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FEATURED Q&A

Are Reinsurance Rules in Brazil and Argentina Bad for Business?

Q Foreign insurance companies are putting pressure on the Brazilian and Argentine governments to reverse policies that restrict them from reinsuring risks abroad, the *Financial Times* reported last month. New rules in Brazil require companies to place at least 40 percent of their reinsurance business with Brazilian companies while Argentina has imposed tighter restrictions to control foreign placement of reinsurance. How will the new policies affect insurers operating in the two countries? Who will be the winners and losers with the changes? Will insurance companies succeed in persuading the countries to reverse the rules?

A Rolf Steiner, regional head for the Brazil office and Southern Cone countries at Swiss Re: "We have noted in Latin American countries such as Brazil and Argentina that there is an overall trend toward restrictive executive measures which have hindered liberalization of the reinsurance market. The focus should not be specifically on the status of individual companies but more on the effects of the regulation on the end user, which would help keep access to innovative and price-attractive products; and to the country, which would help maintain the flexibility to share national risk exposures with a wider international community. Myriad insurance organizations such as the Federation of European Risk Management Associations (FERMA)

and the American Council of Life Insurers (ACLI) as well as private reinsurance companies have been working with the local Latin American authorities in Brazil and Argentina to understand their concerns, examine the unintended consequences of these regulations and determine a way forward that allows for a healthy and robust insurance market. These regulations would dramatically restrict the ability of private insurers and reinsurers—both local and international—to conduct business in these countries. These regulations stand to

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Humala Defeats Fujimori to Win Peru's Presidency

Leftist former army officer Ollanta Humala (center) was narrowly elected Peru's president Sunday, defeating legislator Keiko Fujimori, according to early results. See story on page 2.

Photo: El Comercio.

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NEWS BRIEFS

Mexican Soldiers Raid Home of Former Tijuana Mayor

Mexican soldiers burst into the compound of former Tijuana mayor and gambling tycoon Jorge Hank Rhon in an early morning raid Saturday, seizing dozens of weapons and thousands of rounds of ammunition, according to authorities, the Associated Press reported Sunday. Soldiers found 48 handguns, 40 rifles, 9,298 bullets, 70 clips of ammunition and a gas grenade, authorities added. Rhon, 55, was flown to Mexico City, where officials said a division that specializes in organized crime was investigating him. Rhon said the troops photographed him in front of weapons that he had never before seen and does not know why he was detained.

Southern Chile, Argentina on Ash Alert After Volcanic Eruption

Chile's Puyehue-Cordón-Caulle volcano range erupted over the weekend, spewing ash over southern Chile and Argentina, BBC News reported today. About 3,500 people evacuated the area around the volcano, while the wind dumped ash on the Argentine resort town of Bariloche and others in the vicinity. Airports are likely to remain closed until the middle of the week. There have been no reports of injuries.

Haitian Lake Overflows, Villagers to Be Evacuated

The largest lake in Haiti, Lake Azuei, has overflowed, forcing the Haitian government and international aid groups to evacuate more than 56 families, the Associated Press reported, citing an official with the country's Civil Protection Department. The number of people needed to be evacuated may grow as rains continue, officials said.

Political News

Humala Defeats Fujimori by Narrow Margin to Win Peru's Presidency

Leftist former army officer Ollanta Humala won a narrow victory Sunday to claim Peru's presidency, defeating legislator Keiko Fujimori, according to three polling forms and election watchdog group Tansparencia, the *Los Angeles Times* reported. Humala, who has previously been accused of human rights abuses, which he denies, claimed victory Sunday night after partial returns showed that he defeated Fujimori. "We've won the election," Humala, 48, told a crowd of supporters in Dos de Mayo Plaza in Lima.

“We've been waiting a long time for a government that really cares about the poor.”

