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FEATURED Q&A

How Well Is Latin America Insured Against Natural Disasters?

Q Flooding, mudslides and other destruction caused by Hurricanes Manuel and Ingrid last month resulted in an estimated $5.7 billion of damage in Mexico alone, shining renewed light on the challenges of emergency preparedness and the need to have financial options beyond new budgetary expenditures to help with the recovery. Is the private insurance industry in the region in a position to play a bigger role in helping prepare for rising risks from climate change? Why or why not? How does the region compare to other parts of the world in terms of insurance against the risk of natural disasters? What more should governments and businesses be doing to improve readiness and accelerate recovery from natural disasters?

A Oscar Ishizawa, Justin Taylor Locke and Zoe Elena Trohanis, Latin American and Caribbean specialists at the World Bank: "The Caribbean Basin countries are highly exposed to a range of hazards, both meteorological, such as hurricanes, and geophysical—earthquakes, volcanic eruptions and tsunamis. Aside from the obvious direct social and economic impacts, the resulting damage and disruption from disasters has important indirect fiscal impacts, including declines in production, rebuilding of public infrastructure and funding of emergency response operations. Collectively, these can contribute to long-term macroeconomic decline. Often, governments cannot solely rely on insurance to meet financing needs following a disaster. Insurance helps reconstruct some public infrastructure, but does not cover indirect losses, such as reduced productivity. For this reason, the World Bank and other development partners are working with governments and the private sector to support a blend of preparedness and risk reduction measures to enhance overall disaster resilience. These include financial protection mechanisms such as calamity funds, from which governments can quick-

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Venezuela's Maduro Seeks to Rule by Decree for One Year

In a speech Tuesday that lasted more than two hours, Venezuelan President Nicolás Maduro asked lawmakers to give him the power to rule by decree for one year. Maduro said he needs the special power to fight corruption and economic sabotage. See story on page 2.

Photo: Venezolana de Televisión.

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NEWS BRIEFS

Police Among Suspects Arrested in Mexican Kidnapping Ring

Mexican authorities last week arrested 18 people on suspicion of being part of a kidnapping ring in the resort town of Acapulco, 13 of whom were federal police officers, government officials said Tuesday, according to the *Los Angeles Times*. A federal security spokesman said the group was responsible for at least seven homicides and four kidnappings. The arrests brought attention to persistent corruption in the federal police, which former President Felipe Calderón had sought to reduce during his term.

Colombia's Santos Urges FARC to Boost Pace of Peace Negotiations

Colombian President Juan Manuel Santos on Tuesday called for the Revolutionary Armed Forces of Colombia, or FARC, rebels to increase the pace of the ongoing peace talks taking place in Havana, Agence France-Presse reported. The negotiations, which began last Nov. 18, have seen the government and rebels reach agreement on just one point of their agenda. Santos said the negotiations need to move forward quickly because people are losing faith in the process as it drags on.

Chile Boosts Forecast for Copper Production

Chile's government on Tuesday boosted its forecast for copper production this year and also increased its expectation for the global surplus of the metal, Reuters reported. Chile, the world's largest copper producer, will have an output of 5.7 million metric tons this year, an increase of nearly 5 percent from last year, the country's mining minister said in London. That level would mark a record high.

Political News

Venezuela's Maduro Seeks to Rule by Decree

Venezuelan President Nicolás Maduro on Tuesday requested that the country's National Assembly give him the power to rule by decree for one year, saying that the move is necessary to fight corruption and economic sabotage, Bloomberg News reported. "I have come to request enabling powers to deepen, accelerate and fight to the end for a new political ethic, a new republican life and a new society," Maduro told lawmakers in a speech that lasted more than two hours. Maduro, whose speech was broadcast on television and radio stations across the country, said the future of socialism in Venezuela depended on his ability to have the special decree powers. He said businesses have been hoarding goods and profiting from the country's foreign exchange controls. Maduro has blamed the opposition for Venezuela's economic problems. Annual inflation recently hit 45.4 percent, and the country's scarcity index reached 20 percent in August, meaning that one in five consumer staples cannot be found at any given moment. In addition, Venezuela has suffered power outages, which Maduro also blames on the opposition. However, opponents of Maduro's administration say the problems were caused by the economic policies of Maduro and his predecessor, the late Hugo Chávez, and the government's lack of investment in the power grid. Chávez, who died in March from a still-undisclosed form of cancer, ruled by decree for four and a half of the 14 years he spent in power. He used the powers to strip lawmakers of their oversight of government borrowing, allow him to control the appointments of regional officials and pave the way for several economic interventions. Henrique Capriles, who Maduro narrowly defeated in last April's presidential election, said providing Maduro decree powers will not solve Venezuela's problems, BBC News reported. "I don't think this law will bring any economic or social benefit to Venezuelans," said Capriles. "They're going to use the law to persecute and distract the people from their real problems." Finance Minister Nelson Merentes said recently that the economic policies of Chávez and Maduro have improved many Venezuelans' living standards, but they have not solved the economy's "structural problems."

