

July 2018

# Latin America regional market report 2018 - Executive Summary



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# Executive summary

LatAm is entering a new political cycle, in which so far the electorate has preferred business-friendly candidates.

Many countries in Latin America and the Caribbean (LatAm) are going through political transition. In an 18-month period, key presidential and/or legislative elections have been, or shortly will be held in many of the nations of the region. So far, the electorate have mostly opted for business-friendly government over the leftist leaderships that have prevailed in recent decades. With the exception of Venezuela, we expect the newly-elected administrations will use the opportunity afforded by a changing political climate to action reforms that seek to address long-standing economic weaknesses.

Some reform measures have been put in place but there's plenty of room for more.

In some countries, most notably Argentina, tangible measures towards economic liberalisation and responsible fiscal practices have already been implemented. Nevertheless, there is plenty of room for more reforms. For example, much more can be done to improve competitiveness and productivity by revamping infrastructure, reducing the cost of doing business and investing in human capital. And, with a rise of protectionist sentiment globally, we believe proactive policy-making will be necessary to deal with potential disruption to supply chains.

The regional recovery is in motion, but remains subject to internal and external uncertainties.

LatAm is recovering from an economic slowdown and barring major setbacks, we expect improvement to continue with region-wide gross domestic product (GDP) up 2.2% in real terms in 2018, and for the economy to approach growth potential (2.8%) by the end of 2019. The soft patch of 2014–2016 stemmed from the abrupt drop in commodity prices globally, which translated into lower fiscal revenues, weaker currencies, increased financial volatility and lower output. The improved global economic momentum and stabilization of commodity prices since 2017 should help anchor the recovery over the next two years. Domestic circumstances could present setbacks as adverse political developments may deter/delay investments, and trade wars could also negatively impact economic growth.

Insurance demand in LatAm lagged the broader economic recovery in 2017...

In 2017, the demand for insurance lagged the broader regional economic recovery. Growth in L&H premiums slowed but returned to positive territory in the P&C sector. Growth in both remain significantly lower than the historical average. There were rate increases in some lines of business such as motor and medical expenses (medex) insurance due to increases in the cost of servicing claims resulting from currency depreciations. Insurance sector profitability was also affected by an eventful catastrophe year, headlined by major hurricanes in the Caribbean and earthquakes in Mexico.

...but we forecast stronger premium growth in both L&H and P&C insurance in 2018 and 2019.

In our view, demand for L&H and P&C insurance in LatAm should improve in 2018 and 2019 as the economic recovery unfolds and trends towards potential next year. Cycle-sensitive lines are likely to be more responsive to the expected economic expansion. Higher purchasing power in many markets and supportive credit conditions (except for Mexico) should support demand for both commercial and personal insurance.

Insurance penetration remains below potential in several markets.

Insurance penetration in LatAm of 3% is comparable to the emerging market aggregate (3.2%). The penetration rate remains below potential in many countries due to both demand- and supply-side constraints such as high income inequality, low financial inclusion and a lack of product and distribution channel innovation. However, with current levels of per capita income, markets in the region are at an inflection point where we expect take-up rates of insurance covers to increase over the longer term.

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