

REINSURANCE PRICING IN LATIN AMERICA



Distinctive. Choice.

Session CS-20 – Emerging Market Pricing



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WHAT IS “LATIN AMERICA”?

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Definition of “Latin America”:

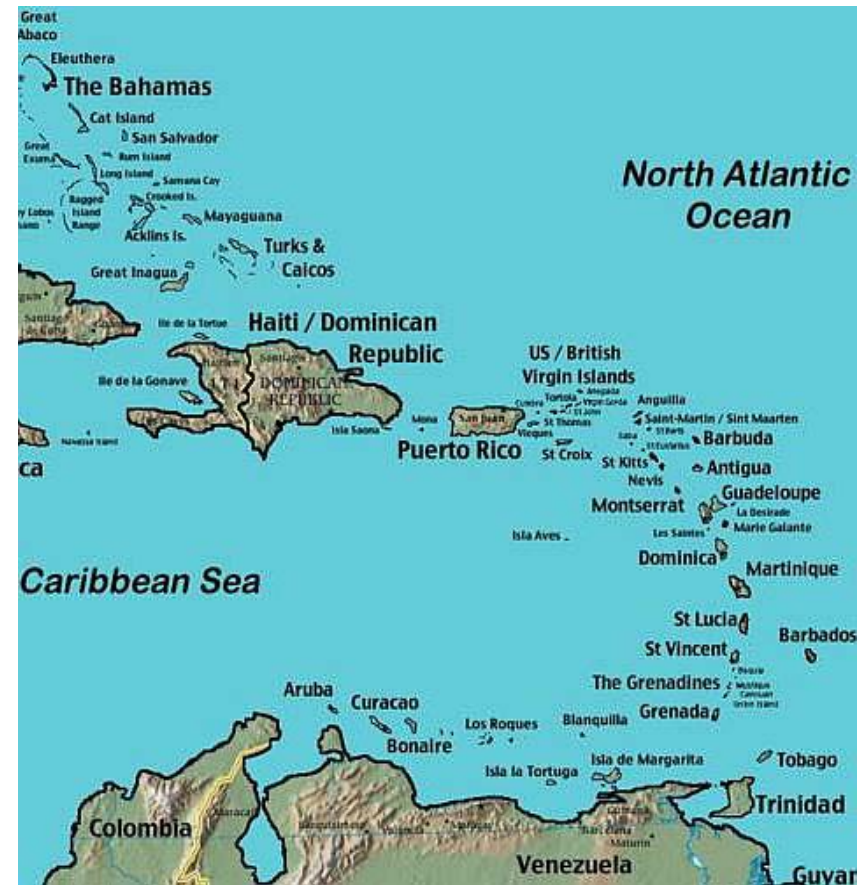
- **Mexico** – part of North America
- **Central America** – 7 (6?) diverse countries with strong US influence and varying exposure to natural perils
- **South America** – 12 (11?) diverse countries speaking some different languages, with divergent political environments and varying exposures to natural perils



WHAT IS LATIN AMERICA?

Definition of “Latin America”:

- Includes Spanish-speaking Caribbean (Puerto Rico, Dominican Republic, Cuba)?
- Includes English-speaking Caribbean plus French-speaking Haiti? Bermuda?
- Further diverse collection of over 20 countries



LATIN AMERICA – MARKET DYNAMICS

LINGO CAN BE DIFFERENT!

- **Auto = Motor in many countries**
- **GL = GTPL (General Third Party Liability) or RC (*Responsabilidad Civil*)**
- **Property/Casualty = Non Life (*No Vida*)**
- **Workers Comp – generally considered part of Life (instead of P&C)**
- **And yet some words in English are acceptable to use in Spanish (Property, IBNR, Benchmark, etc.)**

