felfle says. "We obviously had Manuel and Ingrid, which affected Mexico, but there were no market-changing events, domestically in Mexico, nor regionally or globally."

What catastrophic events never fail to demonstrate in the industry, however, are the large gaps between insured and uninsured losses. Of course, this presents an opportunity for insurers to fill that void, but governments also have a role to play in preparing for contingencies.

Flood risks, in particular, seem to be on the exposure lists of countries in Latam. For example, an event hosted by Swiss Re in August discussed that Brazil is still "crawling" when it comes to having flood risk coverage. Speaking at the event, Claudia Mello, senior client manager at Swiss Re said: "It is obviously better to prevent than to remedy, which is why the [Brazilian] government needs risk management."

INDUSTRY VIEWPOINT

Carlos Fane, Of Counsel, Mayer Brown International LLP, assesses Latin America's regulatory environment

Both Peru and Chile have introduced major new insurance laws (in Peru, Law No. 29946, which came into force in May; in Chile, Law No. 20,667, which came into force on 1 December). In both cases, they replace laws dating back to the 19th century and bring the legislation governing insurance and reinsurance more into line with the pro-insured legal regimes that apply to insurance and reinsurance in most other Latin American jurisdictions.

In Peru, for example, the insured's burden of proof in relation to losses is now limited to establishing that there is an insurance contract and the loss occurred; the rights of insurers in relation to innocent non-disclosure will be reduced – broadly speaking, leaving insurers in the position of only being able to reduce the premium charged retrospectively and, even then, only if the insurer can prove the non-disclosure took place; restrictions have been placed on the enforceability of policy provisions that purport to either limit the rights of the insured or increase the rights of the insurer; and foreign governing law clauses and arbitration clauses are to be likely to be unenforceable.

In Chile, examples of pro-insured reforms introduced by the new law there include measures to prevent insurers from delaying payment of claims until reinsurers pay; arbitration clauses will not be enforceable in relation to losses under 10,000 Unidades de Fomento (approximately USD450,000); and, in cases of losses arising from more than one cause, it will be sufficient for policy coverage to be triggered if a least one of the causes is covered.

Other legislative trends in 2013 included moves towards greater regulation of the adjusting process – in Chile, with the passing of the Supreme Decree No. 1,055, and, in Mexico, as part of a package of reforms introduced by the new Insurance and Guarantee Institutions Law (although these reforms are not, in the main, due to come into force until April 2015). As a result of these changes, loss adjusters are to be granted greater autonomy and greater weight is to be given to their findings.

There were also further signs that local regulators are to continue to acquire greater powers to adjudicate in insurance disputes. Such a measure was introduced last year in Colombia (Law 1564 of 2012) and this year's reforms in Peru include measures designed to increase the local regulator's powers in this area. These measures are likely to benefit consumer interests, which local regulators see as their priority to protect.

2013 has also seen a consolidation of a trend towards greater liberalisation of the insurance industry in Latin America. A key example in this regard is Colombia, where laws came into force allowing foreign insurers to write business in Colombia directly, with the exception of only a few classes of business. This change continues a trend in Latin America that can be traced back to the opening up of the market in Brazil. Although the position in Brazil remains confused, with occasional shifts in the opposite direction – for example, limits on the proportion of local risks that may be ceded to foreign reinsurers – steps taken this year towards privatising IRB look likely continue the broad trend towards greater liberalisation. ■

REGULATION: TIME TO ADAPT

Out of a number of regulatory changes implemented in 2013 (see box out, p.13), Mexico's Solvency II-based insurance law, passed in February 2013, has been attracting wide attention from the industry.

Coming into force in 2015, one impact of Solvency II to watch out for is consequent M&A activity in the market, as smaller insurers may not be able to meet the capital requirements. The spread of Solvency-based rules being implemented across the region is a further development to look out for.

"With Mexico being at the forefront of Solvency-based regulation, the question is raised about whether there will be a spill-over of those major regulatory changes across Latin America," Felfle says.

"The positive aspect to it is a matching of capital to risk, as opposed to just having a minimum capital requirement to operate, which has been the norm."

