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### FEATURED Q&A

#### Will the 'Bancassurance' Model Pay Benefits in Latin America?

**Q** Zurich Financial Services in February agreed to pay about \$1.7 billion for a 51 percent stake in the insurance operations of Banco Santander in Brazil, Mexico, Chile, Argentina and Uruguay. The deal suggests "there is life left in partnerships between insurers and banks," *The Wall Street Journal* reported, despite speculation in recent years that "bancassurance" distribution channel arrangements had fallen out of favor due to capital rules, antitrust and other regulatory headwinds. Is the Zurich/Santander deal going to work out for the two companies? What hurdles stand in the way? What are the major factors and trends that are shaping the outlook for Latin America's insurance sector?

**A** Thomas Morante, partner at Holland and Knight & Yani R. Contreras, foreign legal counsel at the firm: "Bancassurance has been a prominent feature in Mexico's insurance market since the July 1990 adoption of the law regulating financial conglomerates, which established the framework to permit the cross-sale of financial products among financial companies of the same economic group, thus enabling banks to share information on clients and to sell the insurance products of an insurer that is part of the holding company structure. With Zurich's acquisition of a majority stake in the Mexican holding company of Seguros Santander S.A. (i.e., Santander's Mexican insurance company), Banco

Santander and Seguros Santander will cease to be affiliates controlled by the Santander holding company in Mexico. Nevertheless, as a minority shareholder, Santander will continue to participate in the development and distribution of insurance products in Mexico. This partnership combines Zurich's significant experience in the design and management of insurance products with Santander's bank distribution network in Mexico, comprised of almost 900 branches and ATMs throughout the country. The partnership will have

*Continued on page 3*



#### Mexican Judge Releases Last of Officials from 2009 Drug Sweep

In what the media described as a setback to the Calderón Administration, a Mexican judge on Tuesday acquitted Michoacán Mayor Armando Medina Torres (PRI), the last of nearly three dozen officials arrested in 2009 for supposedly aiding drug cartels. See story on page 2.

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## NEWS BRIEFS

**Dengue Fever Outbreak in Paraguay "Worst Ever," Report**

Paraguayan Health Minister Esperanza Martínez on Tuesday acknowledged that her country's current epidemic of dengue is more severe than that of 2007, the worst year for dengue on record, local newspaper *ABC Digital* reported. "It is undoubtedly the worst of all," Martínez said, when asked whether the current epidemic is bigger than that of 2007. Twenty-three people have died this year and up to 22,000 Paraguayans have been made ill by the disease, which has no known cure. Martínez said that more work needs to be done to coordinate municipal efforts against the disease.

**Chilean Central Bank Increases Interest Rate by 50 Basis Points**

Chile's central bank on Tuesday hiked the policy rate by another 50 basis points to 4.50 percent, a move that matched the increase in March. The increase was in line with market expectations, although some analysts were expecting the central bank to moderate the pace of rate hikes to 25 basis points, according to a research note from **Goldman Sachs**.

**Uruguay Amnesty Law May Come to Vote in Congress Next Month**

Uruguay's congress is debating whether to annul an amnesty for crimes against humanity committed during the 1973-85 dictatorship, the Associated Press reported. A narrow majority of the senate is expected to overrule voters who upheld the law in two referenda. The measure, backed by left-leaning President José Mujica, would then return to the lower house for minor changes and could become law by May 20, the day Uruguay honors the political prisoners who were killed during the military's crackdown on leftists.

## Political News

**Mexican Judge Releases Last of Local Officials Caught in 2009 Drug Sweep**

A Mexican judge on Tuesday acquitted the last of nearly three dozen officials arrested in 2009 for supposedly aiding a drug cartel, the Associated Press reported. Mayor Armando Medina Torres, a member of the opposition PRI party, was among 12 mayors and 23 other officials who were arrested two years ago on allegations that they had protected the

*The decision was described as a "major setback" for Mexican national police efforts against the drug cartels.*

Michoacán-based La Familia cartel. All 35 officials have now been acquitted, which the AP described as a "major setback" for Mexican national police efforts against drug cartels. Meanwhile, reports of more killings filled headlines in Mexico Tuesday. At least 32 more bodies have been found in northeastern Mexico, Agence France-Presse reported. So far, 120 bodies have been found since last Thursday in more than a dozen mass graves in and around San Fernando, Tamaulipas, following reports that passengers on two buses had been kidnapped.

