



Recent Developments in Insurance Markets Within the Region

Puerto Rico Insurance Summit: Untapping New Opportunities

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Agenda

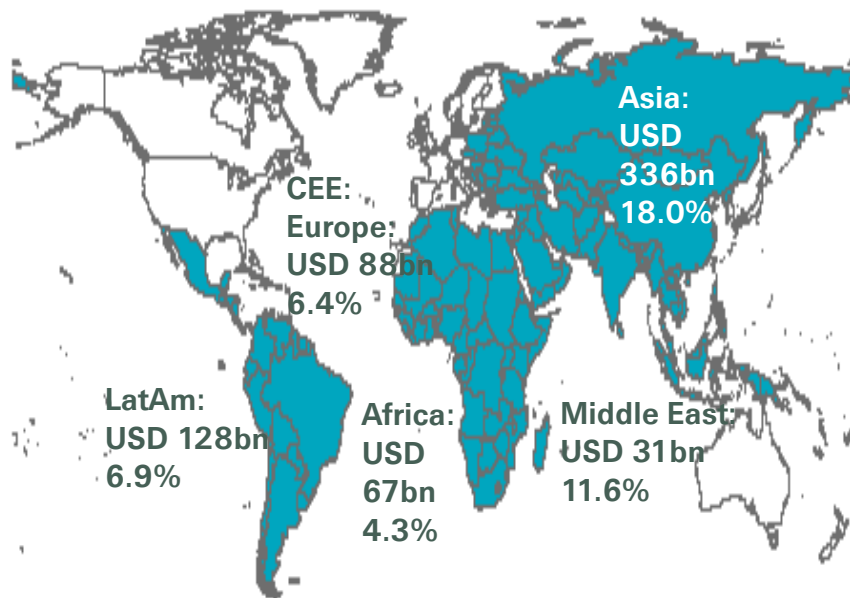
The Latin American & Caribbean insurance sector in the context of Emerging Markets

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

Perspectives & challenges for the insurance sector

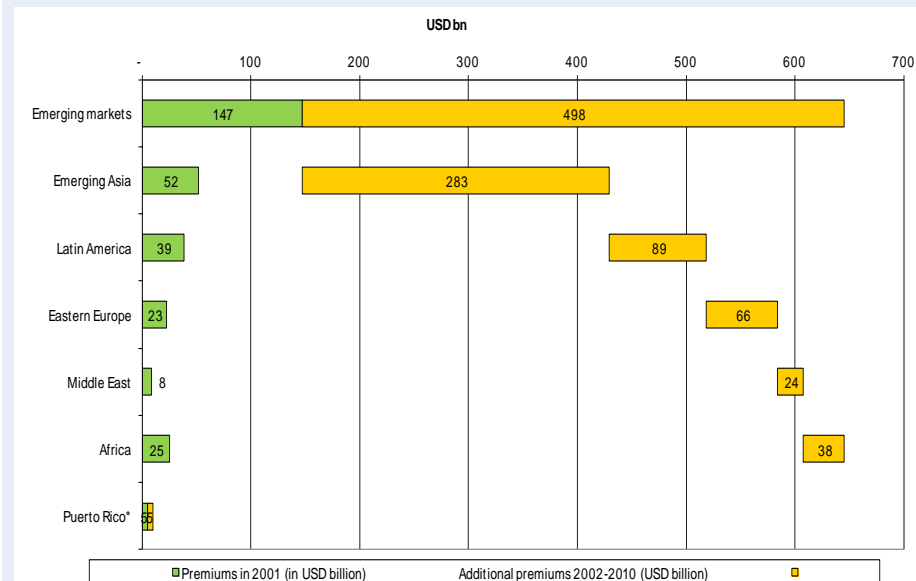
Premium volume in emerging markets grew on average by 11% per year during the last decade

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



Source: *sigma*, Swiss Re

Contribution of each region to the growth of premiums in EM between 2002 and 2010



