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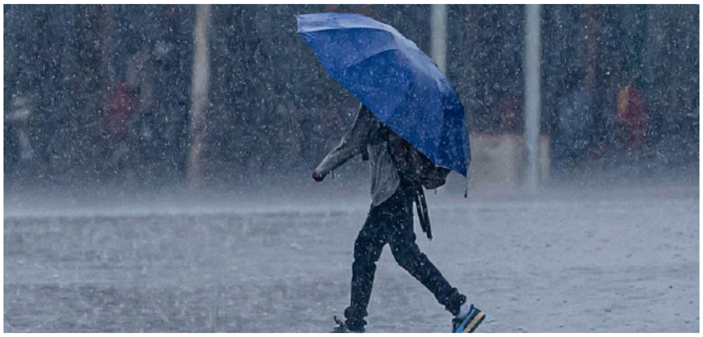
FEATURED Q&A

How Fast Can the Region's Insurance Sectors Recover?



The economic downturns sparked by the Covid-19 pandemic have hit Latin America's insurance sectors hard. // File Photo: Emmanuelkwizera via Creative Commons.

Q Latin American insurers saw a nearly 12 percent drop in premiums paid last year amid the economic downturns of the Covid-19 pandemic, according to a report that Mapfre Economics released in September. In the region, the insurance sectors of Mexico, Brazil, Colombia and Chile were hit the hardest, according to the report, which involved 19 countries. How much will the region's insurance sectors recover this year and next? Which segments of the insurance industry will perform the best in the period ahead, and which segments will struggle? What are the main headwinds that insurers currently face in the region?

A Manuel S. Escobedo, chief executive officer of Grupo Peña Verde: "At the end of the second quarter, the Mexican insurance sector was showing signs of recovery linked to the reopening of businesses after the second wave of the pandemic, the advance in vaccinations and relative economic stability. The insurance sector is showing growth in real terms of 6.4 percent in premiums compared to the same period of 2020, with a return on capital of 11.9 percent. Pension lines had the country's highest growth. There was an increase in the number of IMSS pensions, which may have been caused by factors including delays in pension procedures due to the pandemic and increases in the granting of pensions due to the death of the insured. The industry is expected to grow significantly in the coming years because of the 2020 pension reform. For life insurance, growth has been 0.1 percent in real terms, that is, it remained at the same level as the same period in 2020. The automobile industry was severely affected in

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TOP NEWS

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UBS Reportedly Closing Mexico Brokerage Unit

UBS Group is reportedly closing its Mexican brokerage operation. Mexico's stock market has seen a scarcity of initial public offerings, and several companies are seeking to delist their shares.

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INSURANCE

Mexico's Crabi Gets $4 Million in Seed Funding

Mexico-based auto insurance start-up Crabi announced it received $4 million in seed funding in an investment round led by Kaszek Ventures. Crabi allows customers to receive quotes via its app.

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Itaú Triples Digital Bank Customers Since January

Brazil's Itaú Unibanco tripled the number of customers in its digital bank since January. Bank director João Araújo said Itaú is "in the game," in reference to its competition with start-ups.

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Araújo // File Photo: LinkedIn.

FINANCIAL SERVICES NEWS

UBS Reportedly Closing Mexico Brokerage Operation

Switzerland's UBS Group is closing its Mexican brokerage operation, Bloomberg News reported Oct. 13, citing two unnamed people with knowledge of the matter. UBS informed local employees of the decision on Oct. 13, the news service reported, citing the two people, who had requested anonymity because they were not authorized to speak to the media about the matter. Representatives of UBS did not respond to calls from Bloomberg News seeking comment. UBS has been Mexico's fifth-most active brokerage among the 35 firms operating in the country, according to data that brokers' association AMIB released in June. UBS' Mexican brokerage operation also has been an active market maker, and it currently has contracts to provide liquidity for nine companies in Mexico, including Grupo Televisa, Elektra and the Mexican Stock Exchange, according to Bloomberg News. Mexico's stock market has seen a scarcity of initial public offerings, and five public companies have started a process to delist their shares since last year. Earlier this year, JPMorgan Chase & Co. closed its Mexican private banking business as part of a trend in which some wealthy clients in Latin America are moving their money to international financial hubs. A lack of liquidity in Mexico's equity market is among the problems it faces, Martin Werner, co-founding partner of investment company DD3 Capital Partners, told Forbes in June. Delisting announcements show an "almost nonexistent" public equity market, he said.

