2015 Latin America insurance outlook

Market summary

The Latin America insurance outlook for 2015 is generally favorable, with risks and opportunities becoming more complex based on market and country-specific conditions. Market demand, for example, is evolving at different rates due to different economic drivers across the region. On the other hand, competition is increasing, driven by the accelerating influence of large multinational and global participants. While regulation is moving toward more mature market standards, the demands of the increasingly technology-driven marketplace are challenging legacy channel product distribution.

In this complex environment, high single-digit nominal premium growth continues across the region. Although real economic growth recently slowed in two of the largest markets (Brazil and Mexico), stronger economic growth in other markets (combined with inflation in some areas) is generating overall premium growth in Latin America.
External forces in 2015

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Other positive factors affecting the demand for insurance products include the long-term trend of reduced poverty, shrinking unemployment rates and population growth above the pace of most mature markets. Growing consumer acceptance of the need for insurance products also is spurring premium growth.

Prospects are most promising for the sale of life insurance products, given low penetration rates in the growing middle-market consumer segment. The relatively young populations across the region add to the long-term growth prospects of selling both life insurance and retirement products.

The expansion of the consumer classes similarly benefits the general insurance sector. For example, the rise in the ownership of automobiles bodes well for the sale of automobile insurance. Insurance policies associated with product sales, such as mobile technology warranties and theft protection, are another diversified growth opportunity. The need to insure catastrophic risks from floods, hurricanes and earthquakes is also generating premium growth in several Latin American countries. Nevertheless, as global insurers quickly establish a presence in these markets, competition has increased.

Commercial insurance markets across the region are maturing. Latin America’s economic growth and the reduction of trade barriers are of particular benefit to multinational corporations, also known as multilatinas. As these businesses grow, they find a need to focus on more sophisticated risk management. This has spurred an interest in captives, non-traditional risk financing and risk management, which, in turn, benefits commercial insurers and brokers with technical expertise in these solutions.

These varied growth opportunities are challenged by legacy distribution models, particularly in the lines of business where brokers retain control, such as the retail and commercial insurance markets. This may impede insurer expansion into broader consumer and smaller business sectors. Legacy distribution models generally are not perceived as an effective channel to reach the uninsured or adapt to changing customer demands, where some of the greatest opportunities for growth may reside.

More efficient distribution systems are needed to deepen insurer penetration of both life and general insurance markets in Latin America. Insurance consumers are developing communication preferences similar to customers in mature markets. For instance, they are expanding their use of internet and mobile communications, and increasingly expect their retail and service interactions to occur via multiple communication channels.

As the insurance markets mature, consumers will demand greater efficiency and quality of services. To address this issue, insurers must pursue economies of scale and build more robust technology
infrastructures. Global insurers and larger regional insurers with the capacity to compete with scale and technology are already in the thick of this transformation. Latin America’s strong economic growth and recent regulation reforms have attracted several global insurers, reinsurers and insurance brokers, which are building their positions through mergers and acquisitions. At the same time, several Latin American-based insurers are engaging in cross-regional activities to bolster market share.

The insurance regulatory environment across the region is in harmony with mature markets at different speeds. Mexico is at the forefront, with Solvency II standards scheduled for implementation in 2015. Each country is on its own path and timetable to adopt a risk- and economic-value-based solvency structure. The development of trading blocs to liberalize trade, such as the Pacific Alliance, is hastening the pace toward broad global standards, including financial industry regulation.

The challenge for insurers in 2015 is to develop strategic initiatives that address the region’s expanding complexity. In 2015, successful insurers will do the following:

- Invest in efficient distribution alternatives and engage low-penetration markets
- Develop products to expand market reach and acceptance
- Transform operational platforms to increase quality of service for the consumer markets
- Respond to more sophisticated Latin American business clients
- Leverage advanced risk management solutions to comply with evolving capital solvency regulations
- Develop effective analytic advantage

**Invest in efficient distribution alternatives and engage low-penetration markets**

Weak insurance penetration of Latin American consumer markets has been a challenge for insurers. Distribution inefficiencies and related costs have contributed to the low penetration rate for both life insurance and personal lines products. These costs can represent a substantial portion of the total price, especially when attached to lower premium products targeting middle-tier consumer groups.

