LATIN AMERICA MARKET DYNAMICS

2023 Update

Gallagher

Insurance | Risk Management | Consulting

Section 1: Latin America — Regional 'Big Picture'

Despite recent reporting presenting a more challenging period for Latin America, optimism remains that a gradual return to historic economic growth trends is possible and the region is ripe for investment and abundant with opportunity.

Fragmented politics, social inequality, and infrastructure gaps (digital, transportation, and government policy frameworks) are hampering efforts to deliver economic resilience. Political, social, and economic instability persists across the region, with countries including Argentina, Peru, Chile, Venezuela, Mexico, El Salvador, and Brazil experiencing prolonged periods of civil unrest, protests, strike action, and politically motivated demonstrations. The absence of a clear policy agenda further complicates industry expansion, with fluctuating oil prices and reports of government corruption impacting the ability to build the momentum needed to drive economic growth plans.

Capital market volatility, geopolitical tensions, and the Russia/Ukraine war has redrawn the trade map for Latin America. Ongoing uncertainty, international market unpredictability, inflation, currency devaluation, and climate change have impacted growth plans across the region in recent years. With 2023/2024 economic growth forecasts significantly below 2022, and the expectation of the regional economy slowing to roughly 50% of its 2022 level, the rebounding of tourism, bumper harvests in Brazil, and growth in export market remittances offer renewed cause for optimism.

While geopolitical tensions continue, Latin America has benefited from maintaining a relatively neutral stance; lifting export trade volumes with major international markets, including the US and China. This may help to reset domestic political focus and enable the region to fully leverage new revenue streams and scale growth markets in a meaningful way.

Growth opportunities vary, with the region offering a platform for green energy development and demand for a range of construction and infrastructure projects, which offers the potential for cross-industry collaboration. Investment in technology infrastructure and embracing digital innovation will be critical to fueling competition, connecting consumers with industry through a mix of public and private funding initiatives outside of principal cities and commercial centers. Digital transformation and the anticipated explosion of technology-driven service economies (e.g., e-commerce, fintech) and fully harnessing the Internet of Things (IoT) will be key to pushing Latin America into a new era of growth and productivity.

Elsewhere, Latin American central banks are adjusting their strategies amid decreasing inflation concerns and ongoing currency exchange fluctuations. Brazil's central bank lowered its benchmark interest rate, SELIC, for the first time in three years in July, while Chile's central bank implemented its second consecutive rate cut in September. This follows a broader regional trend as central banks in major LatAm economies aim to strike an effective balance between managing inflation and providing economic stability and growth.

Tackling social and economic equality to bridge the void between higher and lower income groups, with deeper investment in education, public policies designed to stimulate regional investment, along with defense mechanisms that respond to climate change and periods of civil unrest, there is every potential to transform the region longer term.

Section 2: Insurance Market Dynamics

The local versus international market placement dynamic continues to be a moving picture. With local capacity continuing to open up through a mix of longstanding LatAm market participants, including major carriers, international markets are generally being accessed to tap into Treaty and Fac reinsurance capacity. Currency devaluation continues to challenge the regional economy, with otherwise fit-for-purpose solutions becoming cost prohibitive, leading to a return to local markets to find a solution. For some risks, new market entrants are aggressively competing for new business, particularly larger accounts that offer profitable returns. Difficult to place risks, including coal and thermal power generation-specific risks, agribusiness, and mining and metals risks, have led to international market capacity being sought in London and Miami.

While the insurance market remains relatively stable year-on-year, opportunity remains to lift the uptake and commercial demand for re/insurance products and solutions as the region's risk exposures and industrial expansion plans continue to evolve. As the market steadily improves, underwriters have turned their attention to emerging opportunities that offer both commercial alignment and the opportunity to flex their technical muscle — solar power plants being one example as demand grows for green energy production.