Annual inflation recently reached 45.4 percent in Venezuela.

Argentine President Undergoes Successful Surgery: Spokesman

Argentine President Cristina Fernández de Kirchner underwent successful surgery Tuesday to treat bleeding on her brain, BBC News reported, citing a presidential spokesman. The surgery at a Buenos Aires hospital to treat the subdural hematoma "went very well," and the president was "in good spirits," added Alfredo Scoccimarro. Fernández is expected to remain in intensive care for 48 hours and will likely be discharged from the hospital next week. The bleeding on the brain was believed to have been caused by a head injury that Fernández sustained in a fall in August, officials have said. Doctors discovered the hematoma on Saturday after Fernández went to the hospital with symptoms including an irregular heartbeat and headaches.

Fernández

File Photo: Argentine Government.

The president's doctors have ordered her to rest for at least a month, meaning that she will be unable to campaign for her supporters ahead of midterm congressional elections on Oct. 27. Some opinion polls have suggested that Fernández's allies could lose control of Congress in the election. Medical experts have said that the president faces a long recovery from the surgery and may need more than a month's worth of rest, BBC News report-

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ed. Since taking office in 2007, Fernández has been hospitalized on several occasions. She had her thyroid gland removed in 2012 and has suffered from low blood pressure. Vice President Amado Boudou, who is facing a corruption probe, is acting as president during Fernández's recovery.

Company News

Banco do Brasil Planning to Open Broker-Dealer

Banco do Brasil is planning to establish a broker-dealer in Brazil in order to increase its equity-underwriting business, Bloomberg News reported Tuesday, citing Paulo Rogerio Caffarelli, the bank's vice president for wholesale banking. "We plan to be the biggest bank in the Brazilian capital markets as soon as possible," Caffarelli told the news service in a phone interview. "We plan to offer all types of investment-banking services to our clients and will invest to do so." Brazil's government controls the bank, which is Latin America's largest by assets. Banco do Brasil is also the country's fifth-largest equity underwriter, according to Bloomberg data. The bank's establishment of a broker-dealer would allow it to sell stocks from equity offerings rather than using third-party broker-dealers for the transactions. Banco do Brasil would open the broker-dealer in cooperation with another firm, said Caffarelli, declining to name the other company. In August, the bank said it had indefinitely postponed a plan to boost its stake in São Paulo-based **Banco Votorantim**. Banco do Brasil currently has 49.99 percent of the auto lender's voting shares and 50 percent of its preferred shares.

> "We plan to offer all types of investment-banking services to our clients and will invest to do so."
>
> *— Paulo Rogerio Caffarelli*

Featured Q&A

Continued from page 1

ly draw resources, and catastrophe bonds, which pay out when a disaster of a particular magnitude takes place. The World Bank's support to Latin America and the Caribbean has spearheaded global work in this field. In close contact with clients, the Bank developed an innovative set of instruments that provide quick finance in response to disasters. It has also launched pooled insurance schemes such as the Caribbean Catastrophic Risk Insurance Facility (CCRIF), which enables 16 Caribbean countries to pool their individual risks into a single, better-diversified joint reserve mechanism. These approaches are being replicated in other regions such as East Asia and the Pacific, where the Philippines are undertaking a contingent loan, and the Pacific Islands have launched their own pooled disaster insurance facility, based on the CCRIF model. While not eliminating risk, these measures help countries be better prepared and reduce the long-term social and economic impacts of natural disasters, enabling them to protect development achievements and secure the base for poverty reduction and growth."