UBS has been Mexico's fifth-most active brokerage among the 35 firms operating in the country.

Brazilians Reluctant to Share Data Under Open Banking

Most Brazilian consumers are reluctant to share banking data in exchange for personalized offers and better deals on financial products under the country's open-banking regulations, according to a study that NPS Prism carried out with Bain & Company, ZDNet reported Oct. 11. Fifty-nine percent of respondents in the survey said they were not planning to share data with financial services companies under open banking, which allows third-party financial services companies to access consumers' banking data with their consent through application programming interfaces, or APIs. Brazil is currently phasing in the open-banking practices. Among those reluctant to share banking data, 35 percent said they were unwilling to share their data with businesses, 34 percent said they doubted the protocols in place to keep their data secure, and 33 percent said they feared receiving too many cold calls or other solicitations from companies, according to the survey. Among those in the study who said they would agree to share their data, 59 percent cited the reputation of the business with which they were interacting, 57 percent said they were satisfied with the clarity over how their data would be used, 43 percent cited the level of customer service provided to clients, 38 percent referred to the benefits that would be extended to them, and 23 percent cited recommendations from family or friends. The study surveyed 3,500 people across Brazil between Aug. 21 and Sept. 10. A separate study published last May and released by Brazilian digital bank C6 showed that 43 percent of the respondents in the 2,000-person survey did not want to share their data, ZDNet reported. Women and people 55 or older were the most hesitant in that group, the survey found. Brazil's central bank approved the open-banking regulations in early 2019 as part of a financial system modernization program in the South American country. Brazilian officials are expecting to fully roll out the regulations by next September.

NEWS BRIEFS

Brazil's Nubank Posts $13.7 Mn in Profit for First Half of Year

Brazilian financial technology firm Nubank posted a profit in the first half of the year for its local units, as more clients turned to its credit cards service, Reuters reported Oct. 13, citing a statement on the company's website. Nu Pagamentos, as Nubank is formally known, had a net income of 76 million reais ($13.7 million) between January and June, compared to a loss of 95 million reais in the same period a year earlier. It was the bank's first time registering a profit for a full six-month period, Reuters reported. The fintech's loan portfolio ended June at 23 billion reais, roughly twice its level from a year earlier, according to Brazil's central bank.

Mexican Insurance Start-up Crabi Gets $4 Million in Seed Funding

Mexico-based insurance start-up Crabi announced Oct. 8 that it had received $4 million in seed money in an investment round led by Kaszek Ventures, Contxto reported. Crabi provides auto insurance and allows users to receive quotes and compare policies via the company's app. Crabi, which is headquartered in Guadalajara, could see expansion as only three out of every 10 vehicles in Mexico are insured, according to Mexico's Commission for the Protection of Financial Services Users.

Cyberattack Disrupts Services of Ecuador's Banco Pichincha

A cyberattack disrupted services of Ecuador's largest bank, Banco Pichincha, the Associated Press reported Oct. 15. Customers experienced disruptions for several days, the wire service reported. Customers reported being unable to access services through the bank's website and mobile app.