— Ollanta Humala

"We will form a democratic government open to civil society." Fujimori, the 36-year-old daughter of imprisoned former President Alberto Fujimori, appeared before a crowd and said she would concede if the official results confirmed that Humala had won. Humala had maintained a lead of 2 to 3 percentage points as ballots were counted. With 87 percent of the vote tallied, official results showed Humala ahead with 51.2 percent. However, electoral officials said results from rural areas, where Humala had stronger support, were reporting slowly, the Associated Press reported. On Sunday night, Humala also said he would work to use Peru's economic growth over the past decade as "the great motor of the social inclusion Peruvians desire." He vowed to tax windfall mining profits and export less natural gas so that the commodity is cheaper for Peruvians. Humala narrowly lost the 2006 presidential election to Alan García. In that campaign, Humala said he admired Gen. Juan Velasco, the leftist dic-

tator who ruled from 1968 to 1975 and nationalized several industries while expropriating land from the wealthy. However, this time he moderated his rhetoric. Humala originally said he would renegotiate free-trade accords and rewrite Peru's constitution "to create an economic regime with social justice as its goal," but he backed off of those vows and instead said he would follow Brazil's model in an effort to fight poverty through market-friendly means. He also swore two weeks ago to support democracy and press freedom. In his victory speech Sunday night, Humala said he would work to create jobs, build homes and provide long-neglected areas with electricity and running water. "We've been waiting a long time for a government that really cares about the poor," he said, adding that the government should not cater to elites who sell the country's minerals to transnational companies, the AP reported. "This has got to change, and it's for this change that I am here. That is why I got into politics."

Economic News

Brazil's GDP Grows in First Quarter Despite Efforts to Cool Expansion

Brazil's economy grew 1.3 percent in the first quarter from last year's fourth quarter and 4.2 percent year-on-year, dealing a setback to the country's efforts to cool growth and curb inflation, Bloomberg News reported Friday. The figures for growth of gross domestic product, which the national statistics agency released in Rio de Janeiro, matched forecasts of economists in a recent Bloomberg survey. Growth in last year's fourth quarter was revised upward to 0.8 percent from 0.7 percent. President



Rousseff

Dilma Rousseff's administration has worked to slow growth and inflation by boosting borrowing costs, curbing the expansion of credit and cutting spending. According to a survey of

File Photo: Brazilian Government.

economists released May 30 by the central bank, the measures will slow growth this year to 4 percent from last year's 7.5 percent, the sharpest pace in more than two decades. The growth figures released Friday show that "inflation risks remain high," Zeina Latif, a senior economist with **RBS Securities** in São Paulo told Bloomberg. In April, Brazil's rate of inflation broke through the upper limit of the government's target range when prices increased 6.51 percent. It marked the first time inflation had breached the target since 2005. Brazil's target for inflation is 4.5 percent, plus or minus two percentage points.

Company News

Avianca Taca Holding in Talks to Buy 50 to 100 Planes

Colombia's **Avianca Taca Holding**, which owns the country's largest airline by sales, is in talks to purchase 50 to 100 single-aisle planes as economic growth in the region boosts travel, Bloomberg News reported Sunday. Avianca is considering the A320neo from **Airbus** as well as planes from **Boeing** and **Bombardier**, Germán Efromovich, whose company controls Avianca, told the news service in an interview. The airline will make a deci-

International air travel in Latin America grew 17.5 percent in the first four months of this year.

sion on the purchase by the end of the year. Avianca raised \$260 million last month in an initial share sale and has been adding new planes from Airbus at the rate of one per month under an agreement that lasts until 2014. In the first four months of this year, international air travel rose 17.5 percent in Latin America, the fastest growth worldwide. Avianca is also in talks with **Mitsubishi Aircraft Corp.** about purchasing regional planes that could replace ones the airline currently has from Fokker, Efromovich added.

Featured Q&A

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restrict insurance and reinsurance capacity and drive up costs for policyholders. For Brazil, these regulations have the potential to jeopardize global investment in Brazilian insurance and reinsurance operations and may even adversely affect Brazil's ability to provide adequate insurance and reinsurance for the important investment plans in infrastructure over the next years, including the Olympic Games and the World Cup. For Argentina, given the relatively recent publication of the new regulation, Swiss Re is in the process of obtaining a more detailed overview of the effects of this regulation. The capacity issue could, in theory, lead to greater economic volatility. The reality is that if the market isn't open, prices will rise and capacity will be diminished."