A Nicolás Mariscal, member of the *Advisor* board and chairman of Grupo Marhnos in Mexico City: "Preliminary figures suggest that insurers will cover $1.2 billion (20 percent) of the estimated damage. The damages caused by Manuel and Ingrid are the third most costly disasters in Mexico's history (after the Mexico City earthquake in 1985 and Hurricane Wilma in 2005). So that insurers are in front of the rising risks due to climate change, it is necessary to design a strategy of penetration and accessibility. That is to say, creating viable insurance that can be purchased by the population at the base of the pyramid. An example is insurance for which the insured covers a certain percentage of the cost of the premium and the federal government does the same. Currently, there are mechanisms like FONDEN (the natural disasters fund), through which emergencies are addressed in a coordinated manner between the federal government, states and municipalities. They acquire and distribute medications and consumer goods for which the population has an immediate need. But above all, it provides resources to finance 100 percent of federal infrastructure and 50 percent of state infrastructure. However, states don't have the resources to cover the remaining 50 percent. Thus, the next step is to formulate public-private partnerships both to finance reconstruction, as well as to ensure the continuity of affected economies. Last month, businesses in Mexico's construction sector signed an initial agreement to this effect."

A Christian Hott, senior economist at Zurich Insurance Company Ltd.: "Each year, natural catastrophes claim many victims in Latin America and lead to multibillion-dollar losses. According to Swiss Re data, less than a fifth of disaster-related losses in Latin America are insured. This is more than in Asia but substantially less than in North America, where more than half of the losses are insured. As demonstrated by the Bank for International Settlements, insurance significantly reduces macroeconomic costs from catastrophes. Natural hazards are difficult to insure on a local level as they affect many individuals and businesses at the same time. This challenge has to be addressed in three ways: 1.) Disaster risk reduction (DRR) like establishing building standards can reduce the number of victims and the economic impact of natural hazards and, therefore, can improve their insurability. In many Latin American countries DRR is still in its development phase. Insurers can provide valuable advice and support. An example is Zurich's Flood Resilience Program in alliance with IFRC, Practical Action and research institutions. 2.) International risk pooling is crucial for the insurability of natural hazards. As a hurricane in Mexico is independent of a

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Featured Q&A

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flood in Germany, the pooling of these two risks can make insurance more affordable. Unfortunately, some Latin American countries have introduced measures that hinder international risk pooling, especially for reinsurance. 3.) Insurance penetration in Latin America is not only low for disaster-related risks but in general. To enhance insurance penetration, governments should consider providing adequate incentives. In addition, it is important to enhance public awareness about the positive effects of insurance."

Juan Pablo Sarmiento, director of the Disaster Risk Reduction Program in the Extreme Events Institute at Florida International University: "Despite Mexico's many advances in disaster risk and emergency management, the impacts of hurricanes Manuel and Ingrid made it clear that it still has a long way to go. Four factors were critical in Mexico's continued vulnerability to disaster: 1.) its high exposure to climate variability and extreme weather events, among other socio-natural events 2.) its rapid and uncontrolled urban growth 3.) the accumulation and aging of existing infrastructure and building stock and 4.) the disparity between the speed and extent at which risk is generated and the ability and efficiency with which that risk is managed. While risk management options aimed at financial protection (compensatory measures) should consider risk retention and financing actions (disaster funds and contingency loans), risk transfer strategies (insurance and reinsurance), as well as combinations of the above such as catastrophe bonds, these measures are not adequate on their own in addressing mounting risks. They are designed to mitigate or compensate economic losses, but fail to impact causal risk factors. This is due to a lack of coordination between insurance and risk reduction policies. There should be incentives to implement mitigation actions that result in reduced insurance premiums. Also, insurance pricing should reflect risk levels, and so, insurance markets would contribute toward risk-sensitive investments. It is therefore essential to establish a comprehensive and prospective risk management policy which not only alleviates or compensates for the consequences of an event, but also addresses the generation and accumulation of risk in a comprehensive, systematic and sustainable way."

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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