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FEATURED Q&A

What Does the Future Hold for Brazil's Insurance Sector?

Q The short-term outlook for Brazil's insurance market—with a total of about \$47 billion in premiums written in 2008—has been restrained by the deterioration in the macroeconomic environment and the industry's continuing regulatory transition, Fitch Ratings analysts said in a report released July 6. The authors added, however, that Brazil's insurance sector "presents significant potential for greater development" once a consistent economic growth resumes and regulatory issues are resolved. Do you agree? How have Brazil's 2008 regulatory changes for the industry played out to date, and which reforms will be most likely to spur Brazil's insurance sector growth? How much economic growth is needed in Brazil, and for how long, for the industry to advance significantly? How big can Brazil's insurance sector become in the next five to 10 years?

A Luis Maurette, CEO of Liberty Seguros in Sao Paulo: "We have observed that property and casualty written premiums for the last 12 months have grown despite the global economic turmoil. We attribute this growth performance to mainly two main effects: 1) the Industrialized Products Tax (IPI) cut that the government implemented in the beginning of the year, which has stimulated new vehicle sales and 2) regulatory changes such as the opening of the reinsurance market, which has contributed to the entrance of global reinsurers in

Brazil, and new solvency rules that will result in a more stable and stronger insurance market. We do agree that the Brazilian insurance market presents significant potential for greater development and the regulatory changes are very positive for the market. Due to the opening of the reinsurance market, several large global reinsurance carriers have established a presence in the country, increasing competition and providing new products and more capacity to the market, and also adding expertise to some lines of business that were not

Continued on page 3



Colombian Senate Approves Presidential Re-Election Bill

Colombian senators late Wednesday approved legislation that could allow President Alvaro Uribe to seek a third term. The bill still faces scrutiny in the lower house and in Colombia's Constitutional Court. See brief on page 2.

File Photo: Colombian Government.

Inside This Issue

FEATURED Q&A: What Does the Future Hold for Brazil's Insurance Sector?1

Former Brazilian Environment Minister Quits Ruling Party.....2

Clinton: US-Colombia Deal Will Not Significantly Increase Troop Levels.....2

IDB Planning \$1 Billion Credit Line for Mexican Development Bank2

Banco do Brasil Seeks to Double Earnings From Insurance Operations.....3

Eletrabras Shares Tumble After Company Reports \$1.13 Billion Loss.3

NEWS BRIEFS

Colombia's Senate Approves Measure for Uribe's Re-Election

Colombia's Senate late Wednesday approved legislation that could allow President Alvaro Uribe to run for a third term, the Associated Press reported. The 102-member Senate approved the measure on a vote of 56-2. Before the vote, opposition lawmakers walked out of the chamber after saying they lacked adequate support to defeat the bill. The legislation would call a referendum to ask voters whether presidents should be able to run for re-election twice. It still faces debate in the lower house and the Constitutional Court. Uribe has not said publicly whether he intends to run again.

Six Guilty in Argentine Club Fire

A nightclub owner and five others were convicted of arson and bribing public officials in connection with a 2004 fire that killed 194 people in a working-class nightclub in Buenos Aires. A panel of judges on Wednesday sentenced club owner Omar Chaban to 20 years in prison along with 18 years for the manager of the band Callejeros, whose members were absolved of wrongdoing, reported local daily *Clarín*.

Recovery From Chile Salmon Virus Could Take Up to Six Years

The head of the world's largest salmon farming company said it could take six years for global supply of salmon to recover from a virus that struck fish farms in Chile. **Marine Harvest** CEO Aase Aulie Michelet told Bloomberg News in an interview Wednesday that her company is ramping up its investments in research and development to understand the outbreak. Global salmon supply is expected to fall 10.3 percent to 1.3 million metric tons in 2009, the report said.

Political News**Former Brazilian Environment Minister Quits Ruling Party**

Marina Silva, a Brazilian senator and former environment minister, on Wednesday left the ruling Workers' Party and said she may run for president as the Green Party candidate in the country's October 2010 election. "I am now in talks with the Green Party in this period of transition," Silva told reporters in Brasilia, Reuters reported. Silva, a prominent Amazon rain

“I am now in talks with the Green Party in this period of transition.”