Tighter Credit Leads Petroecuador to Modify Terms

Ecuadorean state oil company Petroecuador has modified the terms and conditions of oil transactions in a bid to offset the increasing difficulty for buyers to obtain letters of credit from banks and insurers that are prioritizing climate concerns, Argus Media reported Oct. 16. According to the changes, counterparties can now present requisite guarantees from domestic banks backed by a triple-A rated foreign bank, Petroecuador said. The company will also accept domestic insurance policies with the backing of international reinsurance entities. The list of international banks that are eligible to issue guarantees has also been nearly doubled, to 750 from 386, according to the report. Likewise, buyers will now also have the option of depositing the value of an export before the actual sale as an alternative to letters of credit. "This measure was taken because of the difficulty in obtaining letters of credit from some international entities as a result of restrictions on the sale of crude extracted from the Ecuadorean Amazon," Petroecuador said in the statement, Argus Media reported.

Brazil's Itaú Triples Clients in Digital Bank Since January

Brazilian lender Itaú Unibanco has tripled the number of clients in its digital bank since January, a bank executive told Reuters Oct. 13. "We're perfectly in the game," bank director João Araújo told the wire service, referring to the bank's competition with start-ups. Itaú's digital bank, iti, has sought to attract customers from areas in Brazil's North and Northeast regions, where Itaú has fewer customers, said Araújo. The digital bank unit has sought to attract clients as other financial technology start-ups have brought in millions of clients from traditional banks and from those who did

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2019, due to the cancellation of policies due to nonmobility and job losses, in addition to the impact on new car sales. For this reason, this line shows a real decrease of 2.4 percent. Accident and illness insurance grew 3.9 percent in real terms. These effects are related to the greater awareness of families of having financial protection to face unforeseen health expenses. Despite these positive signs, growth forecasts for the end of this year are between 1 percent and 2 percent in real terms, according to the latest AMIS forecast. Life and health segments have a big opportunity to increase their participation, given the recent memory of the advantages of having insurance for contingencies, such as the pandemic. The pandemic has made us aware of the great need to create a health model that allows us to reinforce prevention and provide a timely response to hospitalization needs when they arise. If we focus on prevention for the benefit of keeping the population healthy, we will also reduce the demand for third-level care and the costs associated with it."

> **"Life and health segments have a big opportunity to increase their participation..."**
> **— Manuel S. Escobedo**

A **Marcio Serôa de Araujo Coriolano, president of Brazil's National Confederation of Insurers (CNSeg):** "Despite the challenges that the Covid-19 pandemic has posed, Brazilian consumers have demonstrated their preference for protection. Premiums for nonlife insurance increased 6 percent, for life insurance 4.9 percent and for supplementary health insurance 5.1 percent. The growth of these three segments was higher than inflation (4.5 percent). If we look at the variation in premiums in U.S. dollars, there was, of course, a reduction, due to a nearly 24 percent devaluation of the real in 2020. We are very confident in the sector's performance in the coming years, mainly due to the efforts companies have made to digitize their processes and launch new products adapted to recent regulatory advances as well as their solid financial positions."

A **Eli Sanchez, associate director of analytics at AM Best:** "The nonlife insurance segment is closely correlated to economic growth. As economies rebound, AM Best expects these business lines to drive the recovery in insurance premium volumes during 2021 and 2022. The exception is auto insurance, which is tied to credit and creditworthiness of individuals, two areas still affected by the economic downturn. If nonlife insurance premiums bounce back, we still expect auto insurance to lag. Collective policies for life and accidents & health (A&H) are being rethought and repriced. While we expect a recovery in these sectors, personal lines will continue to row against the tide. For the larger or more developed markets such as Brazil, Mexico and Chile, personal lines comprise a larger proportion of the overall insurance portfolio; this will become a hurdle for the recovery. We expect claims' frequency levels in auto to revive, and we anticipate higher costs for spare parts due to inflationary increases on costs to transport and produce them. On A&H, resumption of postponed medical treatments, in conjunction with ongoing Covid-19 cases, will limit the segment's profitability. In addition, the average cost of care has increased due to people with many simple illnesses being screened for Covid-19. Macroeconomic instability in terms of currency volatility, inflation, income disparity and lower purchasing power will continue to pressure pricing in certain lines and present challenges for increased penetration. Appetite for innovation still lacks in the region, with opportunities at the bottom of the pyramid being overlooked.