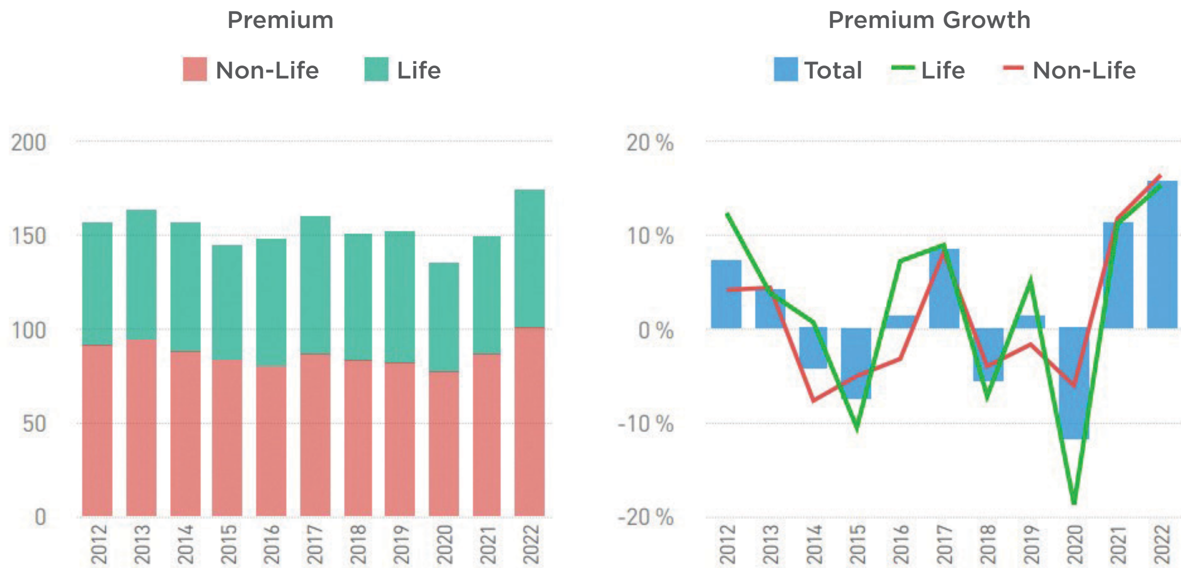
Although domestic market capacity is available, the situation varies by country and risk line. Liability capacity is broadly available in a favorable underwriting environment. In Colombia, underwriters are demonstrating closer scrutiny on risk management practices, with stricter controls and focus on continuous risk improvement. Co-insurance has become more common, as has alternative capacity solutions from the international Treaty and Fac reinsurance markets. Property insurance is the primary focus for reinsurance capacity, where rate increases are being seen even when the loss ratio remains stable.

The insurance market is growing

GWP in the Latin American insurance market (life and non-life) grew year-on-year between 2021 and 2022,[3] and there continues to be an upward trend in insurance penetration in the region, with the main contribution coming from non-life insurance.

2022 insurance penetration *(premiums in relation to GDP)*[4]
Chile: 3.6% of GDP ; Brazil: 3.1% ; Colombia: 3% ; Peru: 3%

Graph 1: Latin America: Evolution and Growth of the Insurance Market, 2012-2022
(Premiums, USD billions, nominal annual growth rates in US, %)



Source: MAPFRE Economics (with data from supervisory bodies in the region)

Cyber insurance uptake is slowly lifting as businesses deepen their understanding of the risk and the business case for having an effective protection layer in place given the increasing number of high-loss-severity events being seen in other markets. Political violence and terrorism risk products are also more established and equipped to manage exposure due to civil unrest and protest events. Standalone cover, available as SRCC insurance or specific cover for property-related damage caused by civil unrest, has provided a welcome safeguard for business operators.

Legislation and regulation challenges remain

Legislation and regulatory change present a challenge for a number of industry sectors, a situation that can hopefully be resolved in the short term. As one example, offshore wind and green hydrogen projects in Brazil are currently on hold, awaiting legislation to come into effect. This trend is not singular to Latin America (or Brazil) and is being seen in other international markets looking to greenlight major renewable energy projects. Elsewhere, surety bonds and the marine and cargo sectors in Brazil are undergoing changes in legislation that are likely to present both challenges and opportunities.