— *Marina Silva*

forest defender, stepped down from her cabinet position last year. Silva's entry into the race may hurt the chances of Dilma Rousseff, President Luiz Inacio Lula da Silva's preferred successor, by drawing left-leaning and female voters away from Rousseff. The former environment minister last weekend polled fifth, garnering only 3 percent, in a survey asking Brazilians' preferences for president. The poll, by the firm **Datafolha**, said Sao Paulo state governor Jose Serra is leading the field of possible candidates with 37 percent and Rousseff is running second with 16 percent. The Green Party said Silva would be welcomed into the party during an Aug. 30 ceremony in Sao Paulo. Conservation groups applauded Silva's move. "For the first time in Brazil, we will have a real debate about sustainable development," Jose Maria Cardoso da Silva, the vice president of Conservation International in South America, told Reuters.

Clinton: US-Colombia Deal Will Not Significantly Increase Troop Levels

The planned military agreement between the United States and Colombia will not lead to a significant increase in the number of US troops in the South American

country, US Secretary of State Hillary Clinton said Tuesday after talks in Washington with Colombian Foreign Minister Jaime Bermudez. The agreement would not affect other countries, Clinton said, according to BBC News. "It does provide the United States access to Colombian bases but command and control, administration and security will be Colombia's responsibility," Clinton said. "Any US activity will have to be mutually agreed upon in advance. The United States does not have and does not seek bases inside Colombia." She added that the agreement would lead to "no significant permanent increase in the US military and contractor presence in Colombia." Under the deal, Colombia would allow US troops greater access to Colombian military bases in order to fight drug trafficking and terrorist threats. The United States is "committed to supporting the government of Colombia in its efforts to provide security to all its citizens." Several South American countries have expressed concerns about the agreement. Venezuelan President Hugo Chavez has said he fears the US is positioning itself to attack his country.

Economic News**IDB Planning \$1 Billion Credit Line for Mexican Development Bank**

The Inter-American Development Bank expects to offer a \$1 billion credit line for Mexico's development bank, Nacional Financiera SNC, Bloomberg News reported Wednesday, citing the IDB's Mexico representative, Ellis Juan. The bank is expecting to formally approve the loan by December, Juan said. "We're hoping to bring this to our board of directors by the end of the year," he said. The loan will help Nacional Financiera, or Nafinsa, provide financing to service providers for state oil company **Petroleos Mexicanos** (Pemex), Juan told Bloomberg News in an interview. Loan proceeds will also pay for projects in the tourism and renewable energy industries. Juan added the IDB plans to approve a \$400 million loan in September for Mexican projects to fight climate change. Last week, Hector Rangel,



Rangel

File Photo: Mexican Government.

the director of Nafinsa and Banco Nacional de Comercio Exterior, also a Mexican development bank, said the institutions want to raise money through an international bond sale or multilateral lenders. The banks have been loaning more money to companies as financing from commercial banks has dried up in the midst of the global financial crisis.

Company News

Banco do Brasil Seeks to Double Earnings From Insurance Operations

Banco do Brasil is aiming to double the earnings it receives from insurance operations within the next five years, the bank's president, Aldemir Bendine, said Wednesday, Bloomberg News reported. The bank, which is Latin America's largest by assets, wants insurance operations to contribute 25 percent of earnings, he added. "Banco do Brasil doesn't earn as much from insurance as rivals," said Bendine. "We're seeking to increase



Bendine

File Photo: Agencia Brasil.

the capital the bank has in these companies." Banco do Brasil last week reported a 43 percent year-on-year profit increase for the second quarter. Competitor **Banco Bradesco**, the second-largest non-government bank in Brazil, is the country's leading bank in insurance operations. Bradesco derived 36 percent of its earn-

Featured Q&A

Continued from page 1

explored in the past. Also, the new solvency rules strengthen and increase protection to Brazilian enterprises and individuals. Some macroeconomic reforms, such as the tax reforms, should contribute to the growth of the local insurance market as they will allow the economy to grow. Also, reforms in the financial market that contribute to the further drop in interest rates should force the insurance market to become more efficient at adding more value for customers, contributing to the market's sus-

“Some macroeconomic reforms, such as the tax reforms should contribute to the growth of the local insurance market.”