2014: NEW YEAR'S RESOLUTIONS

DOMINICAN REPUBLIC

"For the DR, 2014 is a year where we will see more foreign investment than ever before, and that will not exclude the insurence industry. It will be necessary to keep investing in knowledge and training of insurance professionals as well as awareness of consumers in order to achieve a healthier and more balanced insurance industry."

Juan Franco Fernández, president, risk management specialists and brokers **Franco Fernandez & Asociados**

PANAMA

"Panama – and the region's – 2014 New Year's resolution should be to go back to basics. Let's remember basic underwriting principles plus a focus on added-value risk management in all lines of business. Not everything is growth from sales volumes, but also systematic growth from a sound approach to taking care of clients and their needs, at the same time as protecting our bottom line for all our stakeholders."

Stavros Costarangos, executive vice president, Panama-based insurance broker **Padeco Seguros**

COLOMBIA

"The best summary is: high expectation. First, that the presidential elections take place in May of next year is vital for the short-term future of the country. Second, the impact in the insurance industry will come from the huge infrastructure investment programme, with investments of $25bn. 2014 is also a critical year for the peace agreement with the FARC (Fuerzas Armadas Revolucionarias de Colombia – Revolutionary Armed Forces of Colombia) guerrilla group. If this happens, it is expected by the government that an additional 1% could be added to GDP growth, security costs by the companies could drop and terrorism exposure could also be affected in a positive way."

Enrique Acevedo Schwabe, general manager at insurance brokerage firm **Correcol S.A.**

PARAGUAY

"The Paraguayan insurance market is in constant growth. 2014 comes with great challenges for the entire industry because compulsory auto coverage [SOAT] takes effect."

Tito Mujica, CEO, brokerage firm, **Mujica Seguros**

VENEZUELA

"The government is trying to 'accelerate' its socialist and anti-free-enterprise policies, and will continue doing so in 2014. The insurance sector continues to be, importantly, in private hands. New Year's wishes for the insurance sector in Venezuela will be: let us concentrate on doing our job, innovate and create value. The insurance sector can only be healthy if the economy as a whole is healthy."

Christian Blaser, vice-president, insurance broker **Asegure**

MEXICO

"The industry should: persuade policymakers to support an insurance industry strategy and development policy; not decrease rates further and play the destructive competition cards; and develop products and services to generate a more inclusive industry and a larger market. Particularly for Mexico, an enormous effort will have to be done in order to get ready for Solvency II."

Ingrid Carlou, CEO, **Patria Re**

ARGENTINA

POWERING UP

The Argentine insurance market presents opportunities for those able to navigate its regulatory environment, and planned energy and agriculture initiatives may boost insurance demand

BY GENY CALOISI

Energy generation has the potential to drive growth in the Argentine insurance market, according to an analysis of the market.

For example, the construction of Chihuido 1, a new hydroelectric power dam worth 12bn Argentine pesos ($1.94bn) presents an opportunity for the local insurance market.

Bidding documents for the tender process will be available in mid-January, and once completed, the plant is expected to produce 1,750 GWh of energy, the government has said.

Increasing energy production is a priority for the Argentine government. According to Argentina's National Institute of Statistics and Censuses (INDEC), Argentina's trade balance fell 60% year-on-year in August 2013 because of stagnant exports and the doubling of energy imports.

> “In terms of growth, the agro business has great potential... It is currently growing at a 48.3% rate”
>
> PARIDE DELLA ROSSA, AIG

"Argentina's energy production is in deficit right now," says Guillermo Alvarez, director at Aon Risk Services in Argentina."This is why the government has had to import what it is not producing; but this is set to change with new energy generation initiatives."

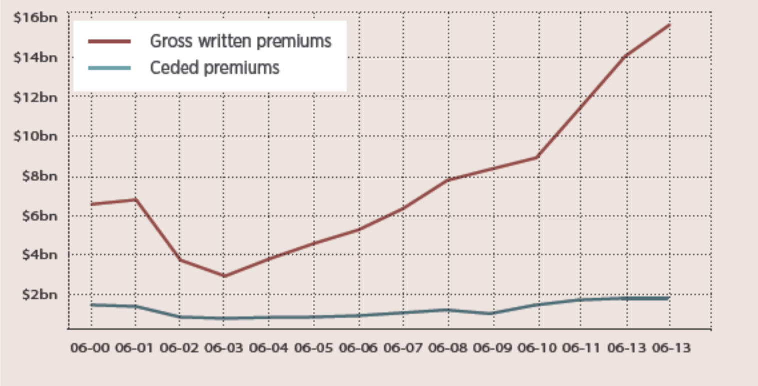
AIG's General Manager, Paride Della Rosa points out that the country's agriculture insurance industry is also benefitting from strong growth in the sector. He says: "In terms of growth, the agro business has great potential, owing to the nature of our agricultural economical matrix. It is currently growing at a 48.3% rate."