Insurers leveraging traditional channels across the region have enjoyed strong growth. However, now is the time to explore the use of alternative channels, while enhancing traditional distribution systems to more broadly address the customer base. This need is particularly pronounced for lower-penetration life insurance products; as such, products are noncompulsory, i.e., sold rather than bought.

Distribution inefficiencies are a problem in the general insurance sector as well. Among the concerns over established distribution channels are that their cost is keeping insurance price points above the consumer’s acceptance of value. Another issue involves insurance access and communication, which may not be developing parallel to consumers’ mobile/digital shopping and buying behaviors. Finally, more established insurer-distribution relationships are seen as possibly hindering the development of new products that require a different distribution approach.

Successful insurers in 2015 will increase market penetration by reaching out to consumers underserved by traditional distribution channels such as brokers and banks.
Consumers will be reached through public records, social media environments and workplace information sources. Messaging will be personalized and match the needs of consumers with specific service and product offerings. To develop products valued by consumers and businesses, successful insurers will promote a customer-centric business culture internally.

Many consumers in Latin America increasingly use mobile media to shop and buy numerous products online. In this regard, they have a greater desire to use online research prior to making a purchase, according to EY’s 2014 Global Consumer Insurance Survey. At the same time, they increasingly value personal interaction. Innovative insurers thus will develop mobile and social media strategies that present easy-to-understand products that reinforce their brands, and provide supporting digital information resources as a substitute for substantial personal interactions.

To initiate and enhance their personal interactions with consumers, successful insurers will increase their focus on affinity group associations in 2015. The workplace continues to be a trusted source of product endorsement in Latin America. Life insurers, in particular, have a great opportunity to tap into a youthful population in the workplace to offer products this demographic now needs, creating the potential for long-term growth. At the same time, the aging populations across Latin America present viable prospects for retirement-focused products. In Brazil, Mexico and Colombia, 16%, 14% and 15%, respectively, of the population is over 55 years of age. This compares to 25% in the United States. Longevity also is rising throughout the region. For Brazilians born in 1980, for instance, life expectancy was 63 years of age. A newborn today can expect to live to the age of 74 years. In Mexico, life expectancy has increased from 67 years to 77 years since 1980 and, in Colombia, from 65 years to 74 years.

For insurers in the region selling general insurance products to consumers, emerging distribution concepts involving kiosks and partnerships with traditional retailers will be tested in 2015. The goal is to offer simpler products to a broader base of consumers more efficiently.

Develop products to expand market reach and acceptance

Insurers in Latin America need to work more closely with legislators and regulators in 2015 to develop a more robust framework for the sale of insurance products with long-term value.

In recent years, compulsory insurance requirements and the expanding business and consumer classes have helped support the growth of general insurance sectors. Compulsory insurance requirements vary across Latin America, although workers’ compensation insurance and automobile liability/accident insurance are ubiquitous. The compulsory mandates have spurred increases in general insurance premiums in economies that are growing and have a rising percentage of automobile owners.

Nevertheless, the emerging consumer classes generally have not purchased insurance products voluntarily. A case in point is the Brazilian automobile insurance market. Despite the growth in its economy and middle class, insurance penetration has lagged. Brazil’s economy increased 44% in constant prices from 2003 to 2013, and the number of automobiles on the road doubled over this period. Yet, only 40% of automobile owners and 8% of residences are insured, according to various estimates. From 2003 to 2013, automobile insurance penetration barely nudged — from 0.6% of GDP to 0.7%. The import is clear: consumers remain reluctant to buy insurance beyond compulsory requirements.

Both life and personal lines insurers can achieve sustained growth by focusing their sales and marketing efforts on emerging consumer classes. Developing products with demonstrable value to these underserved customers is critical. Insurers also need to identify and leverage changes in customers’ life events. Marriage and the birth of children, for instance, present significant cross-sell and up-sell opportunities as well. In this regard, insurers must leverage sophisticated data management and advanced analytics.

For life insurance and pension products, surveys indicate that workers across Latin America are concerned over the adequacy of their savings, now that economic growth is slowing while average life expectancies
Commercial insurers in Latin America will seek to deliver more complex risk solutions to corporate clients in 2015.