* 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

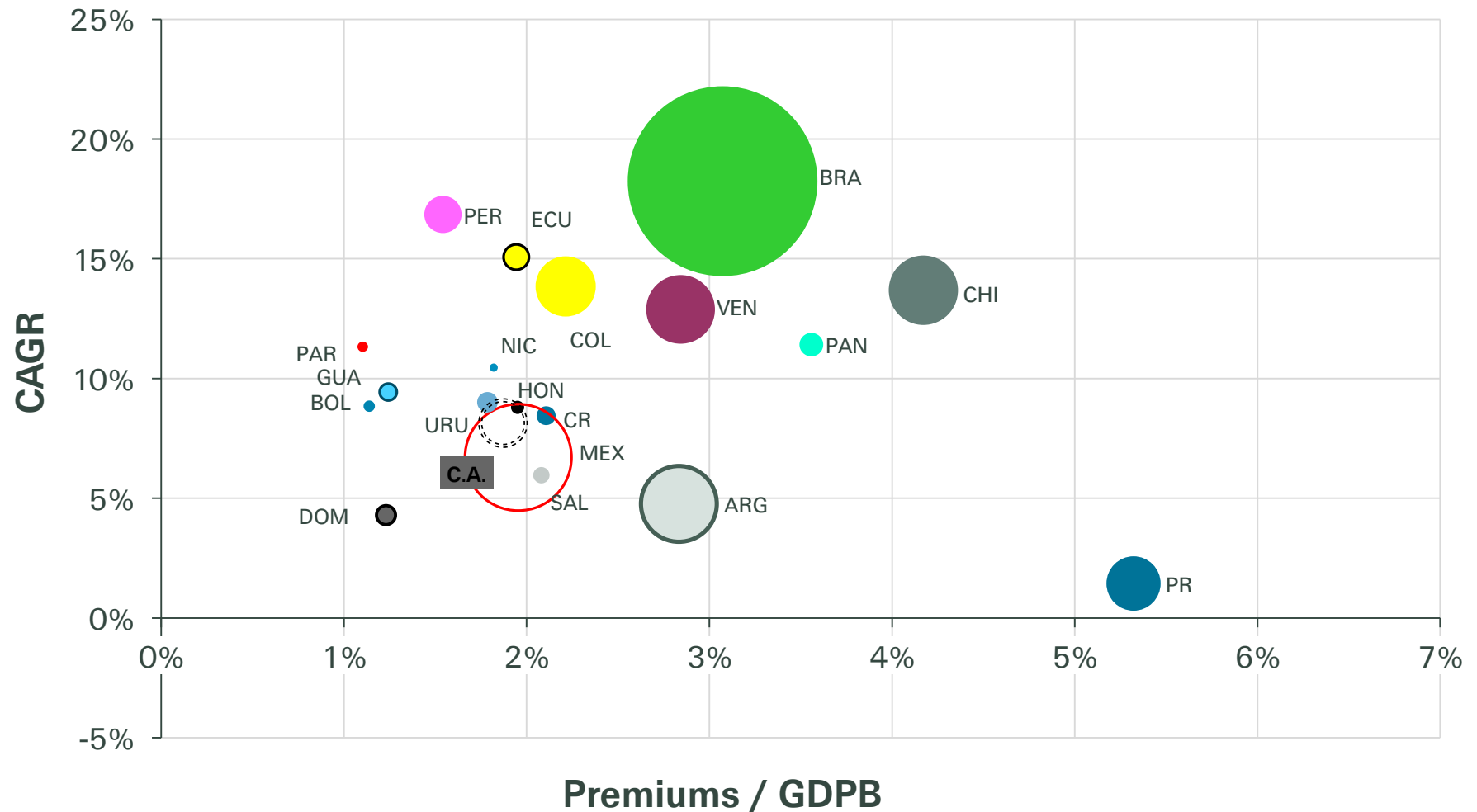
Insurance penetration and density in different regions

Insurance penetration (premiums as % of GDP)	Life insurance		Non-life insurance		Total	
	2001	2010	2001	2010	2001	2010
Industrial markets	5.5%	5.1%	3.5%	3.6%	9.0%	8.7%
Puerto Rico	0.8%	0.7%	6.4%	10.0%	7.3%	10.7%
Emerging markets	1.1%	1.6%	1.0%	1.3%	2.1%	2.9%
Emerging Asia	1.4%	2.5%	0.7%	1.0%	2.1%	3.5%
Latin America	0.7%	1.1%	1.2%	1.5%	1.9%	2.6%
Eastern Europe	1.1%	0.6%	1.6%	2.0%	2.7%	2.6%
Africa	3.2%	2.5%	1.1%	1.2%	4.3%	3.7%
Middle East	0.1%	0.2%	0.7%	1.0%	0.8%	1.2%
Premiums per capita (USD)	Life insurance		Non-life insurance		Total	
	2001	2010	2001	2010	2001	2010
Industrial markets	1451	2069	930	1453	2381	3522
Puerto Rico	151	191	1165	2568	1316	2759
Emerging markets	15	61	13	49	28	110
Emerging Asia	10	66	5	28	16	94
Latin America	26	93	48	126	74	219
Eastern Europe	26	60	41	211	68	272
Africa	23	42	8	20	31	62
Middle East	16	27	35	80	51	107

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





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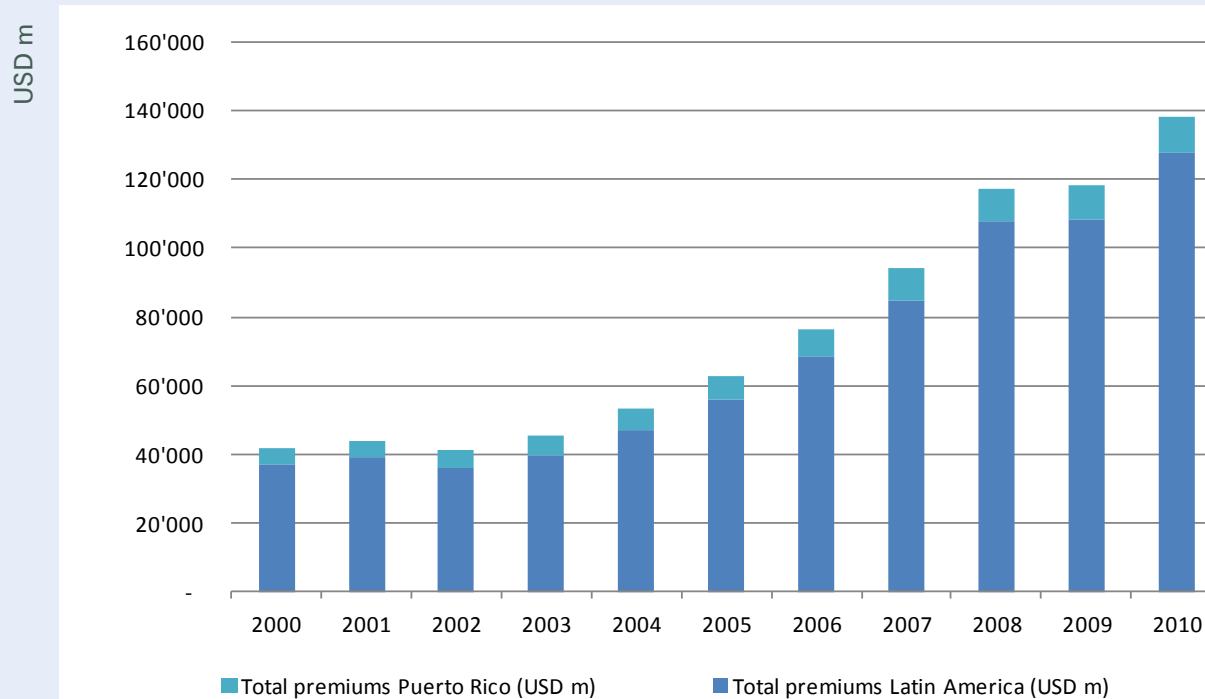
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Impressive growth of insurance premiums in Latin America