Due to demand for commercial insurance, Della Rosa says in terms of commercial insurance AIG is focusing on diversifying product offerings to meet demand, and increasing limits for property and energy cover.

State of the market

According to Superintendencia de Seguros de la Nación (SSN), the country's insurance regulator, Agrentina is the 24th largest insurance market in the world with 0.49% of global non-life premiums, and the fourth largest in Latin America after Brazil, Mexico and Venezuela.

GROSS WRITTEN PREMIUMS Vs CEDED PREMIUMS (JUNE 2000-JUNE 2013) SOURCE: Latino Insurance



There are 23 insurers operating in the market, with the largest player, Generali Caja de Seguros, controlling around 10% of the industry, according to data from Latino Insurance.

"This is a very competitive market, where the [market] leader has a 10.9% market share," says Carola Fratini, CEO at QBE Seguros La Buenos Aires, who adds that the top ten companies operating in the market control 61.3% of premiums.

Carlos Salinas, executive director of the Argentina chamber of reinsurers (Cámara Argentina de Reaseguradoras), says the industry was in a different shape in the 1980s with over 300 insurers operating in the market.

Gradually, the industry consolidated in the 1990s due to companies either closing down or through mergers, Salinas adds.

Looking forward, insurers with a historical prominence in the market will fare better, according to Aon's Alvarez.

He explains that although the Argentine insurance sector is price driven, "visibility" is important, and because of this, well-known national and international players will fare better than newcomers.

"Big traditional companies, such as Caja de Seguros, which has a strong presence in the market and a healthy advertising budget will gain more business," he says.

Alvarez points out that growth in the insurance market stands to benefit from the growth of the middle class in Argentina, and is likely to be boosted by public incentives offering financing and long term credits to boost consumption.

"We are talking about a market that has seen a 30-35% growth, irrespective of inflation," he says.

Alvarez says the government's initiative to boost consumption has had a positive impact on the insurance market. "More consumption, means more cars, more property, and more insurance."

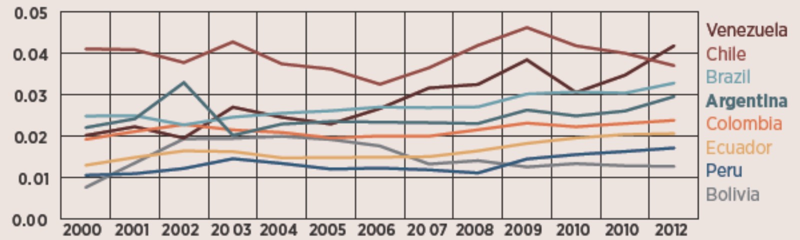
> **"Living in a country that has had to face various economic upheavals, we can say that we have good practice when it comes to change"**
>
> CARLOS SALINAS, ARGENTINE CHAMBER OF REINSURERS

Market entry

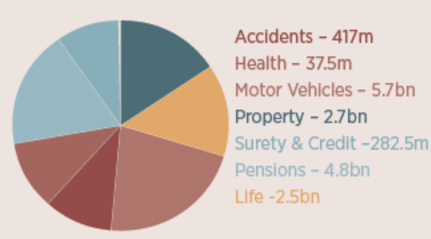
Entering the Argentine insurance market involves bureaucratic processes and licensing approval procedures. Unlike most other countries in the region, however, once the licence is approved, companies will be up and running within six months, according to Salinas.

Della Rosa says that in recent years there has been little increase of licenses for both insurance and reinsurance companies, due to a tightening of rules.