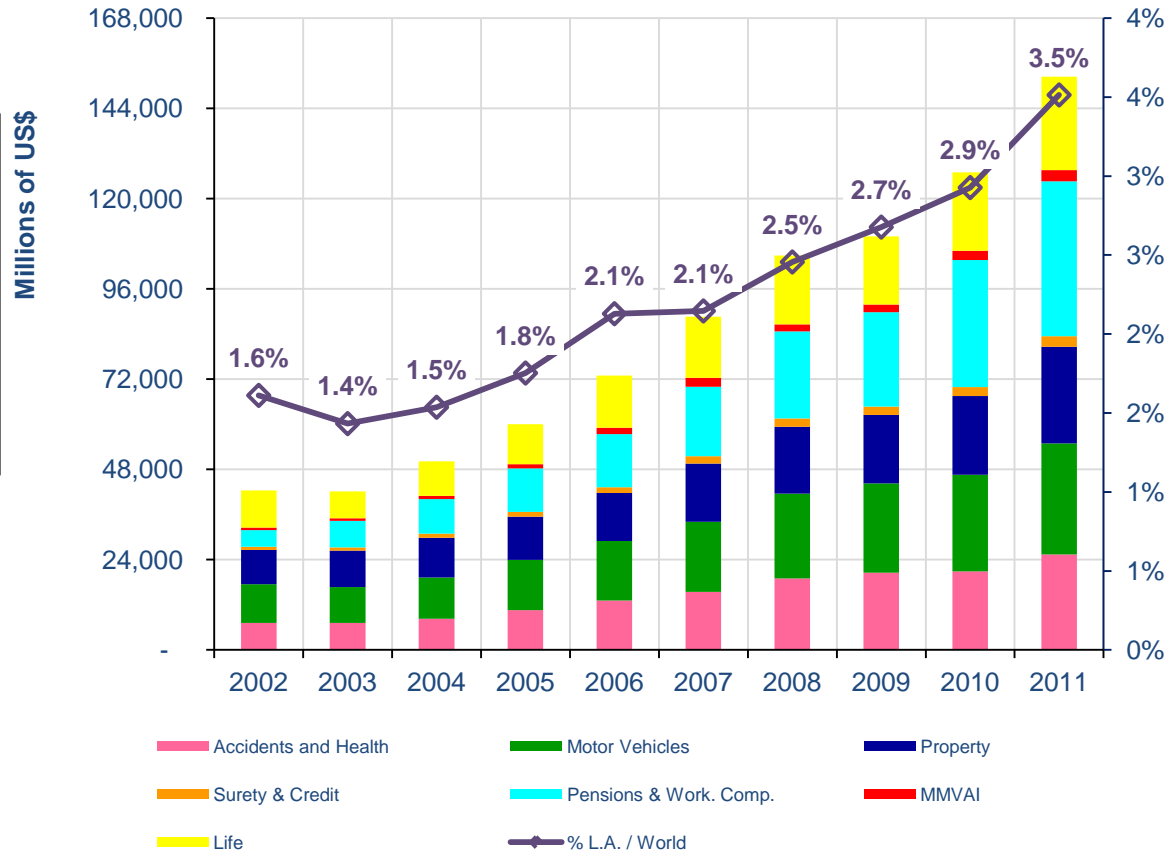
MARKET DYNAMICS

- **Property market cycles driven by US/Europe rather than regional Cat events (outside of the country impacted)**
- **Rates on Line for Property markedly lower in Latin America vs. US/Caribbean**
- **Trend towards regionalization via M&A activity**
- **Threats of nationalization**
- **Truly an “emerging market” – Latin America grew from 1.6% to 3.5% of World Written Premium between 2002 and 2011...**