A **Antonio Penteadó Mendonça, partner at Penteadó Mendonça Advocacia in São Paulo:** "The reinsurance business in Brazil was strongly affected by two resolutions, one from the end of last year and the other from the beginning of this year. Some months after them, we can say that the government is the big winner. The insurance companies' confederation more or less blew up. On one hand, it remains with the loyalty of the biggest companies of the country. On the other hand, international companies with subsidiaries in Brazil created an association to support their position, in what they call opposition to the confederation. We can see for the first time in history a confrontation between insurance companies inside the official establishment. And there is a third group of insurance companies that stay neutral, because for their business the resolutions are ineffective. The reinsurance companies are trying to pressure the government, but are doing so much more from abroad than from within the country. All that puts the Brazilian government in a comfortable position, and it can control the whole situation doing more or less what it wants. But the government

knows that Brazil will need insurance coverage for hundreds of billions of dollars in new risks in the next five years. So, a Brazilian official involved directly with insurance and reinsurance strategies for Brazil told me it is possible there will be

“The government is the big winner.”

— **Antonio Penteadó Mendonça**

changes to give more flexibility for the insurance market to provide insurance and reinsurance capacity for these risks. How it will be done depends first on the way the insurance and reinsurance companies negotiate with the government, and second on the solutions for some points that affect development of the insurance industry in the country. So the rules will probably change, but not all at once."

A **Luis Maurette, chief executive officer of Liberty Seguros in São Paulo:** "The recent Brazilian government decisions concerning the local reinsurance rules was astonishing not only to the local community and stakeholders, but also to the global ones. Since the early 1990s, Brazil has initiated a process to engage in the globalization process by opening up its economy and engaging in market opening consultation, in accordance with international standards. Unfortunately, this recent event is a step backwards in regulations, legal transparency and stability. The recent change will bring more damage than benefits to the local insurance industry, Brazil's economy and society. Since the opening of the reinsurance market in 2007, the country has experienced the entrance of

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Featured Q&A*Continued from page 3*

important players achieving as of today six local, 25 admitted and 64 occasional reinsurers. Therefore, it is clear that rules have succeeded in moving Brazil from an inefficient monopoly to a competitive market that provides all insurance players with access to the global reinsurance market, larger capacity to support investments and at a reduced cost to Brazilian society. Furthermore, the fact that foreign insurers' assets in Brazil grew 113 percent since the market opening proves that the argument of capital flight due to the usage of affiliate reinsurance is flawed. Additionally, the new rules affect the development of a strong local insurance market and the consolidation of Brazil as a reinsurance hub for Latin America and damage the Brazilian government's reputation for future international trade negotiations. Many international associations, local entities and the U.S. trade representative are pressuring Brazil to review its decision and to re-engage in market opening consultations. If international pressure continues, there are chances that the government will review its decision."

A Brad Smith, chief international officer of the American Council of Life Insurers: "An open and competitive insurance marketplace is one of the pillars of economic growth. Insurance provides the economic backstop for construction projects and financial investments for companies large or small, global or local. When countries place excessive restrictions on the insurance marketplace, lending slows, workers are idled and the economy suffers. Despite this, the two largest economies in South America—Brazil and Argentina—recently adopted new insurance marketplace restrictions that threaten to undermine economic growth and job creation in both nations. Moreover, the restrictions could expose both countries to excessive concentration of financial risk. In Brazil, the Finance Ministry in March implemented changes in regulation that undermine the intent of the 2007 law

opening the reinsurance marketplace to global capacity and products. The regulations would, among other things, require insurance companies to concentrate 40 percent of their reinsurance protection within Brazil. The implications can't be

“When countries place excessive restrictions on the insurance marketplace, lending slows, workers are idled and the economy suffers.”

— *Brad Smith*

overstated. Reinsurance is sometimes described as 'insurance for insurers.' It is a vital tool in helping insurance companies underwrite and spread risk. The objective is to assure that a single catastrophic loss will not undermine the nation's economy. By requiring insurers to reinsure 40 percent of their business with local reinsurers, the new rules in Brazil mandate excessive concentration of risk, which will hamper commercial and infrastructure development and raise costs for industry and consumers. Argentina is following a similar path. The proposed restrictions require Argentine insurance companies to place all of their reinsurance coverage within the relatively small Argentine market, where no professional reinsurers have existed since the early 1990s. ACLI urges the governments of Brazil and Argentina to each conduct an open, transparent dialogue on their regulations, including discussions with global insurance and reinsurance providers."

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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