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



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

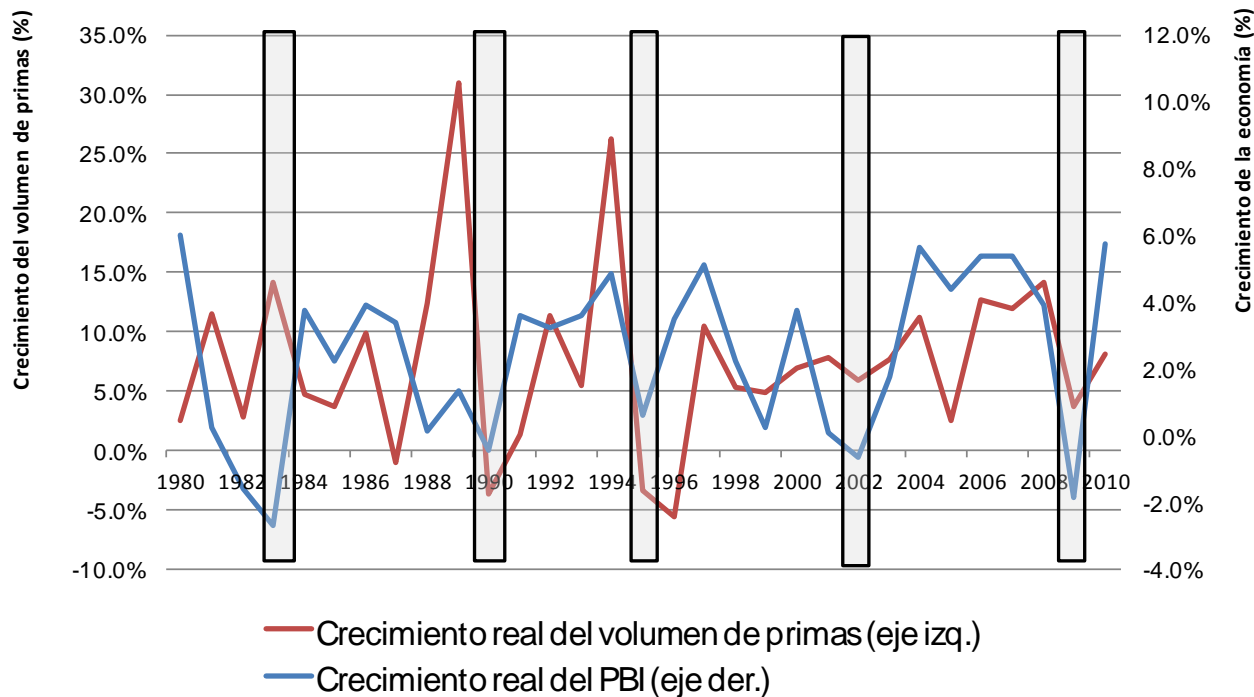
Also in Puerto Rico premiums grew strongly – doubled in 10 years.

Factors which support premium growth

Economic growth

In recession times, insurance premiums decrease

Variation of premium growth and GDP in Latin America



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

Some causes:

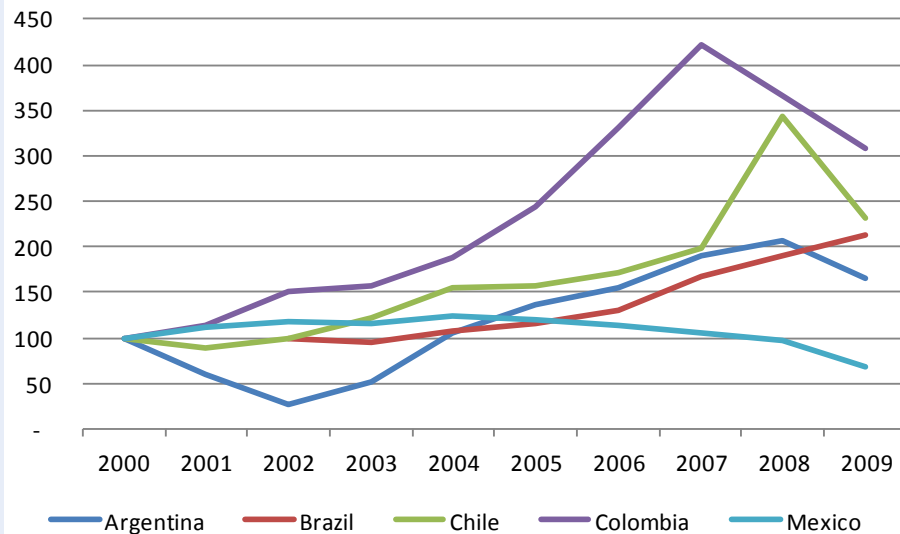
- Reduction in demand of single life premium products and those related to mortgages.
- Transport and credit insurance reduces due to reduction in commerce; exposure reduced due to lower production; companies reduce budgets and optimize insurance purchase; families reduce purchase of goods, etc.
- 2002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