LATIN AMERICA – MARKET DATA

Latin America: Evolution of Written Premiums

Fairly balanced
distribution
across lines of
business



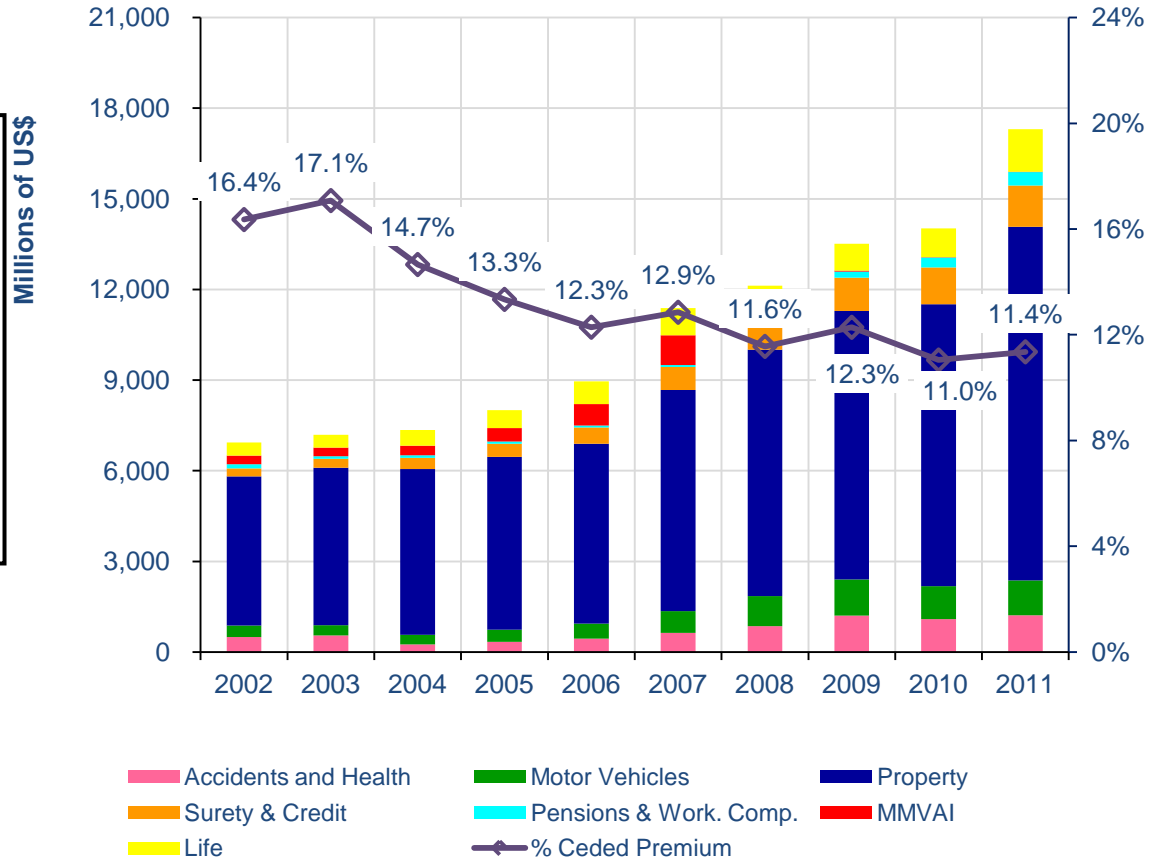
Source: Latino Insurance



LATIN AMERICA – MARKET DATA

Latin America: Ceded Premiums Evolution

Heavily skewed
ceded
distribution
centered around
Property

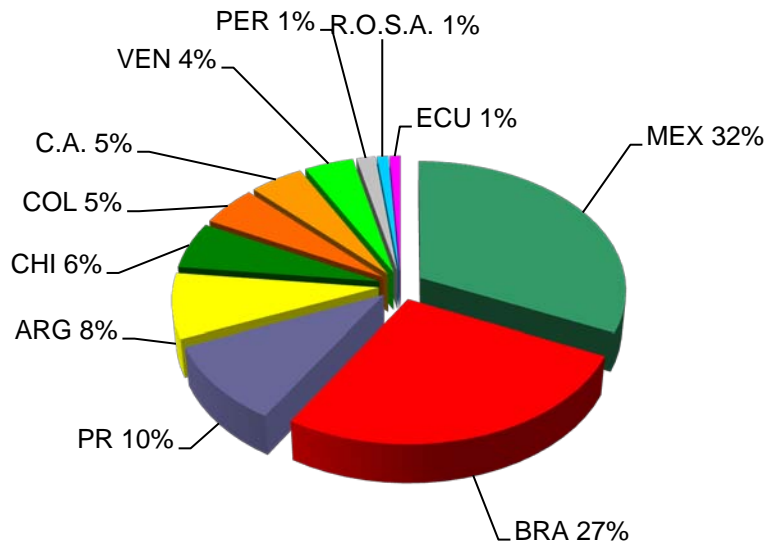


Source: Latino Insurance

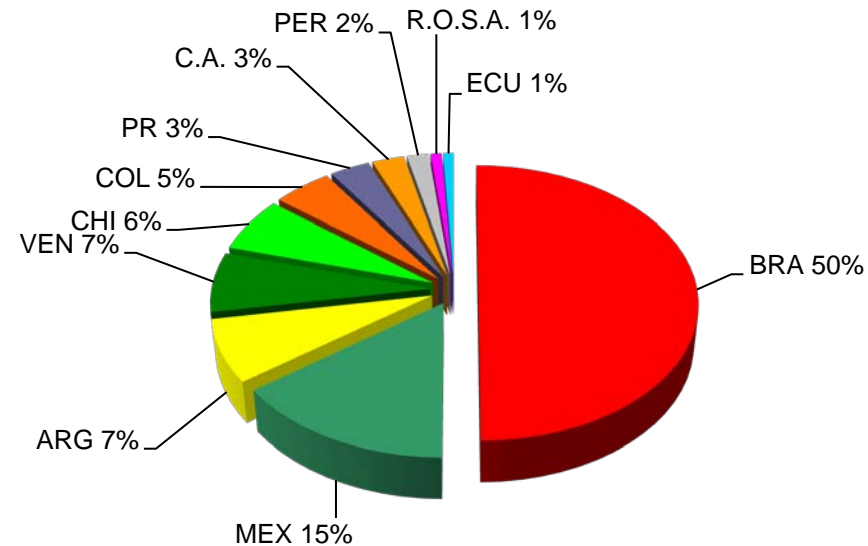


LATIN AMERICA – MARKET DATA

Written Premiums by Country 2002
42.418 MM US\$



Written Premiums by Country 2011
153.606 MM US\$

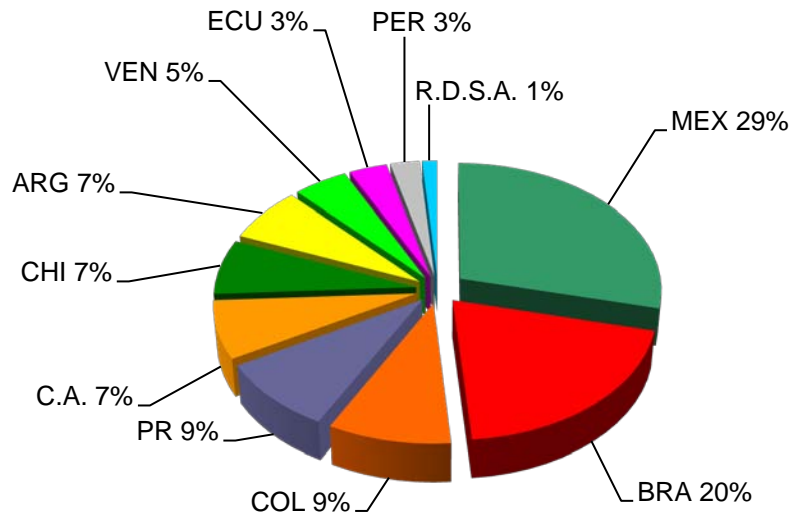


Large shift – due principally to Brazil

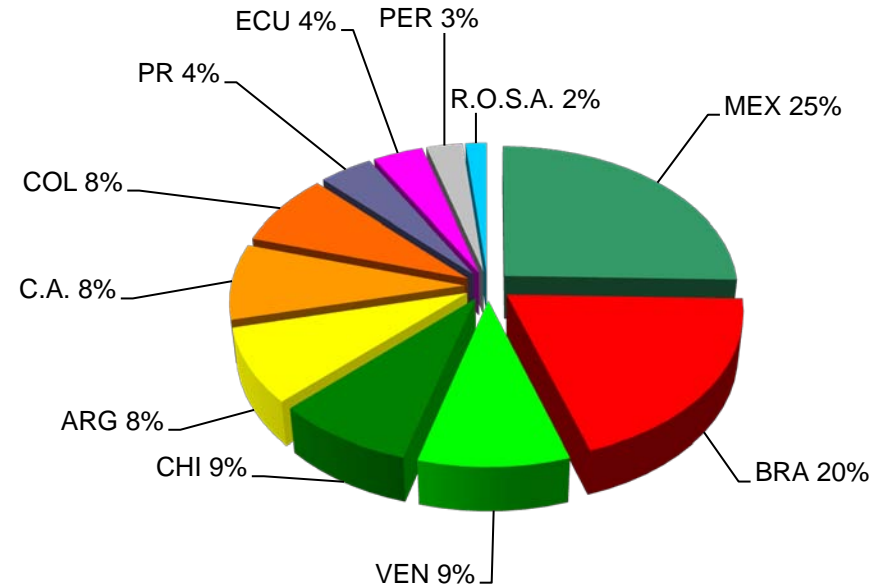
Source: Latino Insurance

LATIN AMERICA – MARKET DATA

Ceded Premiums by Country 2002
8.093 MM US\$



Ceded Premiums by Country 2011
18.170 MM US\$

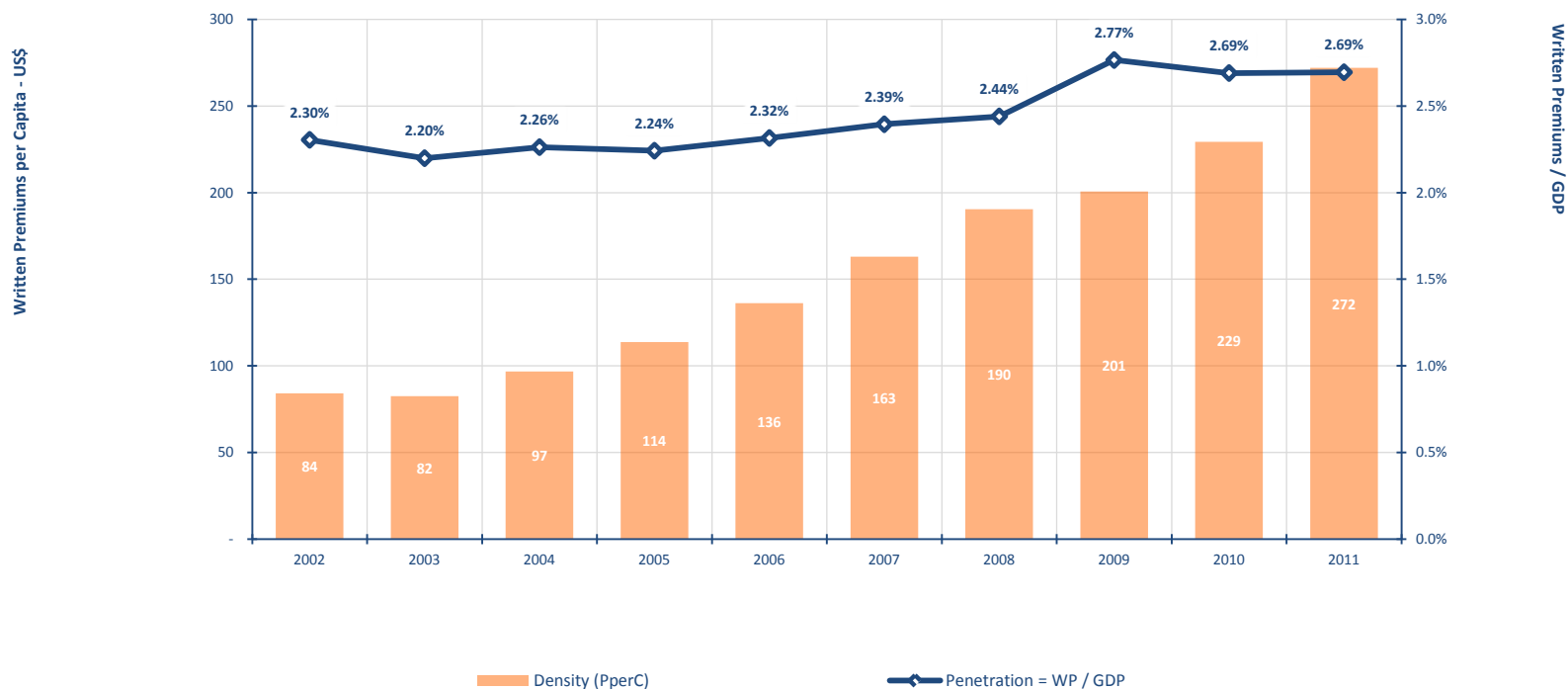


Different story! Lack of Nat Cat exposure has kept Brazil's ceded share stable

Source: Latino Insurance

LATIN AMERICA – MARKET DATA

REG: Insurance Density & Penetration



Despite steady growth in WP per capita, market penetration has not improved much

PRICING CONSIDERATIONS

DATA CONSIDERATIONS