As regulation tightens across multiple industries and the provision of public services, the current expectation is of upward pricing movement across key lines of risk. One positive is the implementation of more comprehensive catastrophe cover provisions and higher capital reserves for re/insurers which will deliver much-needed capacity into local markets.

Climate change and a growing carbon offset trading market

The path to greener energy production, involving decarbonization and a consumer shift to renewable energy consumption, offers both potential for optimism and cause for concern. Earlier in 2023, Peru braced itself for incoming extreme weather, with storms and floods expected leading to property and critical infrastructure damage. What should be noted is the cyclical nature of certain events, such as earthquake patterns in Chile, that follow a generally consistent pattern where claims loss can be predicted to some extent.

Brazil adds momentum to Latin America's burgeoning carbon offset trading market

President Lula da Silva ("Lula") has placed climate change at the core of the new administration. The government, in setting out its broader climate change/environmental agenda, has proposed a cap-and-trade scheme applicable to selected carbon-intensive sectors, whereby regulated sectors would be given a capped allowance for greenhouse emissions. This National Allocation Plan would be reviewed on a regular basis, and the "allowance" allocation progressively reduced. Discussion continues on carbon offset provisions, accepting a number of regulated sectors have unavoidable emissions. In addition to this, the new government has reduced deforestation by more than 40% compared to the previous year as part of a wider effort to protect the Amazon bioculture.

The design and implementation of a Brazilian regulated carbon market is a fast-moving picture, with new proposals being put forward on a regular basis, and an emphasis on having a firmed-up plan in place before COP28 (November 2023). With Brazil a strong contender to host COP30 in 2025, there is a lot at stake and broad opportunity attached to this move.

Banco do Brasil is aiming to establish itself as a key player in carbon market operations, undertaking the first pilot carbon credit transaction in mid-October on the international market, and a validation test of its business model. With voluntary carbon offset trading platforms in operation across Latin America, regionally, the region looks set to be a trailblazer in the world's green economy.

Carbon market and pricing initiatives in Latin America implemented or under consideration/development

Mexico

Three Mexican states have a carbon tax in operation, with another one taking steps to develop this policy.

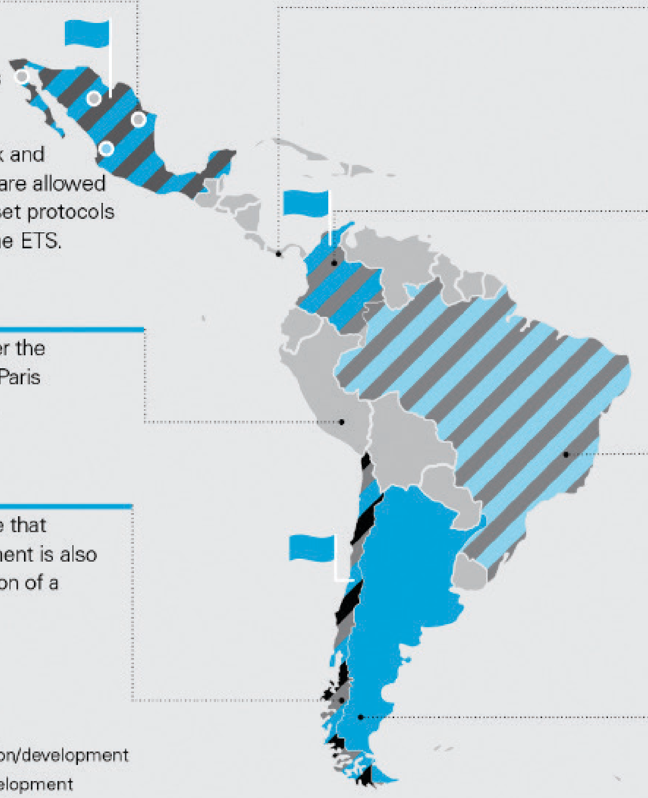
Mexico has both a carbon tax and an ETS in operation. Offsets are allowed under both instruments. Offset protocols are under development for the ETS.