INSURANCE PENETRATION SOURCE: Latino Insurance
AS % OF GDP COMPARED TO OTHER LATAM COUNTRIES

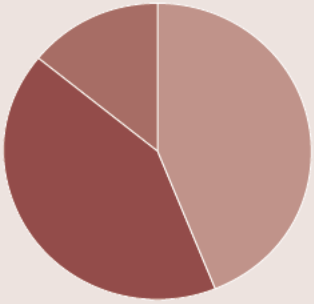


ARGENTINA LINES OF BUSINESS (US$) SOURCE: Latino Insurance



ARGENTINA MARKET SHARE

As of June 2013. Total market US$16.48bn. SOURCE: Latino Insurance



"All reinsurance transactions should be conducted through a 'local established reinsurer' and ceded exclusively to an 'admitted reinsurer'," she says, adding that for those companies with registered operations in Argentina, there are "interesting opportunities", which justified AIG's decision to establish a local reinsurer in the country.

When asked how the macro-economic environment affects operations, Della Rosa says: "We are expecting new foreign exchange regulations in the new year. This is constantly changing and it affects the daily reinsurance operation and other contracts and payments."

Reasons to be positive

In spite of political volatility in the country, there are reasons to be positive about the outlook for Argentina. For example, net written premiums reached 80.62bn Argentine pesos ($13.81bn) during H1 2013, rising 19.6% in real terms year-on-year (YoY) according to recent data from the country's insurance regulator, Superintendencia de Seguros de la Nación (SSN). Covering insurance market activity until 30 June, 2013, the figures show that workers' compensation and auto – which make up the majority of the non-life sector in the country – saw the greatest year-on-year premium growth rate in Q2 2013.

Salinas concludes: "The government would like to see the insurance market accounting for 5% of the GDP by 2020 – at present it is just 3%. This growth expectation would be normal in a stable country, but this is not the case of Argentina.

"Living in a country that has had to face various economic upheavals, we can say that we have good practice when it comes to change. This adaptability stimulates creativity." ■

LEGAL VIEWPOINT: MANDATORY INVESTMENT RULES FOR INSURERS (PLANES)

Alex Guillamont, director, Kennedys Miami office for Latin America & Caribbean and Daniel Barón, associate at Kennedys Latin America & Caribbean discuss Argentina's regulatory landscape

A little over a year ago, Argentine President Cristina Fernández de Kirchner announced the implementation of PlaNes (Plan Nacional Estrategico del Seguro), a national strategic plan for insurance. As part of this initiative, official Decree number 37,163 was issued by the superintendent of the country's insurance regulator, the Superintendencia de Seguros de la Nacion (SSN) instituting a change to Regulation 21,523/92. One of the keystones of this Kirchner administration modification is an addition to section 35.8.1, named "Subsection K", which refers to insurers' investments.

It is hardly uncommon to see investment rules for insurance companies, which apply around the globe. As a matter of public policy, the state is understandably interested in the financial wellbeing of insurers, who need to use the funds raised through the collection of premiums to pay claims. These rules normally entail restrictions which apply not only in traditionally controlled markets such as China, but also in those known as "free" markets such as the United States. Regulations relating to investments are drafted for the benefit of policyholders, so as to avoid deceiving expectations relating to the transfer of risk.

But PlaNeS provides investment rules of a rather unique variety, at least not solely related to preserving the financial integrity of insurance companies for their policyholders. Rather than this, "Subsection K" focuses on Argentine insurers –who jointly manage a total yearly capital portfolio of approximately $11bn- as predominant investors. The purpose is to direct a portion of these institutional investments away from short-term "financial" alternatives, towards the "real economy" (the resources concerned with actually producing goods and services). The scheme is intended to inject capital into the local economy, fuelling local endeavours and ultimately contributing to local growth.

"Subsection K" establishes that insurers are to place a percentage of their total investments (except real estate investments) in "real economy" ventures. These percentages vary depending on the line of business. For example, lines of business with high claims turnover require greater liquidity, and thus cannot afford to invest large proportions of capital in longer-term "real economy" endeavours.

Perhaps the radical aspect of "Subsection K" is not the idea of putting insurer's investment capital to practical use, but rather doing so on a whole new scale. Contributions from insurers as institutional investors are not simply "encouraged" or "privileged", but mandatory. But even more important, this is not a matter of isolated good-will gestures towards poverty, but part of a wide-ranging scheme applicable to the whole market to help fuel the general economy.