- **Lack of advisory organizations such as ISO/NCCI, so difficult to find data on insurance-specific market trends (e.g., loss trends, LDFs, etc.)**
- **Some industry data available from government entities, but on a CY basis (not at all like Sched P)**
- **Level of specificity and reliability of data varies greatly from country to country, and from company to company even within a country**
- **Less common to find actuaries at cedent companies, but also varies greatly across the region**

PROPERTY PRICING

For non-Cat exposures, some nuances:

- **Significant differences in primary loss ratio levels between countries (especially Caribbean vs. Latin America)**
- **Data typically not provided in triangulated form**
- **LDFs often not applied due to perceived lack of tail, but sometimes there is a tail!**
- **Distinguishing rate changes for Cat vs. Non-Cat coverages**

PROPERTY PRICING

For non-Cat exposures, other nuances:

- **Impact of “first loss” policies**
- **Proportional treaties can be on a “clean cut” basis, so chance for negative loss ratios!**
- **“Caribbean” profit commission feature**
- **Even lower layers on Property Per Risk programs can often be “not working” in nature**

PROPERTY PRICING

For non-Cat exposures, other nuances:

- **Lack of industry exposure curves – general reliance on traditional international curves**
- **Impact of co-insurance on larger policies**
- **Can have treaties in USD but data in local currency – exchange rate impacts?**

PROPERTY PRICING

For Cat exposures:

- **Perception that vendor models are not tailored to the true exposure to natural perils in the region – “calibration”?**
- **Characteristics of insured vs. overall population**
- **This perception has only been reinforced in the eyes of some based on recent Cat events**

PROPERTY PRICING

For Cat exposures:

- **Lack of detailed exposure data only exacerbates the problem in using the models**
- **Reliance on models for measuring PML vs. pricing is often treated quite differently**
- **Lack of Event Limit in some countries/treaties can place even greater reliance on models**

PROPERTY PRICING

For Cat exposures:

- **Exposure to various natural perils varies significantly by country, and in some cases within specific countries**
- **In general the Cat exposure is uncorrelated across the region but there are exceptions**
- **Some perils are un-modeled but could be quite meaningful for lower layers**

NON-PROPERTY PRICING

Though reinsurance in the region is dominated by property exposures, there are other challenges when pricing other lines of business:

- Levels of litigiousness – though generally much lower than the US, there are exceptions**
- Exposure to US (courts, exports of products, etc.) is possible**
- Inflation – some countries have high levels of inflation but does this translate into similar impacts on insurance costs?**

NON-PROPERTY PRICING

Other challenges when pricing non-property lines of business:

- **Medical inflation – difficult to assess; generally perceived to be moderate and in some countries lower than overall inflation**
- **Exchange rates – even bigger impact than Property due to existence of development**
- **Specialty LOBs – particularly challenging as it's hard to get data split out from GL**

THE FUTURE

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Though current challenges are enough to keep one busy, the winds of change are blowing:

- **Data enhancements – greater awareness of value of data, especially for Cat models**
- **Micro-insurance – will the characteristics of the insured population change if this takes hold?**
- **Solvency II – general desire of regulators to be on the same level with more developed countries**
- **Globalization – good and bad effects!**



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