Peru

Peru recently signed the under the framework of Article 6 of the Paris Agreement with Switzerland.

Chile

Chile has a carbon tax in place that includes offsets. The government is also considering the implementation of a compliance carbon market.



Costa Rica

Joint Crediting Mechanism activities in Costa Rica.

Colombia

Colombia has a carbon tax with an offsets component in place and is developing an ETS.

Brazil

Brazil has undertaken studies to consider Carbon Pricing Instruments (CPI). Legislation is being discussed focusing on a domestic voluntary carbon market.

Argentina

Argentina has a carbon tax in operation.

- Carbon tax in operation
- ETS in operation
- Carbon tax under consideration/development
- ETS under consideration/development
- TPS under consideration/development
- Use of offsets for CPI

Source: "Status and trends of compliance and voluntary carbon markets in Latin America" report, IETA

Section 3: Risk Line Trends — 2023

The LatAm insurance market continues to operate with a two-speed dynamic as the region progresses through a hardening market cycle, while pricing for some risks is showed signs of steadying in certain countries. Rates have continued on an upward trend, although this is slowing for some risk lines depending on the scope of the risk, currency exchange valuations, and inflation.

Rates and pricing

Clients have generally switched from seeking premium reductions at renewal to a focus on maintaining rates year-on-year or otherwise securing rate increases below inflation. In the current macroeconomic environment, this trend may continue in the first half of 2024.

Renewals environment

In line with historic trends, well-managed accounts with supporting data and documentation are likely to be offered improved terms at renewal. Additionally, evidence that risk recommendations have been enacted (or in progress) is also likely to be positively received by the underwriter. Co-insurance and MGAs to pool/aggregate risk to attract improved pricing from carriers has increased over the past 12 months as capacity continues to be challenged across a number of risk lines.

Carrier market dynamics

There has been a concerted push to attract new participants into the local market to enhance the competitive dynamic and improve rates, along with increased interplay between established domestic carriers and international carriers. Commercial retail pricing has remained relatively stable in the prior year, with increases broadly in line with 2022, although capacity for property risks continues to be challenging.

Claims

The claims environment remains relatively stable, accepting heightened risk in parts of the region relating to extreme weather events (including El Nino), inflation, and periods of social unrest.

2023 risk market update — Latin America risk trend insights with country-specific updates where the local market outlook differs from the broader regional trend.

Property	• Capacity remains tight and placement continues to be challenging, particularly for catastrophe-exposed countries. High inflation and hardening market conditions are expected to continue in the near future. • Capacity being sourced through treaty reinsurance, co-insurance, and MGAs. • Well-managed accounts with supporting documentation (valuations, risk surveys, hydrology reports, and claims history) are likely to be offered more favourable terms at renewal than those without this information. • Underwriters continue to decline cover in selected cases, generally reflecting higher-risk occupancy and location. • **Colombia:** Examples of carriers declining cover and/or exiting certain property-related risks following rising claims severity.
Casualty and Liability	• **Brazil:** Abundant capacity for liability risks with competitive rates for financial lines (except E&O). • **Colombia:** In property and casualty, the market continues to be rigid, with adjustments to rates and terms at renewal. A degree of rate flexibility has emerged with shopping centers and airports. Pricing increases have been driven by casualty lines of business, particularly motor liability, due to higher inflation and labor costs.
D&O	• **Colombia:** Appetite in D&O has increased and premiums are decreasing as the international market softens. The market is taking a more dynamic direction with new coverages emerging for cyber, diversity and inclusion, and ESG. In contrast, a lack of appetite and capacity for public sector D&O remains a challenge. • **Brazil:** Abundant capacity for D&O risks and competitive rates.

