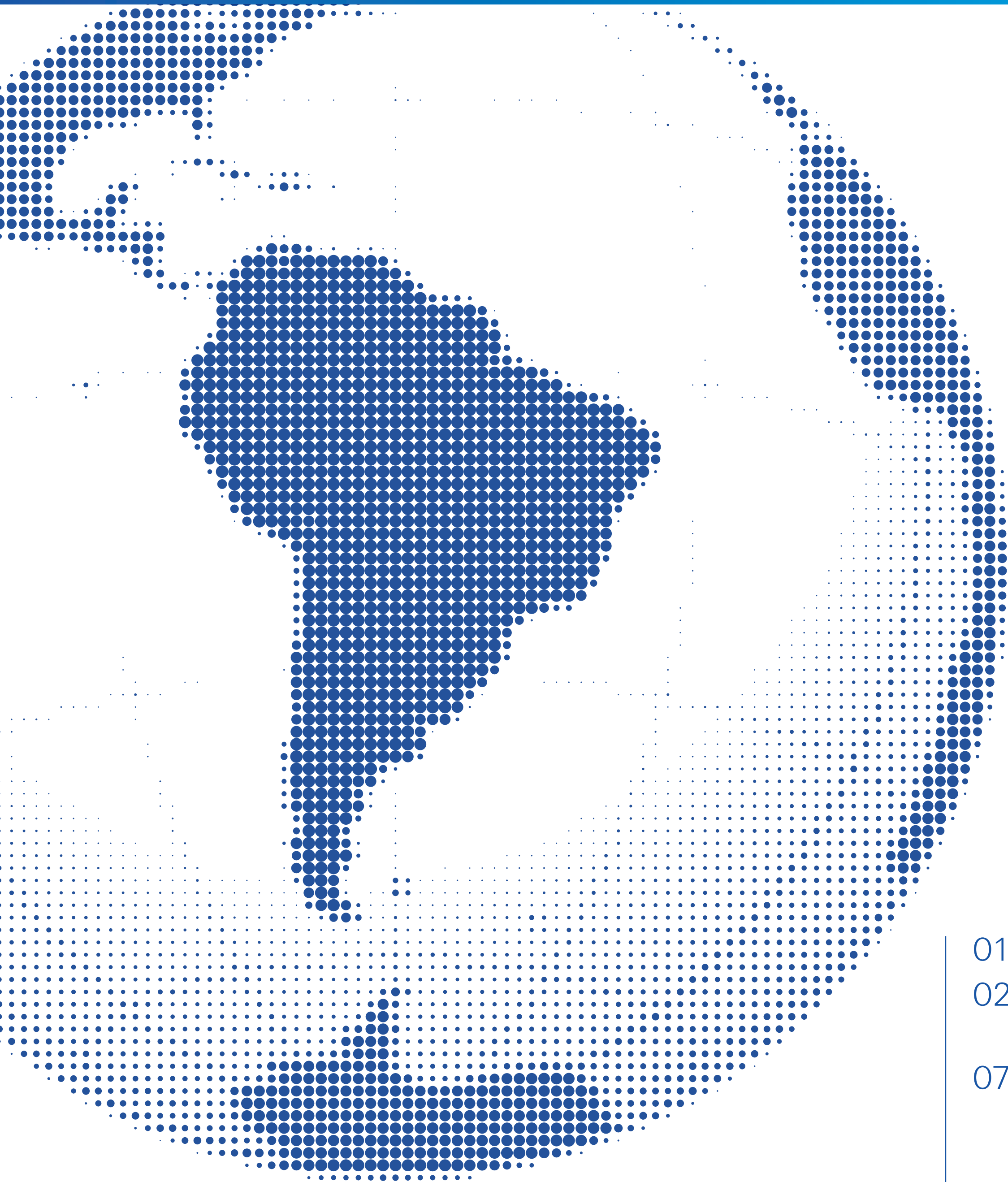
Swiss Re
Institute

July 2018

Latin America regional market report 2018 - Executive Summary



Order copies of the full study via your Client Manager

01 Executive summary
02 Political and policy outlook
07 Macroeconomic developments and outlook
14 Insurance in Latin America and the Caribbean
25 Conclusion
26 Appendix

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.

Published by:

Swiss Re Institute
Swiss Re Management Ltd.
P.O. Box
8022 Zurich
Switzerland

Telephone	+41 43 285 2551
Fax	+41 43 282 0075
E-Mail:	sigma@swissre.com

Armonk Office:
175 King Street
Armonk, NY 10504
Telephone +1 914 828 8000

Hong Kong Office:
18 Harbour Road, Wanchai
Central Plaza, 61st Floor
Hong Kong, SAR
Telephone + 852 25 82 5644

Authors
Fernando Casanova Aizpún
Telephone +1 914 828 4356

Caroline de Souza Rodrigues Cabral
Telephone +1 914 828 8831

Lorena Franco

Editors
Thomas Holzheu
Telephone +1 914 828 6502

Paul Ronke
Telephone +41 43 285 2660

Managing editors
Dr Jerome Jean Haegeli
Swiss Re Group Chief Economist

Dan Ryan
Head of Research at Swiss Re Institute

The editorial deadline for this study was 2 July 2018.

Order no: 1507510_18_EN

Swiss Re Management Ltd.
Swiss Re Institute
Mythenquai 50/60
P.O. Box
8022 Zurich
Switzerland

Telephone + 41 43 285 2551
Fax +41 43 282 0075
sigma@swissre.com
institute.swissre.com