Transform operational platforms to increase quality of service for the consumer markets

Competition is intensifying in Latin America due to the increase in the number of global insurers, and even indigenous insurers. To succeed in this environment, insurers must find efficiencies of scale and improve technology resources. The latter also is important, as consumers experiencing technology-supported mobile services in other industries, such as retail, increasingly expect similar services from insurers.

Pressured by the competitive conditions, and beset by legacy systems, insurers must reevaluate the effectiveness of their consumer market distribution and service. Consumers in Latin America seek more sophisticated insurance market experiences and real-time service, support and delivery.

Legacy systems are inadequate to support robust sales and customer service. Back office and process transformation across the enterprise must align the organization with critical consumer touchpoints, such as sales, payment, product delivery and claims processing. More flexible systems and processes are needed to incorporate innovative pricing and database structures, as well as online delivery.

Another important type of technology is telematics, which can shed light on consumer driving habits and vehicle use for insurance purposes. The industry appears to be developing this capability in Latin America, albeit no insurer has announced a program as yet. A potential hindrance may be the cost of installing monitoring devices into vehicles. Nevertheless, new vehicles in some countries may be required by law to include the devices. In Brazil, for instance, possible regulations include expanding current “track-and-trace” technologies to recover stolen new cars and trucks. Implementation of the law, Contran 245, has been delayed until 2016.

Successful insurers in 2015 technology will further streamline core underwriting, policy administration, delivery models and claims services. This technological retooling is essential to move from legacy one-off product-centric systems to flexible, customer centric core platforms, which address the region’s growing market maturity.

Respond to more sophisticated Latin American business clients

Commercial insurers in Latin America will seek to deliver more complex risk solutions to corporate clients in 2015. Businesses across the region are enhancing their approach to risk and capital management, and want more cost-efficient solutions.

Many global brokers have invested capital and other resources to both sharpen their expertise and extend their geographic reach to support these complex risk solutions, which include captives, non-traditional risk financing and risk management. Many global brokers in Latin America also continue to expand their presence. In 2014, Jardine Lloyd Thompson Group P.L.C., London, acquired 75% of Rio de Janeiro-based SCK. Aon Risk Solutions expanded in Peru by acquiring Lima-based Graña y Asociados. The same year, London-based Howden Broking Group expanded its operations to Colombia by acquiring insurance brokers Proseguros and Wacolda.

rise. In Brazil, where the National Institute of Social Insurance (INSS) provides retirement benefits for all private sector employees, most employers offer voluntary payroll deduction for supplemental plans, helping employees to maintain financial discipline to achieve their savings goals. Successful product development must respond to these needs in an easy to understand and access format.
As global insurers continue to import expertise in sophisticated risk management and financial management from other geographic regions, the onus is on larger indigenous insurers to develop more sophisticated products responding to the complex risk needs of clients and intermediaries. As insurance buyer sophistication increases, less capable insurers are relinquishing these markets to global insurers with extensive technical expertise and infrastructure.

To support the development of more complex risk management solutions, regulators must become well versed in these alternatives. The captive market, for instance, has not developed to any significant degree in Latin America, partly because of complex and restrictive regulations and limited knowledge of captives. Many countries in Latin America also impose a withholding tax on cross-border premiums. As regulatory reforms begin to ease, these captive restrictions and new cross-country trade agreements permit their functioning. Several large Latin American corporations that have expressed interest in captive ownership may take this route.

Successful insurers, reinsurers and brokers in 2015 will develop enhanced efficiencies and technical capabilities to serve the emerging large account and middle markets. Certainly, the commercial insurers and brokers that possess the requisite technical expertise in these solutions are best positioned to lead large account and alternative markets.

Leverage advanced risk management solutions to comply with evolving capital solvency regulations

Political risks and regulatory changes are creating severe business challenges in some countries in Latin America. Successful insurers and brokers in 2015 will address these problems by exploiting the advantageous reforms across the region, continuously monitoring and evaluating political and regulatory developments, and engaging governments and regulators in meaningful dialogue.