As the new regulations clearly surpass the limit of providing reasonable security to policyholders, "Subsection K" could be thought of as exceeding constitutional barriers which are in place to protect private property. "Subsection K" was enacted about a year after the SSN had issued a resolution requiring insurers to repatriate all assets abroad by 31 December 2011. Shortly before then, the SSN had issued a series of resolutions changing reinsurance underwriting rules and prohibiting most cross-border reinsurance operations. If international insurers value their global networks, not only inflation, but also regulatory changes causing practical and technical difficulties – as well as a series of other individual market challenges in different countries – have to be assumed as part of the operational risk.

RIPE WITH POTENTIAL

Given a slow take-up by Brazilian businesses and insurers, the market for trade credit insurance in Brazil carries untapped potential. Rising company defaults may also fuel further demand for trade credit coverage

BY JOICE ALVES

Brazilian businesses and local insurers seem less than keen to offer or use trade credit coverage. Though the product hit the market almost fifteen years ago, only a few hundred companies have explored the benefits of the risk management tool, and not one domestic insurer currently offers the policy.

Nevertheless, the number of insurance companies in Brazil writing domestic and export credit covers – which must be in two distinct policies, according to local rules - has grown since 2009, when only a handful of firms were in the business.

Furthermore, the relative slow take-up of trade credit insurance in Brazil is encouraging global insurers to consider allocating resources to the South American giant.

Fernando Cirelli, senior manager of sales and marketing at Euler Hermes Brazil, says that in the past three years the global insurer has practically doubled the size of its operation and premiums in Brazil. "We invested in technology and human resources, both training and hiring new personnel. We also allocated resources to risk and commercial areas of our business," he says.

He adds that after the financial crisis, three global insurers joined the five multinationals already operating in the market. "In 2014 we will see two to three new multinational players landing with this product in Brazil."

At least two insurers confirmed to *LatAm Insurance Review* an intention to launch the product. XL Seguros Brasil's Country Manager, Renato Rodrigues and QBE Brasil Seguros' chief underwriting officer, Raphael Alexander Swierczynski said the product is in the pipeline. Both are awaiting authorisation from Susep, Brazil's insurance regultor. The third name suggested by the market is ACE Group; however, the firm declined to comment.

Flavio Barros, director partner at CredRisk Seguros, a local broker, is confident "there is room for growth" in the trade credit space.

"The annual premium of R$200m [about $90m] in 2012 is too small compared to the volume of business to business transactions in Brazil. This is certainly an evidence of [the market's] potential for growth," he says.

Cultural barriers

Companies interested in protecting their accounts receivable from loss due to risks, including insolvency, default or even bankruptcy have a limited number of options in the market.

Barros, whose business expanded by almost 25% in 2013 while working exclusively with trade credit insurance, says insurers need to adapt faster to Brazil's changing business model.

"Insurers are moulding their products to Brazilian demand, but not at the desired speed. There are a few hundred policies in Brazil compared to thousands in Europe", Barros says.

"Trade credit insurers need to conform to local needs. For instance, Brazil is very fragmented, with some sectors offering very short-term payments, and others [offering] very long-term payments."

TRADE CREDIT MARKET-BRAZIL: COMPARISON 2012 V 2013

DATA FROM SUSEP, COMPILED BY MARSH CORRETORA (VALUES N BRAZILIAN REAIS)

2012	Q1	Q2	Q3	Total
Premium	63m ($26.5m)	47m ($19.8m)	46m ($19.5)	156m ($65.9)
Losses	17.5m ($7.4m)	10.7m ($4.5m)	26.2m ($11.1m)	54.5m ($23m)
Loss Ratio	28%	23%	57%	35%

2013	Q1	Q2	Q3	Total
Premium	56m ($23.7m)	58m ($24.5m)	56.8m ($23.9m)	171m ($72.2m)
Losses	19.8m ($8.4m)	53.4m ($22.5m)	59m ($24.9m)	132.5m ($55.8m)
Loss Ratio	35%	92%	104%	77%

Additionally, the financial crisis fomented growing scepticism and dissatisfied buyers are demanding more guarantees. "We have seen that during the crisis in 2008 and 2009, companies coped with reduced coverage and higher rates when they most needed assistance", says Hugo Carson, head of trade credit at AIG Brazil.