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not previously have formal financial accounts. Itaú's digital bank had approximately three million clients at the beginning of this year and mainly focuses on people who are in lower income brackets, Reuters reported. Those segments of the population include some 213 million people. Approximately 80 percent of iti's clients did not previously have accounts with Itaú Unibanco, and more than half of the digital bank's clients are younger than 30, Reuters reported. The digital bank launched a physical credit card in March.

POLITICAL NEWS

Haitian Gang Seeks $17 Mn for Release of Missionaries

The Haitian gang that kidnapped a group of 17 U.S. and Canadian missionaries on Oct. 16 has demanded $1 million each for their release, Haitian Justice Minister Liszt Quitel said Oct. 18, The Wall Street Journal reported. The group of missionaries includes five children—aged 3, 6, 14 and 15 years old, as well as an 8-month-old baby—said Quitel. The negotiations could take weeks, he added. "We are trying to get them released without paying any ransom," said Quitel. "This is the first course of action. Let's be honest: When we give them that money, that money is going to be used for more guns and more munitions." Haitian authorities want to achieve an outcome similar to what happened last April when the same gang, known as 400 Mawozo, abducted a group of Catholic priests and nuns, said Quitel. After a few weeks, the gang released the five priests, two nuns and three family members after a ransom was paid for just two of the priests. "That would be the best outcome," said Quitel. The missionaries are members of Ohio-based Christian Aid Ministries. The gang is holding them at a safe house outside Croix-des-Bouquets, said Quitel. The gang controls the town, which is a suburb of Port-au-Prince, The Wall Street Journal reported. U.S. President Joe Biden has been briefed on the situation, White House Press Secretary Jen Psaki said Oct. 18. "The FBI is part of a coordinated U.S. government effort to get the U.S. citizens involved to safety," Psaki said. "We can confirm their engagement, and the U.S. Embassy in Port-au-Prince is coordinating with local authorities and providing assistance to the families to resolve the situation," Psaki added, The New York Times reported. Sixteen Americans and one Canadian are in the group that the gang abducted. The abduction of the missionaries led thousands of people in Port-au-Prince to go on strike to protest the beleaguered Caribbean nation's lack of security, the Associated Press

ADVISOR Q&A

Are Colombia & Venezuela Seeing Lowered Tensions?

Q Venezuela reopened its border with Colombia on Oct. 5, more than two years after Venezuelan President Nicolás Maduro closed it in response to Bogotá's recognition of opposition leader Juan Guaidó as Venezuela's president. While Colombia unilaterally reopened its borders with Venezuela in June, Maduro waited until this month to take similar action. Colombian President Iván Duque cautioned that the reopening process would be done gradually and only with security standards in place. To what degree is this a full reopening of the border, and will trade flows between the countries continue to be hindered by political discord? Does the opening suggest an improved relationship between the countries? How much will the change allow for further migration from Venezuela?

A Betilde Muñoz-Pogossian, director of the Department of Social Inclusion at the Organization of American States: "The reopening of the border is not synonymous with good relations between Colombia and Venezuela, nor does it mean recognition by Colombia of the Maduro regime. Rather, it responds to internal dynamics of each country. President Duque, probably in close coordination with the local governments of the border cities, determined that the economic and commercial recovery of the border area, already depressed, is linked to the reactivation of trade between the two countries. Maduro, for his part, is waiting for an electoral event, in which he needs to be able to continue to control territory, and in the case of border states, announcing the reopening of the border (which also aligns with PSUV leaders in the area) is simply a political tactic. We will have to see if this changes migratory patterns from Venezuela, although it probably will not, since with or without closed borders, Venezuelans have continued to leave the country using so-called 'trochas' or illegal passages. The pendular migration, or transit of inhabitants of Venezuelan border cities to the neighboring country to make their purchases and return on the same day, which has been how some Venezuelans stock up on food, medicine and more, will probably increase. This pendular migration and the reactivation of trade will undoubtedly bring concrete benefits for the local economies of cities such as Cúcuta. For its part, the PSUV's strategy is that Venezuelans who can now freely return to buy products and basic necessities in Colombia will associate the decision with Maduro and therefore favor Madurismo candidates with their votes."

