Insurance Day - Contribution to Latin American Special Report

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The Latin American powerhouse is focus for financial lines players

By Jennifer Betancourt, Financial Lines Latin America, York International.

The volume and frequency of the media headlines says it all when it comes to the potential for risk transfer and insurance opportunities in Latin America. Not a week seems to go by without a carrier or broker announcing its entry or growth across the region.

The headlines are certainly backed up by experience on the ground, with expansion not just amongst the international carriers but also the growing presence and reach of the region's domestic players.

Historically high commodity prices and global trading beyond the USA in countries such as China have helped significantly to fuel Latin American growth, with predictions of 3.6% growth in the region in 2014 and 4.1% 2105. In the banking and financial institutions sectors, the level of knowledge, access to data and use of technologies have improved substantially, and this is being reflected in the ever broadening and sophistication of insurance offerings, an example of which might be cyber-crime cover.

But the region is not without its challenges. The International Monetary Fund's (IMF) recent regional economic outlook highlights slowing investment and the weakening of global commodity prices as the factors most likely to impact future growth across Latin America. However, it is important to note that this is not the

picture for all countries in the region. While some countries face increasing pressure and challenges others continue to offer real growth and prospects for the future. The marked differences in economic performance are further reflected in as well as influenced by the various political, cultural, legislative and regulatory structures of each country in the region. The key to successfully operating in the region is realizing that the region cannot be approached as a single entity.

Countries with financially integrated economies, such as Colombia and Peru, are identified as those most likely to maintain the fairly rapid growth they have already experienced. It is also these countries that offer the financial lines sector growth opportunities. Other countries facing potential struggles and a slowing of earlier economic expansion, still represent a market opportunity, although one that should be approached cautiously.

The demand for insurance coverage has increased in response to economic growth which has spawned numerous M&A and IPO transactions over the last decade.

There is also the continuing expansion of international and regional companies outside of Latin America. Indeed, some local insurance players are turning into regional players. These include Suramericana from Colombia, Assa from Panama and Sancor from Argentina.

The IMF highlights the need for strong financial sector regulation and its prudent supervision to help safeguard the stability and facilitating of future growth in the region. The presence of such robust regulation has a clear impact on the financial lines sector.

The principle differences from the financial lines sector perpespective are related to local regulations and the judicial systems that differ from one country to another. For example, the insurance markets in Chile and Paraguay are regulated while

those markets in Mexico and Colombia are not. Venezuela is a very different territory -- banks are now being renationalized and some are saying that internal controls and procedures introduced by foreign banks that once had some ownership in the Venezuelan banking sector might not be maintained as strongly as they have been. The levels of corruption, instability and the political decisions, which vary significantly from country to country, seriously affect economics and legal certainty in some parts of the region and pose specific challenges for the financial lines. This is especially the case in countries such as Venezuela and Argentina.

Against this backdrop, the region has seen several start-up insurance companies and new entrants to the marketplace targeting financial lines as a way to grow premium quickly.

The Bankers Blanket Bond (BBB) is perhaps the primary coverage associated with the financial lines market in Latin America. This well-established product covers the range of crime, forgery, fraud and other recognised risks facing financial institutions. But other lines, especially Professional Indemnity and D&O are increasing in penetration across the region.

In particular, the increased demand for D&O coverage is fueled by regulation, legal and corporate structures and contracts, and the increased awareness amongst businesses of the related risk exposures.

Countries such as Colombia, Chile and Brazil are all growth areas for D&O thanks to these factors. The response to this expanding market opportunity, includes increasing competition with lower premiums and some coverage being offered without sub-limits. Lower premiums, of course, can create a challenge for new and established players alike.

Feeding that challenge are claims trends that follow this growth pattern, with actions against company Directors and Officers as a result of labour, environmental and tax issues on the increase. New forms of crime emerging in the banking and financial institutions sector also include employee infidelity and phishing. Claims adjustment efforts must be able to factor in the regulations and laws of each market place, each risk, each loss and each contract. With many new entrants into the market and new market growth, that expertise may be difficult to obtain and learning from mistakes can be costly.

Given the high insurance risk value of financial institutions and the lack of expertise in underwriting these emerging risks locally, there is a high demand for reinsurance with local insurers generally only retaining up to 5%. The exception is Brasil where the current practice appears to be co-insurance within the large capacity, indigenous market.

Given the activity in the financial lines sector in Latin America, there is no doubt that many players – both seasoned and new – feel that the region's impressive growth potential outweighs the risks. The winners are likely to be those who assess the the full spectrum of risk presented by each country as well as by each opportunity and who can bring the appropriate expertise to bear.

About the Author

Jennifer Betancourt is a Financial Lines and Professional Risks Adjuster – Latin America for York International, a subsidiary of York Risk Services Group, a leading US claims management, managed care and risk management services provider. Based in Buenos Aires, Betancourt is responsible for the delivery of financial lines claims services across all of York International's Latin American business. She previously provided loss adjusting services on General Liability and Financial Lines claims in the Mercosur countries. Jennifer is a qualified Colombian Lawyer and graduated from the prestigious University of Los Andes in

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