In an attempt to encourage potential buyers, AIG introduced an excess of loss policy, as well as new underwriting concepts including non-cancellable limits and high discretionary credit limits.

For instance, thanks to non-cancellable limits AIG assures it won't change the terms of the policy. Carson explains: "If the economy goes through a hard time, I can't cancel or reduce the client's coverage".

Though similar measures may boost demand, brokers and insurers agree local companies need to receive better information on the assistance policies can provide. On the other hand, global insurers often find multinationals will instruct their Brazilian affiliates to purchase trade credit cover, according to Kiyoshi Watari, trade credit & political risks practice leader at Marsh Brazil.

He says: "We estimate that about 400 companies in the country signed a trade credit policy, 70% of them are global companies".

Sharing the risk

Reinsurance understandably plays a key role in the expanding trade credit industry, considering the large risks and covered amounts.

But in Brazil, transferring trade credit risks often comes with barriers in the form of the regulation stipulating that 40% of reinsurance risk be placed locally.

Though large international groups such as AIG will establish local reinsurers in the country to retain their own risks, once capacity is reached, it is often difficult to transfer trade credit risks to the market.

Carson of AIG underlines the hitches in complying with Susep's conditions: "It can be challenging to find partners when AIG Reseguros – the reinsurer AIG set up locally - reaches its capacity, because of the currently narrow number of players in the reinsurance business for trade credit."

He adds that AIG Resseguros also operates also in partnership with former sector monopoly IRB.

Coface opted for a different assessment of its risks. Brazil's market leader within trade credit – according to Susep figures – sets reinsurance locally, entirely through a partnership. "We don't have capacity problems. We set 100% of the Brazilian operation risks locally, through a partnership with IRB", says Marcele Lemos, Coface Brazil's president.

Economic slowdown as opportunity

The market for trade credit insurance between January and September 2013 expanded by 9.7% compared to the same period in 2012, according to Susep.

"If we take into account inflation, we are clearly talking about a moderate growth. As competition grows, it is likely that companies buying trade credit insurance in 2013 are negotiating better rates," Cirelli says.

Meanwhile, defaults in Brazil are on the rise, which can spark demand for trade credit insurance coverage. According to data from Serasa Experian, a credit bureau, companies defaulting in Brazil from January to October 2013 increased by 1.4%, compared to the same period in 2012.

In October 2013 this figure was up 13.3% compared to September, 2013. This reflects the reduced liquidity and payment capacity of companies, which may result in larger indemnity payments by insurers.

Data from Susep shows that total claims in 2012 amounted to R$54,535,406 (around $23,000). During the same period in 2013, claims increased to R$132,508,564 (around $56,000).

"The trade credit market is flat with growth in the first three quarters in 2013 at about 9%, compared to the same period in 2012. On the other hand, claims have soared, up 143%", Watari analyses.

Euler Hermes' outlook for the Brazilian economy is negative. "According to the loss ratio we've been tracking, we believe Brazil is likely to go through a systemic crisis in the next few months", says Cirelli.

Crises and unexpected defaults – like OGX, the oil giant, which recently filed for bankruptcy protection – can boost demand for trade credit insurance. "Risk perception among Brazilian entrepreneurs has consistently changed. In the past six months the amount of companies looking for this cover at Coface was up 35%," Lemos says.

Brokers and insurers agree trade credit coverage not only serves to cushion financial vulnerabilities, but policy providers are also playing a role in advising on market and political risks. International databases and comprehensive knowledge of local and international markets offered by global insurers is a fundamental tool for businesses interested in maintaining competitiveness or even expand their operations to riskier areas.

"There aren't many players [for trade credit insurance] in Brazil because it is not an easy product to work with", acknowledges Watari. However, he says he is hopeful the offer – and consequently demand – will take off, and "new insurers will be interested in bringing their operations to Brazil." ■

Q&A

Jim Dwane, CEO, Latin America and the Caribbean, AIG

Jim Dwane, head of AIG's Latin America P&C business tells *LatAm Insurance Review* why the insurer will continue to be in a bullish position Latin America and how he aims to capitalise on the region's potential.

LATAM INSURANCE REVIEW (LIR): What opportunities does AIG see in Latam and does the company have a concrete business strategy in the region?

