Insurance in Latin America: growth opportunities and the challenge to increase profitability

12 Jun 2002 CET

In 2001, the insurance industry in Latin America generated premiums estimated at just under USD 40 billion. Swiss Re's latest *sigma* study shows some key factors impacting the Latin American insurance market, including:

- **Growth opportunities: pension reforms and hardening premium rates around the world are becoming a source of new growth potential**
- **Challenge to increase profitability: falling investment returns require better technical results**
- **New distribution channels: while banks have positioned themselves, further channels continue to be tested.**

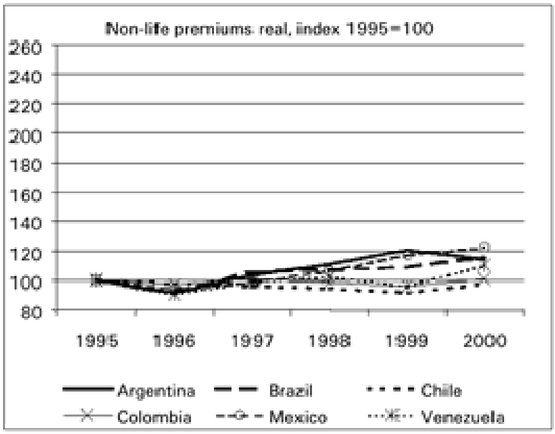
Insurance premiums increased by 6% in 2001

As a case in point, Argentina has shown what a strong dependency the development of the insurance industry has on the overall economy. Premium volume declined dramatically in the first few months of 2001 as the economic crisis deepened. In general terms, however, growth in the Latin American insurance industry far outstripped the economy, registering in 2001 a robust rise of 6 percent in insurance premiums. Compared with previous years, property and casualty premiums in the region registered stronger growth than life premiums, due in particular to price increases in international property insurance.

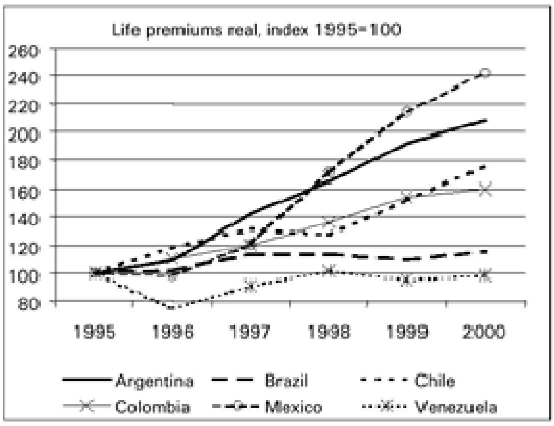
Pension reforms source of new growth potential

Robust growth in the region's life insurance sector stems in particular from pension insurance reforms which have created promising growth potential for the insurance industry.