EDITOR'S NOTE: More commentary on this topic appears in the Oct. 18 issue of the Latin America Advisor.

NEWS BRIEFS

Ecuador's Lasso Declares State of Emergency to Fight Drug Trafficking

Ecuadorean President Guillermo Lasso on Oct. 18 declared a state of emergency in the country to battle drug trafficking and other crimes, saying the military and police will take to the streets to provide security, the Associated Press reported. In a national broadcast, Lasso said drug trafficking is the "one enemy," adding that Ecuador had gone from being a trafficking zone to a country that also consumes drugs. The state of emergency gives authorities power to restrict freedom of movement, assembly and association.

Mexico City Prosecutors Charge 10 in Deadly Metro Collapse

Mexico City prosecutors have brought criminal charges against 10 "individuals and companies" for construction and design flaws that caused an elevated subway line to collapse in May, killing 26 people, the Associated Press reported Oct. 18. Ulises Lara, the spokesman for the city attorney general, said the charges are for negligent or involuntary homicide, damages and causing injures. He did not detail the names of those charged. [Editor's note: See related **Q&A** in the May 12 daily Advisor.]

Brazilian Gov't Reportedly Eyes Combining Pandemic Relief, Bolsa Família

The Brazilian government is looking at combining pandemic relief payments and the country's Bolsa Família welfare program into a single monthly stipend of 300 reais ($54.42), a move that could take effect next year, Reuters reported Oct. 18, citing an unnamed Economy Ministry official. The government is reportedly considering that possibility because of budget constraints and congressional opposition to tax reforms, said the source.

reported. Businesses and schools were closed, and public transportation drivers remained home. "The population cannot take it anymore," Holin Alexis, a moto taxi driver who joined the strike, told the AP.

U.S. Calls on Maduro to Resume Talks With Opposition

The U.S. State Department on Oct. 18 called on the Venezuelan government to resume talks with the opposition, the Voice of America reported. President Nicolás Maduro suspended the dialogue following the extradition of his ally, Colombian businessman Alex Saab, from Cape Verde to the United States, to face money laundering charges. "If [the] Maduro regime was serious about its stated concerns of the Venezuelan people, they would actually sit down with their fellow countrymen and work towards solutions," said Assistant Secretary of State Brian Nichols. Saab was arraigned Oct. 18 in a federal court in Miami on eight counts of money laundering, the Associated Press reported. He is to enter a plea at another court appearance in coming weeks.

Nicaragua's Election Has 'Lost All Credibility': U.S.

Nicaragua's electoral process has no credibility, a U.S. State Department spokesman said Oct. 14, less than a month before the Central American country's Nov. 7 vote, the Associated Press reported. Beginning in late May, President Daniel Ortega's government has pursued numerous opponents on what critics say are spurious treason charges and has imprisoned virtually anyone who might mount a serious challenge to him as he seeks a fourth consecutive term. "We view the regime's latest undemocratic and authoritarian actions, which has, again, been driven by a fear of an electoral loss, as the final blow against Nicaragua's prospects for free and fair elections now next month," said State Department spokesman Ned Price. "That electoral process has lost all credibility." Price added, "It is now a foregone conclusion that Daniel Ortega will ensure that the elections in November are a sham and that he will proclaim himself victorious in the aftermath of those elections." Nicaragua's main opposition coalition recently said Ortega's moves "have ended any vestige of real electoral competition" in the upcoming election, the AP reported. Also on Oct. 14, family members of 155 people whom the Ortega government has imprisoned released a statement saying their loved ones have been forced to endure "mistreatment and torture" in prison, the AP reported. "In many cases, their loved ones don't know where they are or how they are. It is a nightmare and, if Ortega is not halted, it will get worse," former U.S. Ambassador to Nicaragua Robert Callahan told the daily Latin America Advisor in a **Q&A** published Sept. 8. Callahan said several of his friends are among those imprisoned. Over the past months, the Advisor has repeatedly sought comment on the situation from Nicaragua's ambassador to the United States, Francisco Campbell, but he has not responded to the requests.