Factors which support premium growth

Economic growth

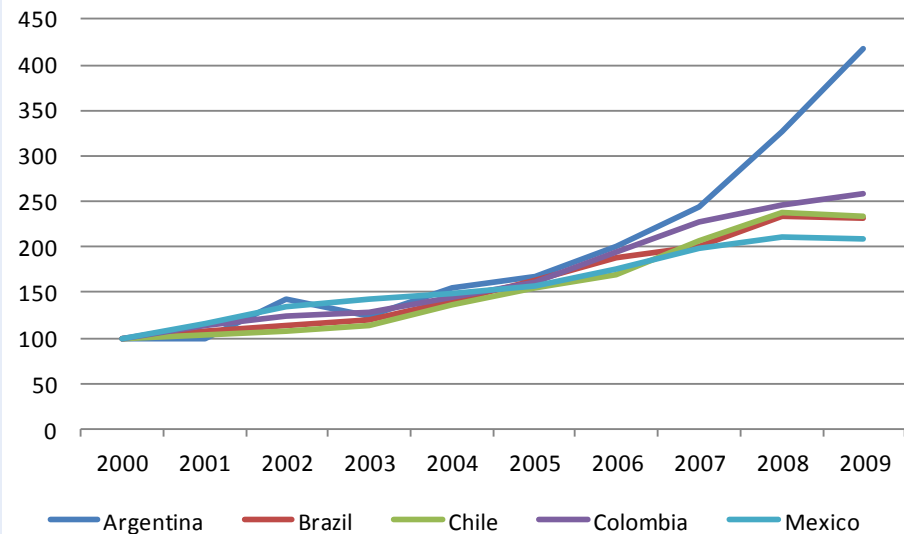
Growth in purchase power has boosted auto sales in Latin America, with an important impact on motor insurance.

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



Source: Swiss Re Economic Research & Consulting

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

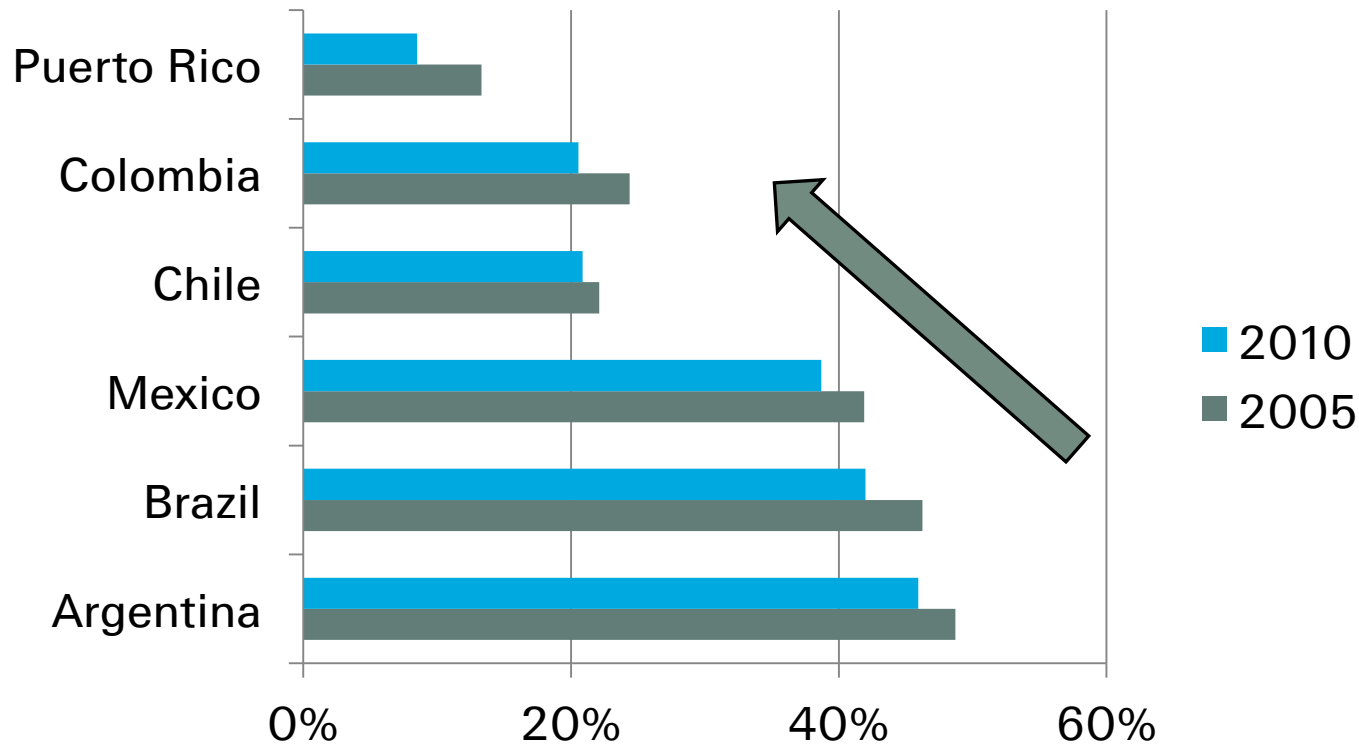


Source: Swiss Re Economic Research & Consulting

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 warranty insurance products.