Comparably high growth in life insurance



enlarge graphic

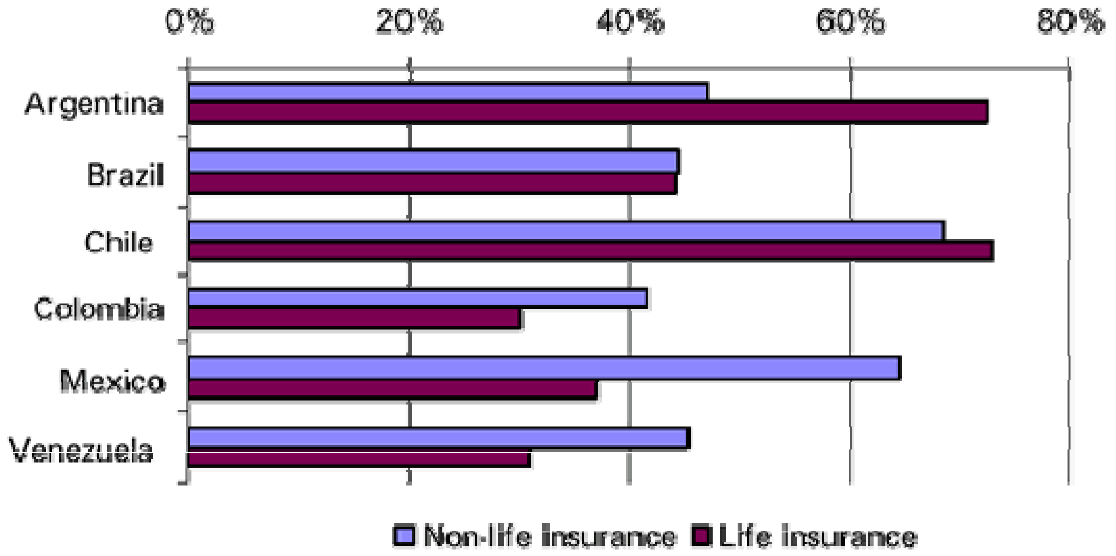


enlarge graphic

Foreign investors attracted by untapped market potential

In the property and casualty sector, declining rates between 1995 and 2000 indicate that premiums only grew as fast as the gross domestic product (GDP). However, this sector's potential remains untapped. In fact, while in Latin America spending on non-life insurance corresponds to only 1.3 percent of GDP, the global average stands at 3 percent. For life insurance, spending in Latin America is 0.7 percent, compared to a global average of 4.9 percent. International investors have taken note of this fact. Foreign insurers, for example, have upped their investments in the region over the past ten years and now enjoy a significant market share.

Foreign insurers' market share in 2000



Insurance growth will continue to surpass general economic growth

Expressed in US dollars, premium volume in the region for 2002 will be lower than in the previous year due primarily to currency devaluations in Argentina and Venezuela. Nevertheless, measured in local currency, inflation-adjusted growth in the region's major markets should be positive, with the exception of Argentina, and should clearly outstrip that of the economy.

Falling investment returns require better technical results

Despite stiff competition from foreign providers, Latin American insurers' expense ratios are largely much higher than those in Europe. In Argentina, for example, they are 50 percent. On the international stage, increasingly poor investment returns show the difficulty of propping up excessive expense ratios in the long term. Falling inflation and interest rates require insurers to write better technical results in order to remain profitable.

Diversity of distribution channels as a new factor of competition

Changes are also affecting distribution channels. Latin American markets, traditionally dominated by agents and brokers, are experimenting with new distribution channels targeted at low- and medium-wage earners. These channels include chain stores, car dealers, petrol stations and employers. Whilst these tryouts are still in their infancy with regard to premium volume – as is Internet distribution – success can already been seen in the area of distribution through banks.

Obtaining a copy of this *sigma:*

The English, German, French, Spanish and Italian versions of the *sigma* study are available electronically on **Swiss Re's website** ("Research & Publications", "sigma insurance research", "*sigma* No. 2/2002").

Printed editions of *sigma* No. 2/2002 can now be ordered. The English, German and Spanish editions are currently available; French, Italian, Chinese and Japanese versions will follow shortly. Please send your orders, complete with your full postal address, to:

E-mail: sigma@swissre.com
Zurich: tel. +41 43 285 2551, fax +41 43 285 4749
New York: tel. +1 212 317 5135, fax +1 212 317 5455
Hong Kong: tel. +852 25 82 5691, fax +852 25 11 6603

This press release is also being distributed by e-mail; to receive a copy, please contact **sigma@swissre.com**.

Data from selected figures and tables are available from the *sigma* chartroom on the **Swiss Re Portal**.

Notes for editors:
Swiss Re is one of the world's leading reinsurers with over 70 offices in more than 30 countries. Gross premiums in 2001 amounted to CHF 28.5 billion (USD 16.9 billion). Swiss Re has a strong track record of earnings growth only interrupted in 2001 with a net loss of CHF 165 million (USD 97.8 million), largely due to the 11 September 2001 event. At the end of 2001, Swiss Re's shareholders' equity amounted to CHF 22.6 billion (USD 13.6 billion) and the total balance sheet stood at CHF 170 billion (USD 102.4 billion). Swiss Re is rated "AAA" by Standard & Poor's, "Aaa" by Moody's and "A++" by A.M. Best

Contact:
Jutta Kreickemeier, Zurich, tel. +41 43 285 5877
Mark McFarland, Hong Kong, tel. +852 2582 5625
Group Media Relations, Zurich, tel. +41 43 285 7171
Michael McNamara, New York, tel. +1 212 317 5663

Download:
English
German
French
Spanish

Top of page