JIM DWANE (JD): We are very focused on organic growth. We placed a tremendous amount of focus on three countries in particular: Brazil, Colombia and Mexico. AIG has selected nine markets in the world through which it will invest heavily in the future. Within Latin America we have three of them. That gives you a perspective of what type of investments we are looking to make organically.

That said, when you are in a marketplace as dynamic from an economic, political and regulatory point of view, you can't ignore the 'inorganic' market. However that is not our primary focus. We are not closed to that option, but it is not our strategic focus at this point. We released over 30 products in the region this year and have over 100 in development, either as new to Latin America or that we are borrowing from other regions. Our product offering encompasses both traditional product types— including casualty, property/energy, and financial lines—and highly specialized ones such as marine, environmental, surety and trade credit.

> **"Latin America is a rapidly-changing and dynamic regulatory environment with shifting requirements. The bottom line is that targets are constantly changing"**
>
> JIM DWANE, AIG

LIR: AIG is a leader in commercial insurance in many Latin American countries. Is AIG going to continue focusing on commercial lines (traditional P&C and specialist) in the next two years, or are you looking to strengthen your position in personal lines?

JD: We will continue to be a very important commercial lines player. In Latin America, quite frankly, however, our consumer businesses are slightly bigger than our commercial businesses. So, while we do have market leading positions in commercial lines, we also invest as much time and effort in continuing to grow the consumer base because it has got as much - if not more - potential in emerging economies such as Latin America.

LIR: Are there any specific commercial lines which are particularly attractive to the company in Latam which fall outside of the traditional P&C solutions?

JD: As the Latin American insurance market sophisticates and as the needs of some of the largest organisations grow, there is a tremendous opportunity to deliver global, multi-national platforms. We are focusing on bringing the infrastructure of our international operations to Latin American multinationals.

There is a rapid pick-up in controlled master programmes. Firstly, because of the market's ability to understand the value of this solution, and also due to the market's ability to actually service companies in an efficient way in terms of cash flow, claims management, information management, and regulation.

We are historically present in more traditional commercial insurance solutions including casualty, liabilities, property, and financial lines, but some of the areas where we see opportunity is in more

“We expect to double our revenue in the next five years. Today Latin America represents $1.5bn in revenues annually and we expect to get to $3bn”

JIM DWANE, AIG

specific solutions. One example of this is pollution liability. It is an emerging space, and I think it will be a slow evolution in Latin America, but ultimately you see in the rest of the world the emergence of the need for pollution liability, either because it is smart from a risk management perspective, or because contract laws dictate it.

Cyber, also, will continue to be an increasingly important part of the risks we look at. The important thing to undertsand, though, is where cyber is in the context of other risks our customers in Latin America are looking at. I think it will be top of agenda down the road.

However, I do see barriers to rapid growth in these products. Like any insurance product, there is a process you have to go through around exposure identification and product education. In some cases the non-insurance market has to catch up and acknowledge the role pollution insurance might be able to play.

LIR: When looking at the final consumer, and the evolving needs of risk managers in Latin America, we hear about compliance issues, non-admitted regulations, and the difficulties surrounding the establishment of global programmes. What are the challenges of the insurer when it comes to creating insurance solutions for risk managers?

JD: We don’t view it as a challenge. The challenge is making sure that we have that information. If you know what you are dealing with, then your customer can make the right decision. It is our responsibility in conjunction with our brokers, to avail the right information to our customers so that they can make that decision.

The individual regulations of the countries define the information that we need to make those decisions. That said, keeping up with the knowledge can be a challenge. Latin America in particular is a rapidly-changing and dynamic regulatory environment with shifting requirements. The bottom line is that targets are constantly changing.

As an insurer, it is important to make sure that we stay on top of and keep up with all of those changes, and then re-purpose it into a format that is useful for our customers. That becomes the greatest challenge.

When the market is growing at the speed at which it is, there is a lot going on. It is kind of like being on a boat in the middle of the ocean, you just have to hold on and make sure you keep rowing.

LIR: What are your expectations for the Latin American insurance market in the next 24 months?

JD: There are challenges – there are disparate economic, political, regulatory, environments, high distribution costs, an insurance market place that needs to continue to work through an educational process of understanding what insurance is and why it is important.