However, insurers are diversifying away from motor business

Motor insurance premiums as a percentage of non-life premiums



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

Factors which support premium growth

Privatization of the pension systems

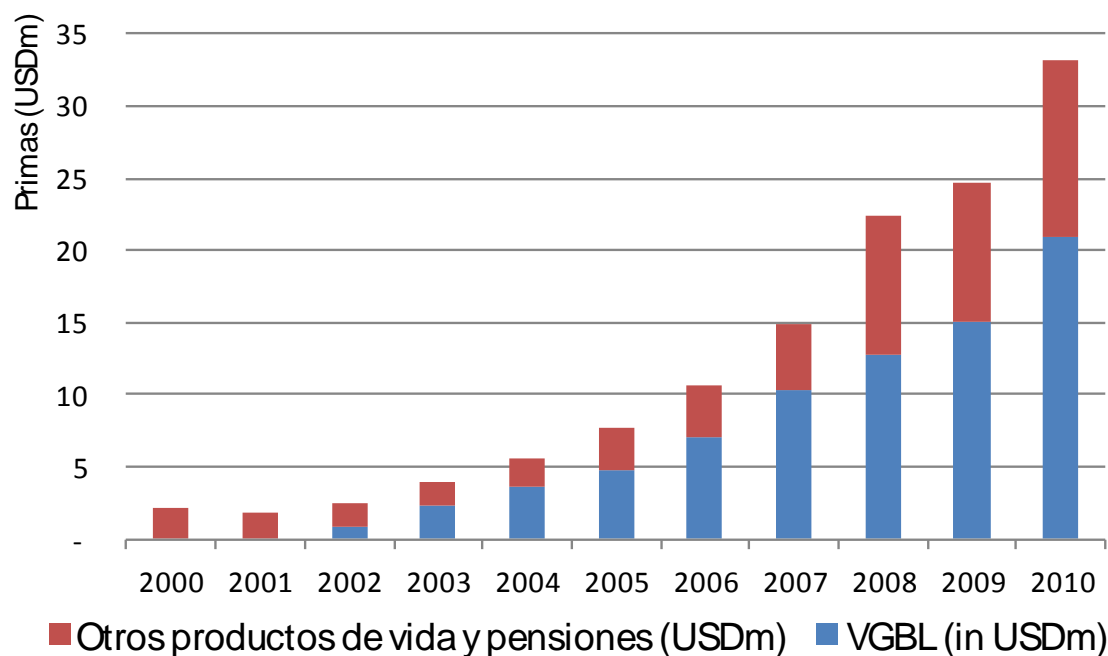
Country	Year	Insurance premiums linked* to pensions as a % of Life Premiums
Chile	1981	53%
Perú	1993	63%
Colombia	1994	46%

* Seguros de Invalidez y Sobrevivencia, así como Rentas Vitalicias
 Source: Swiss Re Economic Research & Consulting

Factors which support premium growth

Tax Benefits

Life Premiums in Brazil and VGBL (USDm)



Fuente: SUSEP y Swiss Re Economic Research & Consulting

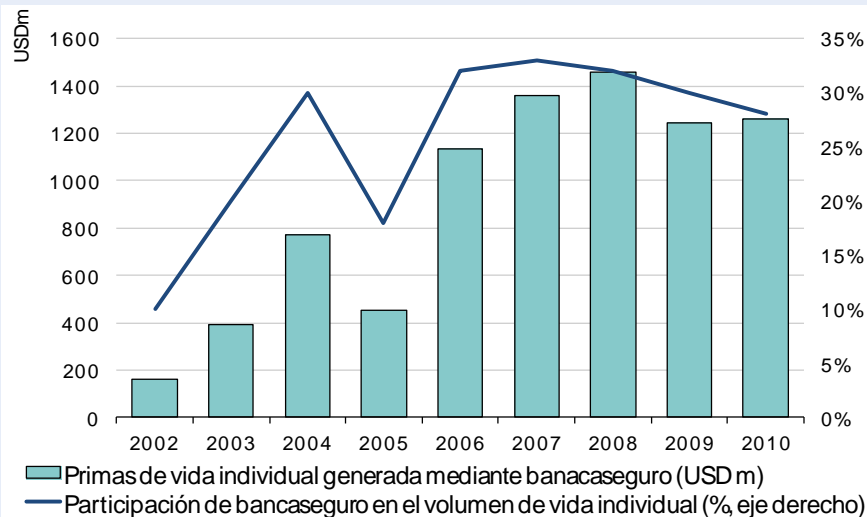
The introduction of savings products (VGBL) with tax incentives, boosted growth of the life market in Brazil since 2002.

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

Alternative distribution channels, and in particular bancassurance are now established in the region.