ECONOMIC NEWS

Peru's Economy Grows 18.6% for Year Through August

Peru's economy expanded 18.6 percent this year through August, and 10.5 percent in the 12-month period starting the same month last year, the Ministry of Economy and Finance said Oct. 15, EFE reported. According to data from national statistics agency INEI, gross domestic product in August grew 11.8 percent as compared to August 2020. It was the fourth consecutive month of economic growth that reached pre-pandemic levels in Peru, driven by the recovery of economic activity in 97 percent of the country's economic sectors, according to the report. The construction and nonprimary manufacturing sectors drove the growth.

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AM Best expects stability in Latin America's reinsurance market, but we are maintaining negative outlooks on many of the region's individual markets, excluding the stable outlook for Guatemala."

A **Marcella Hill and Jaqueline Suryan, partners at Campos Mello Advogados:** "All Latin American countries were affected by the Covid-19 pandemic as a result of health and safety measures requiring border closures, segments of the economy forced to shut down or limit their operations, imposed restrictions on the circulation of people, social distancing and many companies imposing work-from-home policies. Brazil and its insurance sector were no exception. The country is currently seeing rising inflation and slower economic growth. Further instability is expected in the next year, leading up to the presidential election. Despite the economic and political scenarios, we have seen a busy regulator in the past year working even more closely with the insurance market to enact a new regulatory framework aimed at modernizing the sector in alignment with the international principles set by the IAIS and Solvency II. The year was marked by more flexible rules around product development and policy wording for large corporate clients and space for innovation, by way of players being able to operate under a sandbox regime and now space for those wanting to take part in open insurance. As in other countries, Brazil's insurance sector struggles in certain lines of business due to a rise in claims relating to business interruption, force majeure affecting surety bonds in guaranteed projects or operations, cyberattacks, event cancellations, travel policies, and life and health insurance, among others. We believe that the pandemic has increased businesses' awareness of the need for appropriate protections for their operations, especially cyberinsurance, directors and officers insurance and liability insurance. On a personal level, people have become more conscious about their health and lives, seeking to obtain coverage for those aspects. We hope that the new regulatory regime will allow for tailored products to be offered not only to large corporations but also to individuals looking for insurance protection."

A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:** "The single biggest factor affecting insurance demand in any country is GDP. For most countries, the income elasticity of insurance demand is between 1 and 2. That means if GDP goes down by 1 percent, insurance demand will go down between 1 and 2 percent. Last year in Mexico, GDP fell by 8.3 percent. As a consequence, insurance demand fell between 10 percent and 12 percent (depending on the segment). Between 2021 and 2022, the economy is expected to claw back that decline in GDP. Hence, insurance demand will come back up again to pre-Covid levels by the end of 2022. Brazil's GDP declined 4.1 percent last year. Its insurance sector recovered much faster as a result. The life insurance segment often has contracts of longer than one year. As a result, life insurance takes longer to recover from a downturn. However, nonlife segments, such as auto insurance, have one-year contracts. They recover quickly. If prices of the region's main export products such as oil, iron ore, coffee and other agricultural products rise, GDP will pick up, and demand for insurance will increase."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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