The growing volume and complexity of insurance regulation anticipated in Latin America requires insurers in 2015 to be equipped with more flexible technology, data analytics and management talent. As to the last, insurers need talent that is well versed in regulatory and reporting matters to respond to increased regulatory information requests.

Current and future regulatory demands from multiple and potentially conflicting jurisdictions insist that insurers implement enterprise-wide solutions. Insurers need to integrate risk management with product development and actuarial resources. To do this, they must build solid risk management structures that prioritize data quality and data governance. Leading insurers will leverage technology to analyze risk within market segments to rapidly identify emerging trends.

Investment in advanced technology is critical in managing the increasingly complex, systemic risks across the region. Investing in efficient use of data analytics to satisfy these demands will be more cost-effective if accompanied by judicious staff additions.

Develop effective analytic advantage

As insurers expand throughout the region to seize growth opportunities in the maturing and developing markets, the increasingly competitive conditions will pressure margins and challenge operational functions. In this environment, successful insurers in 2015 will leverage technology and data analytics to more effectively underwrite and manage risk.
While data availability is more limited in the region than in more mature markets, the integration of technology into the lives of consumers and businesses is creating opportunities to leverage powerful analytics to identify new growth prospects, driving operational and marketing efficiencies, and serving markets profitably. Before leveraging advanced analytics, insurers must develop infrastructures that support the increasing granularity of claims and market data. Unlike other markets, insurers in Latin America have substantially less available external and internal data to employ predictive analytics.

The need to more efficiently tackle administrative expenses is leading some insurers to implement shared services strategies, outsource non-core activities and develop new technology platforms that better support customer markets. Closer relationships with key stakeholders such as distribution partners, service suppliers and data managers is becoming more essential.

Sophisticated analytics can turn even limited data into actionable knowledge, enhancing claims processing and underwriting accuracy. The focus in 2015 will be on enterprise-wide development and use of big data. New methods to query unstructured data present distinct opportunities in insurance marketing and underwriting. The growing use of social media in Latin America can also support the access and analysis of external consumer information for the same purposes. Social media analysis firms use text analytics technology to convert unstructured social networking data into structured formats. Data-mining tools can identify correlations between social signals and consumer behaviors.

Successful insurers in 2015 will be those that tap the power of big data to make more insightful and confident business decision making in product design, distribution, marketing, underwriting and claims. Insurers that take an holistic approach in developing their analytic capabilities will enjoy a competitive advantage, managing capital efficiently, while achieving sustainable margins.

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<tbody>
<tr>
<td>Maturing</td>
<td>Brazil</td>
<td>0.3%</td>
<td>0.3%</td>
<td>6.3%</td>
<td>5.8%</td>
<td>2.28</td>
<td>2.75</td>
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<tr>
<td></td>
<td>Chile</td>
<td>2.0%</td>
<td>3.3%</td>
<td>4.4%</td>
<td>3.2%</td>
<td>556.53</td>
<td>562.00</td>
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<tr>
<td></td>
<td>Mexico</td>
<td>2.4%</td>
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<tr>
<td>Developing</td>
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<td>-1.5%</td>
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<td>N/A*</td>
<td>8.23</td>
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<tr>
<td></td>
<td>Colombia</td>
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<td>2.8%</td>
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<td>4.0%</td>
<td>3.1%</td>
<td>3.0%</td>
<td>N/A**</td>
<td>N/A**</td>
</tr>
<tr>
<td></td>
<td>Peru</td>
<td>3.6%</td>
<td>5.1%</td>
<td>3.2%</td>
<td>2.3%</td>
<td>N/A**</td>
<td>N/A**</td>
</tr>
<tr>
<td></td>
<td>Venezuela</td>
<td>-3.00%</td>
<td>-1.00%</td>
<td>64.30%</td>
<td>62.90%</td>
<td>15.52</td>
<td>21.95</td>
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</tbody>
</table>

Please note:
1. IMF assigned Argentina inflation “N/A” due to data quality and government intervention. You can use it as noted or use the prior data of 31% inflation with annotation.
2. The MXN exchange rate is 14.74 per US$; we used the IMF from October (the latest).


**As of September 2000 Ecuador discontinued use of Sucre (ECS) in favor of US dollar.

Source: International Monetary Fund, World Economic Outlook Database, October 2014
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