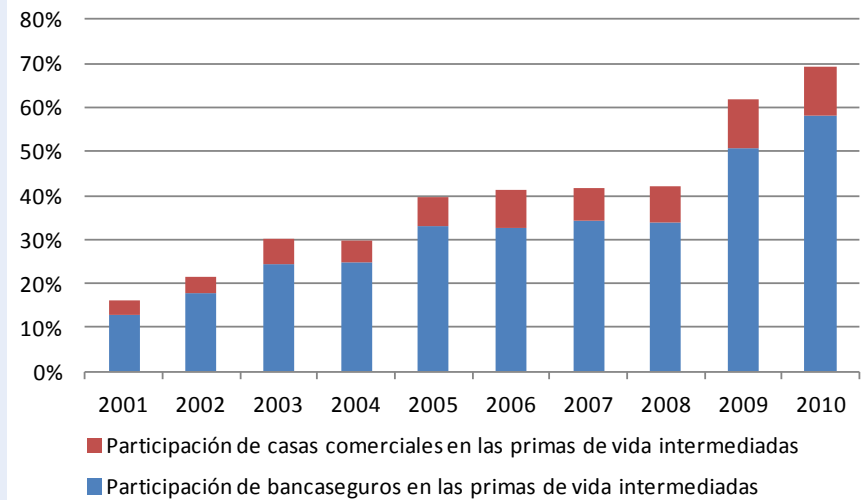
Use of Alternative Distribution Channels: bancassurance, direct marketing (telemarketing, mailing), retail stores

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



Fuente: Asociación Mexicana de Instituciones de Seguros

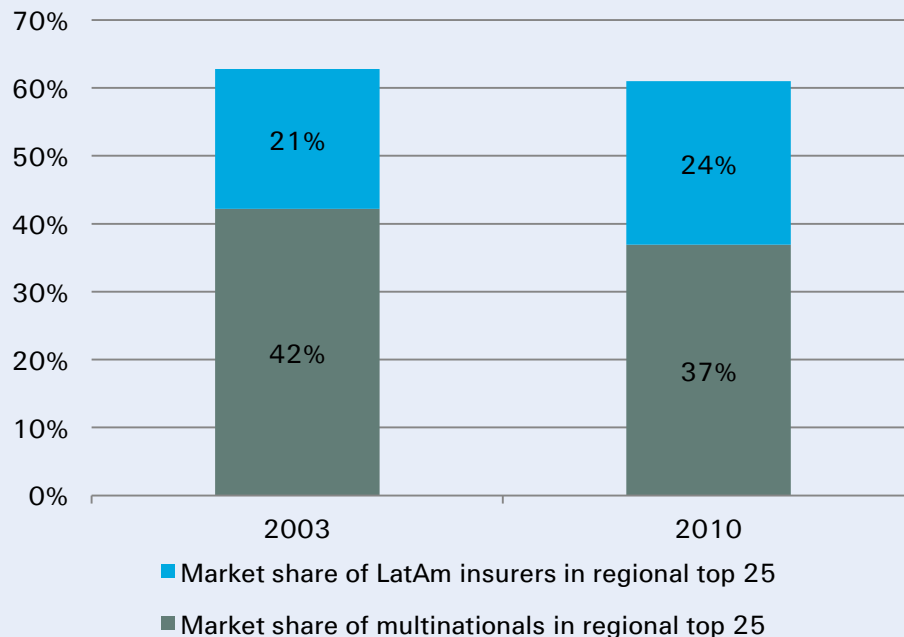
69% of life premiums are intermediated through alternative distribution channels in Chile.



Fuente: Asociación de Aseguradores de Chile

Local insurance companies are successfully competing with multinational companies

Non-life Insurance in Latin America & Caribbean: Market share of the top 25 insurance companies (local and multinational)



Fuente: Mapfre, Ranking de grupos aseguradores en América Latina, 2003 y 2010

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.



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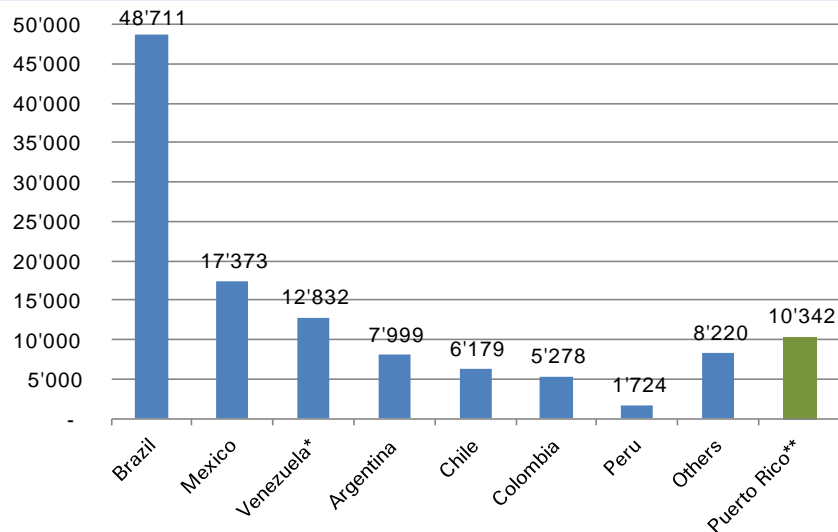
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Despite strong growth, there is still much potential to be exploited in Latin America