## Economic News

**Argentina Fines More Economists, Firms Over Inflation Estimates**

Argentina's government this week fined more economists under a new policy aimed at stemming challenges to official inflation estimates, Dow Jones reported. Lawyers for the economists call the fines a violation of their freedom of speech. For nearly a decade, the country's state statistics agency, INDEC, has been criticized

for under-reporting inflation data as the country recovered from its disastrous 2001 debt default and pursued a series of heterodox economic policies amid fast growth. However, only within the past year has the government sought to fine research firms publishing data that differs from official figures without adequately explaining their methodologies. For example, while INDEC reported consumer prices rose 10 percent in February from a year ago, private sector economists said annual inflation is probably closer to 25 percent. On Monday, the government fined consultancy **abeceb.com** \$123,500 for allegedly publishing inflation estimates that "lack scientific rigor." The government has also slapped similar fines on **Estudio Bein & Asociados**, **Finsoport**, **MyS Consultores** and **GRA Consultoras**. Several other firms have said they expect to be fined soon, Dow Jones reported. "This is crazy. It's a barbarian bid to get economists to avoid estimating anything," Rodolfo Santangelo, an economist and partner at MyS Consultores, told the newswire. Government officials say the fines are aimed at deterring economists from "deceiving" the public into making poor financial decisions. Last month, consulting firm **Economía y Regiones** said it will no longer release its inflation estimates, citing government pressure. On Monday, the International Monetary Fund released a statement saying its staff had completed a second technical assistance mission to advise on the design and methodology of a new national consumer price index (CPI) and that it had left a report with the authorities with specific recommendations for developing a new national CPI. [Editor's note: see related [Q&A](#) in the Dec. 10, 2010 issue of the *Advisor*.]

## Company News

**Pemex Evacuates 713 Workers as Oil Platform Threatens Collapse**

A total of 713 offshore oil platform workers for Mexican state oil company **Pemex** were evacuated on Tuesday when a semi-submersible residence began to collapse into the Gulf of Mexico, Agence France-

Presse reported. No oil was leaked in the incident and no injuries reported at the Flotel Jupiter platform, which housed workers about 80 kilometres off the coast



The Jupiter Platform on Tuesday.

Photo: Pemex.

of Campeche state in the Gulf of Mexico, according to a press release from Pemex. After several attempts to rescue the facility, the platform late on Tuesday "turned over and partially sank," said Pemex.

### ICE Launches New Futures Exchange for Brazilian Electricity Trading

Atlanta-based futures exchange operator **IntercontinentalExchange**, or ICE, announced Tuesday it has teamed up with Brazilian business leaders like billionaire Eike Batista, the mining and oil magnate, and Roberto Teixeira da Costa, the former chairman of Brazil's securities and exchange regulator, to launch a new Brazilian marketplace for electric power named **BRIX**. ICE is an operator of regulated global futures exchanges, clearing houses and over-the-counter (OTC) markets. It currently operates in North American and Europe. ICE developed the trading platform for the new Brazilian marketplace. "BRIX is operationally ready and anticipates launching in June 2011," the company said in a press release. Teixeira da Costa will serve as the chairman and Marcelo Mello has been named president of BRIX. Mello was previously head of commodities in Latin America for **Standard Bank**. BRIX will offer "a transparent, electronically traded marketplace" for key Brazilian power contracts. Bids, offers and trades will be shown in real time on the BRIX screen for all par-

### Featured Q&A

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some obstacles to overcome, including designing insurance products attractive to Santander's banking clients and ensuring that bank personnel are adequately trained to appreciate the complexity of the products, recognizing that bancassurance in Mexico has been primarily used to distribute life and pension insurance products, and has been less successful in selling products such as property and casualty insurance. Mexico's legal framework has facilitated the development of bancassurance. However, any anticompetitive issues (such as where insurance products are bundled with other financial products) will need to be accommodated under Mexico's federal Law of Economic Competence, which prohibits conditioning the sale of a product on the purchase of another product where the company requiring the purchase has a substantial presence (economic power) in a specific market."