On the other hand, there is a growing middle class, increase in disposable income, small and middle market companies expanding as part of the economic base, and infrastructure spending. We see lots of positives and the opportunity is growing faster than the market’s position to catch up; and that is a great position to be in. We couldn’t be more bullish on Latin America.

Just because we are focusing on some of those strategic business expansion countries, we fully expect that investments will come broadly across Latin America.

We expect to double our revenue in the next five years. Today Latin America represents $1.5bn in revenues annually and in the next five years we expect to get to $3bn. We are on track to do that. There is a tremendous amount of opportunity, and I would expect that that growth would continue to accelerate as the investments that we are making in technology, in processes, in people, begin to take hold. ■

IN NUMBERS: AIG IN LATIN AMERICA Source: AIG

$1.5bn
Amount in revenues annually in Latin America

33
Products launched in Latin America in 2013, with a total of more than 150 in development

160m
Customers in the region

15
Countries where AIG operates

FAST FACTS: AIG LATIN AMERICA Source: AIG

■ AIG has been operating in Latin America and the Caribbean since 1937

■ The group’s regional headquarters are based in Miami. It oversees operations in 15 countries including Aruba, Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Panamá, Puerto Rico, Uruguay and Venezuela.

■ AIG’s global Strategic Business Expansion (SBE) plan includes Brazil, Colombia, and Mexico

P&I IN LATIN AMERICA

Constantino Salivaras, claims executive at Charles Taylor, managers of The Standard Club, discusses the development of protection and indemnity (P&I) cover for ship-owners in Latin America and the widening range of solutions available

Ship-owners in Latin America have a wide choice of commercial and mutual insurers for their P&I cover. Levels of cover will vary from insurer to insurer. However, many international trading companies will expect owners to comply with minimum P&I cover requirements. In some cases this may include a request that the vessel is entered with one of the 13 competing P&I clubs that make up the International Group (IG) of P&I clubs. In a difficult global freight market, the IG clubs offer owners a number of advantages over the commercial market.

P&I clubs are mutual organisations – in other words a club's insured members are also the owners of the club. Unlike the commercial insurers, P&I clubs are not-for-profit organisations. The 13 principal underwriting member clubs of the IG between them provide liability cover for approximately 90% of the world's ocean-going tonnage. The IG system provides a high level of financial security to members through a claim-sharing agreement (the pooling agreement), with all qualifying claims in excess of $9m being shared between clubs, covering members for catastrophic risks.

One of the main advantages of P&I clubs is that they are member-oriented and work to protect their members' interests in all matters, and particularly when paying claims – supported by strong financial structures. Their managers are also service-oriented, being primarily focused on high quality service and delivering members' needs.

Other advantages include:

- Clubs from the IG issue 'blue cards' (certificates providing a guarantee of cover, for example, for pollution liabilities) which are universally accepted, unlike some commercial markets.
- IG clubs offer immediate access to club letters of guarantee or undertaking to secure the immediate release of an arrested or delayed vessel, sometimes in the most difficult jurisdictions.
- Individual IG club boards have discretion to decide whether they can provide cover for a member's claim, even if it is not strictly covered under the policy, and tend to have a more flexible approach than commercial insurers.

Alongside the P&I cover provided by IG clubs, there is increasing demand in Latin America for fixed premium P&I cover, especially for coastal and small inland vessels. The fixed premium market can sometimes offer an opportunity to reduce operational expenditure, when there is no need for the high financial limits provided by IG P&I and the blue card system. However, P&I clubs in general, because of their not-for-profit structure, are usually very competitive for the cover provided.

> **"One of the main advantages of P&I clubs is that they are member-oriented"**

Another development focusing attention in Latin America is the requirement in some jurisdictions for insurance to be placed only through locally licensed insurers. In some cases in the P&I market, cover is placed with local insurers with the vast majority of the risk reinsured with an international P&I provider – which also provides the majority of the servicing.

It is arguable that this approach leads to increased cost for ship-owners and it is expected that the P&I market will develop further to better combine the advantages of international P&I cover with high quality local or regional regulation.

Countries such as Colombia have already changed their local regulations and global insurance is now allowed to national companies via their parent company abroad without having to deal with local insurers. However, countries such as Argentina and Brazil are tightening their reinsurance regulations.

The P&I market in Latin America will continue to develop over the coming months and years to provide broader and more varied cover for ship-owners. ■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