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

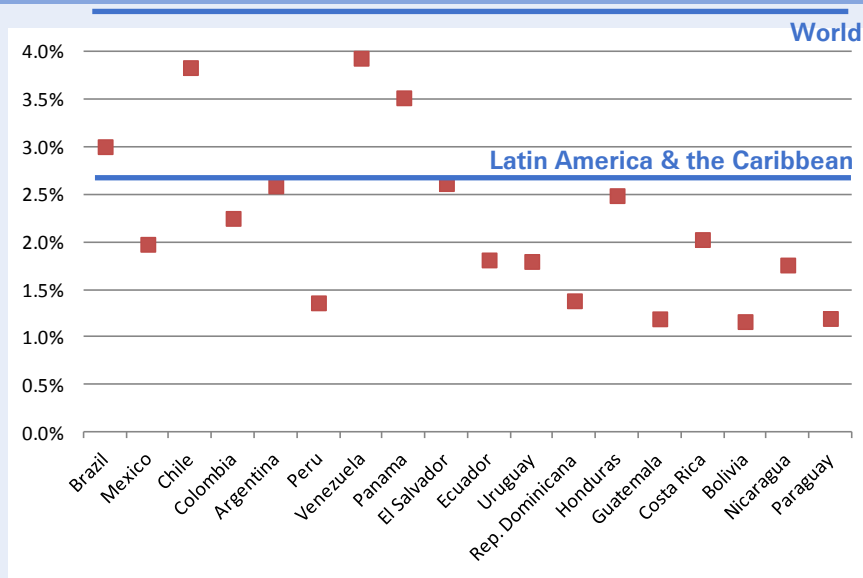


* Using an exchange rate of VEF 2.15 per USD. In 2011, however, the fixed exchange rate became VEF 4.3 for USD, negatively affecting the premium volume in USD terms.

** 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*

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



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

	CAGR 2011-2021		Additional premiums in 2011-2021, USD bn	
	Life	Non-life	Life	Non-life
Emerging Markets	7.9%	6.4%	820	394
Emerging Asia	8.5%	8.3%	631	218
Eastern Europe	7.5%	4.9%	39	50
Latin America	7.5%	4.5%	90	60
Middle East	8.0%	6.6%	12	45
Africa	4.0%	4.4%	48	21
Industrialised countries	2.9%	2.6%	1'344	774
World	3.9%	3.4%	2'163	1'167

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.

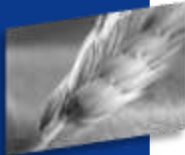
It is expected that premiums will continue growing strongly in the region

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.
- HNWI 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

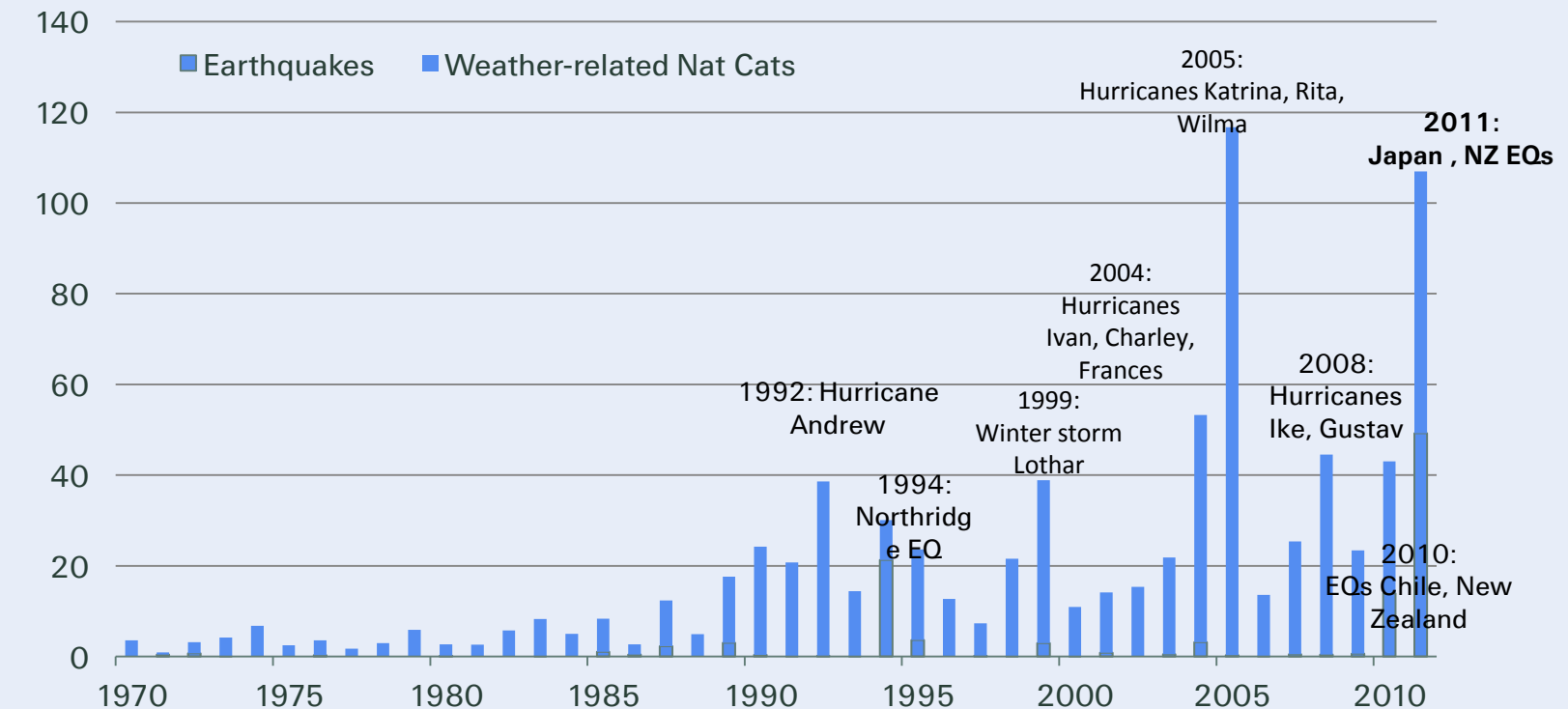
Third Party growing exposures



- 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)