**A Luis Maurette, chief executive officer of Liberty Seguros in São Paulo:** "After a season of several acquisitions and joint venture deals between these two industries across the world that probably began with Travelers and Citigroup at the end of 1990s, the bancassurance business model went through a dormant period. In an industry where the independent insurance carrier business model is dominant, the recent Zurich/Santander deal naturally raises the question of whether bancassurance is a sustainable business for both independent insurance carriers and large

participants, ICE said. The BRIX marketplace will operate subject to rules and participant agreements, and all trades will be registered with the Câmara de Comercialização de Energia Elétrica (CCEE). Brazilian electric power has been distributed in a market-based manner since 1995, when Brazil enacted Law 9074, creating what is known as "the free

retail banks, and whether a new season of joint venture deals will come back globally. For instance, in Brazil's insurance market, along with the independent insurance carrier business model, bancassurance is very common, very active and has a long history of successful examples and benchmarks. That is a different trend than the global one. From the 1990s, with the Unibanco/AIG and Banco do Brasil/Sulamérica agreements,

“The biggest problem they will have to solve is to harmonize the cultural differences between the two corporations.”

— Antonio Penteado Mendonça

to today, with about seven agreements between insurance companies and large retail banks since 2005, the Brazilian insurance market was shaped to have six insurance/bank affiliated companies among the top 10 players, responding for 72 percent of market share. In the personal lines segment, they also concentrated 62 percent of market share driven by the large customer basis and the ability to bundle banking and insurance products. With regard to the referred deal, it is hard to predict if it will follow the global historical trend or Brazil's successful stories. Nevertheless, the strategic rationale behind the deal is sound for both institutions; in Latin America and

*Continued on page 4*

power market." While electric power is also sold and distributed in a price-regulated market, the free power market is growing rapidly and today accounts for approximately 25 percent of Brazil's total power consumption. BRIX will have trading environments for all sources of power generated in Brazil, including hydro, thermal, biomass and wind, ICE said.

**Featured Q&A***Continued from page 3*

in Brazil they will be among the top five carriers with enough scale to be a major, strong competitor with a large customer base to explore in several countries. Therefore, the right ingredients are in place for making it work and also to start up another sequence of bancassurance deals, not only in Latin America but probably also in other countries of the world."

**A**ntonio Penteado Mendonça, partner at Penteado Mendonça Advocacia in São Paulo: "The most important factor in the Brazilian insurance market is the direct participation of the four biggest banks—Banco do Brasil, Itaú, Bradesco and Caixa Econômica Federal—as major players also in the insurance business. Bradesco is the largest and Itaú/Porto Seguro the second largest. Together they represent more than 50 percent of the premium income and 60 percent of the sector's profit. Santander is the fifth-largest Brazilian bank and does not have a big participation in the country's insurance industry. To remain competitive against the four bigger banks, especially Itaú and Bradesco, Santander must have a more aggressive strategy in the insurance market. That means it needs a partner with strong insurance expertise. On the other side, Zurich has important expertise from

being in Brazil for more than 25 years, but it has always been just a minor player in the country's insurance sector. So the joint venture, more than a clever decision, is the most intelligent solution for both groups to achieve their goals and gain a significant position in the Brazilian insurance market. Among many other hurdles, the biggest problem they will have to solve is to harmonize the cultural differences between the two corporations."

**A**recaredo Arias, secretary general of the Inter-American Federation of Insurance Companies in Mexico City: "In the FIDES' point of view, this is a win-win deal in which both parts will put their respective strengths together. In Latin America, and in particular in Brazil, the 'bancassurance' distribution channel is crucial and has much room to grow. We can expect more regulation, but regardless it will be more developed and innovative, maintain its market share in more developed Latin American countries and increase its share in other markets."

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*The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

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