— Luis Maurette

tainable growth. We observed that the insurance market has grown at the same pace of the economic nominal growth in the last four years. Today, the Brazilian

ings in the second quarter from its insurance business. [Editor's note: See related Q&A on page 1.]

Eletrobras Shares Tumble After Company Reports \$1.13 Billion Loss

Shares of **Eletrobras**, the largest utility in Latin America, fell Wednesday in Sao Paulo trading after the company reported a second-quarter loss that was larger than analysts had expected, Bloomberg News reported. Common shares of Eletrobras declined 3.3 percent to 26.64 reais. Preferred shares dropped 2.2 percent to 24.06 reais. For the second quarter, Eletrobras on Tuesday reported a net loss of 2.09 billion reais (\$US 1.13 billion), as

insurance market represents about 3.5 percent of the country's GDP and we are optimistic that this percentage will increase in the future."

Antonio Penteado Mendonça, partner at Penteado Mendonca Advocacia in Sao Paulo: "I disagree with Fitch's comments. In 2008, Brazil's insurance market didn't have a slowing in its growth because of regulatory measures. The slowdown is much more a consequence of the lowering in the prices of car insurance and the impact of the crisis after October. The market didn't have any significant changes in the regulatory measures in 2008. The exception was in health plans, where the supervisory board made changes expanding coverage to diseases and procedures that weren't covered before. Brazil's insurance market has a huge potential for growth in the next five to 10 years. Achieving this goal has nothing to do with the change in regulatory measures but much more with distribution channels to provide insurance coverage for the lower social classes. The regulatory measures, which were not mainly improved in 2008, but rather before, played a positive role for the market. Through them the companies were well capitalized. To confirm that, since

Continued on page 4

compared to a profit of 142.8 million reais for the same period last year. In the quarter that ended in June, the Rio de Janeiro-based company booked a deficit

Eletrobras reported a net loss of 2.09 billion reais for the second quarter.

of 1.04 billion reais from contracts connected to the Itaipu hydropower station. The value of Eletrobras' receivables denominated in foreign currency fell as the real rose 19 percent in the second quarter.

Featured Q&A*Continued from page 3*

1994 there has not been any significant insurance company bankruptcy. If Brazil has a GDP growth of 1 or 2 percent next year, it will be enough to retake the growth average of the last 15 years. The

through with the most important overhauls in regulation in 20 years. The changes allow for greater flexibility in the sale of products, particularly for life insurance and workers' compensation.

“The market can grow in the next five to 10 years to approximately 6 percent of GDP.”

— *Antonio Penteadó Mendonça*

market can grow in the next five to 10 years to approximately 6 percent of GDP just by providing coverage for the currently uninsured risks in household, vehicles and small businesses. If the market finds the right way to provide microinsurance, the growth can be even bigger.”

A **Jan Smith, managing director of Kroll Inc. in Mexico City:**

"Penetration of private individual insurance products in Brazil remains comparatively low and is therefore bound to benefit from a strengthening of economic conditions. Growth of the insurance market can be compared to the expansion of the credit card market: originally limited to the middle and upper classes, insurance products are gaining more acceptance and making inroads in the lower middle class. More importantly, the sector is finally pushing

The changes make it easier to sell products individually and also allow for greater accuracy in the measuring of risk and therefore offer more competitive pricing. This bodes well both presently and in an economic upswing. Further legislative changes are in the pipeline and will focus on greater transparency of commission structures among brokers, creating uniform pricing for similar products and making the claim process more efficient. These changes will continue to foster greater acceptance and potential for growth over the next five to 10 years."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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