Challenges: 2011 was almost the most expensive year for the industry

Insured nat cat losses 1970–2011
 USD billion, at 2011 prices



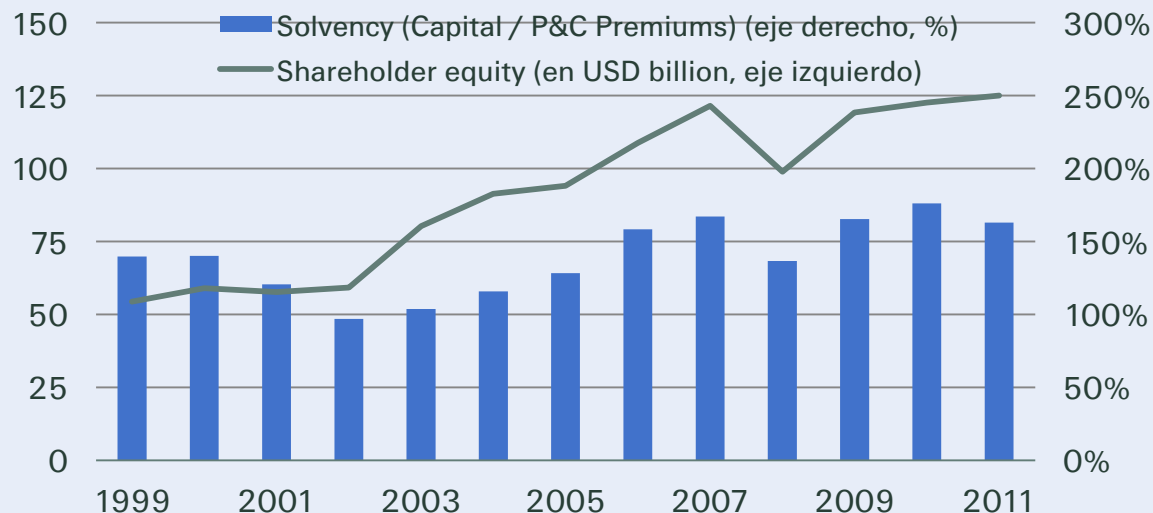
Source: Swiss Re sigma No 1/2011

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

Capital and solvency of non-life reinsurance
1999-2015, USD



Fuente: Swiss Re Economic Research & Consulting

- 1Q11 cat losses reduced capital by 6%.

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

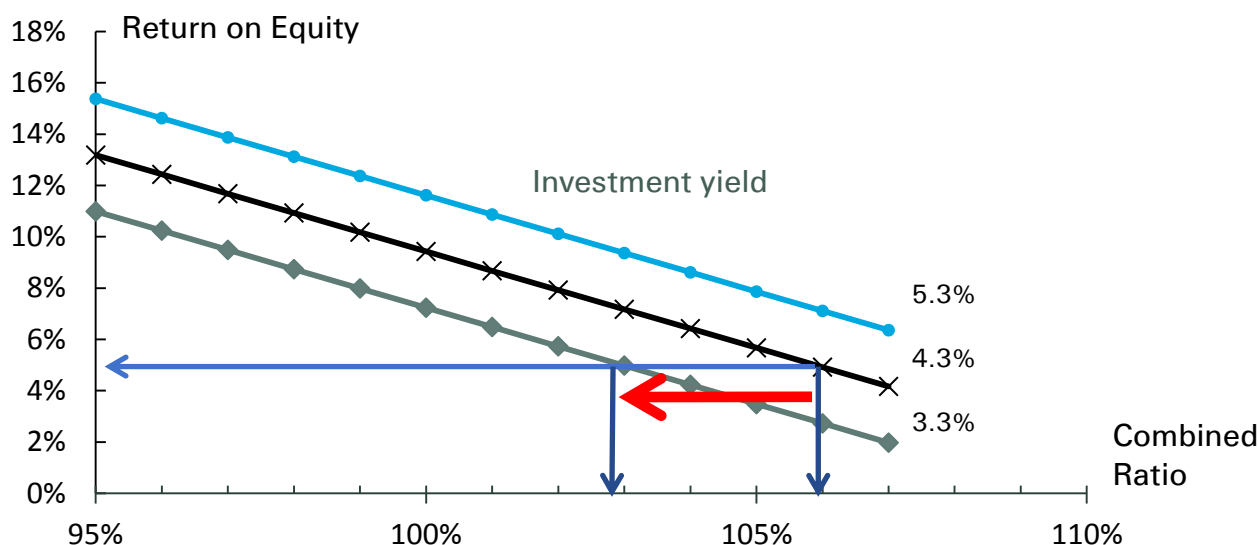
- *Interest rates rising* from current low levels will lead to mark-to-market losses on bonds. A 1% point increase is estimated to decrease the capital base by approx 10%.
- *Reserve adequacy having eroded* as reserves for redundant underwriting years mature and are replaced by less sufficiently reserved 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, whicl property per risk and Casualty have maintained flat.
- ❑ In Latin America & the Caribbean property cat rates have increased between 3% and 15%.



Low interest rate environment requires improvements in CR

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

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 accesible products
 - Use alternative distribution methods to penetrate this segment of the population at a low cost.
- Work with govenments 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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