Cyber	• Variable capacity available by country through a mix of international carriers and major local incumbents. Slow business uptake, although understanding is improving and the business case is building. • The large percentage of business operators being unable to satisfy entry-level underwriting criteria for stand-alone cyber liability cover remains a key barrier to entry. • **Colombia:** Tighter market in recent years, and is currently anticipated to become more challenging over the next 12-24 months following a growing number of ransomware attacks, leading to rate increases and reduced market participation
NatCat Re/Insurance	• **Peru:** Reconstruction of river defenses, commercial property will be squarely in focus following the outcome of the incoming El Nino weather-related challenges. Plant and livestock coverage is also being requested, although market capacity remains restricted due to loss severity expected following floods, storms, and other extreme weather events across rural and regional Peru.
Political/ Terrorism/ Crime	• Historically challenging to source capacity in the local market due to ongoing political instability and social unrest, and expectation of higher-loss property claims. • Markets starting to emerge for stand-alone cover, although rates generally higher than in the previous 12 months. That said, coverage availability and pricing are starting to stabilize with increased deductibles. • **Colombia:** Market remains challenging with limited capacity unless provided as a D&O extension.
Construction (Mobile equipment, tools, and machinery)	• As political instability continues across the region, larger construction and infrastructure projects have been paused due to public sector funding challenges. • **Brazil:** With renewed growth focus coming from the Lula government, the expectation is that we will see the return of major infrastructure projects. This will require capacity from the local and international re/insurance markets. • Sourcing capacity has remained a challenge in certain geographies/locations, particularly those experiencing periods of social unrest and higher unemployment. Theft and resale of vehicle parts and higher-value machinery. • Underwriters are requesting robust security and theft prevention measures in place for higher-risk locations and higher-value equipment.

Reinsurance

Treaty renewal conditions have gradually restricted new classes of risks, which has led to a reduction in local underwriting capacity and capacity being sourced via the international Fac (facultative) market. As high/catastrophic loss severity trends fall in Latin America, reinsurers have opened up capacity, leading to increased placement through MGAs. With greater awareness of climate change exposure and cyber attacks, new opportunities are emerging for underwriters.

Colombia's energy risk market presents a three-way dynamic as the market continues to transition from a soft to a firming/hardening cycle.

Power Generation Challenging Market

'El Niño' phenomenon brings with it a complex current situation for the clients:

- Significant delays in transmission and distribution projects.
- Lack of liquidity of energy trading companies.
- Waiver of projects due to social problems in territories.
- Delays in environmental permits.

Based on the above points, hardening market conditions are expected to continue.

Downstream Energy Moderate Market, Variable Renewals

- Capacity remains stable, with no significant new entrants or withdrawals in the market.
- We are generally seeing marginal rate increases, generally linked to underwriter "hot topics" for markets — insured values, Nat Cat and restrictions on cyber, SRCC, and testing and commissioning.
- Increased focus on Environmental, Social and Governance (ESG) issues.
- Push for policies to include an Excluded Territories Clause (Russia, Ukraine, and Belarus) with the main focus being to exclude CBI (Contingent Business Interruption) losses emanating from failure to supply crude oil or gas from one of the excluded territories.

Upstream Energy Soft Market, Increased Capacity

- Challenges of underwriting profitably against the backdrop of a market with significant overcapacity.
- Fixed offshore assets, offshore drilling operations, and the loss experience in this sector, combined with several years of upward rate movement, have seen many syndicates look to increase their exposures to this business.

Brazil	**Life and Health Insurance** • The market has also changed with a reduced number of providers following a series of market exits in recent years, influencing price increases. • The prices for health insurance are still increasing. Medical inflation readjustments are around 18%, and, due to the high claim ratio rates in the policies, they are also impacted by technical readjustments. These two factors combined are increasing premiums in the region of 25% to 30%. We are not expecting to see a better scenario until the first quarter of 2024. • Life insurance remains stable; no significant changes are expected over the next 3-6 month period. **Employee Benefits** • While unemployment rates continue to fall — 8.7% in 2022, falling to 7.8% in August 2023, and the lowest rate since 2015 — employers recognize the need to provide competitive benefits benefit programs to retain their workforce and drive productivity. • Wellbeing has lifted in priority, covering physical, financial, and emotional wellbeing, helping to increase staff retention levels and manage claims costs. • The current trends of upward health premium movement have raised concerns and may lead to employers adjusting their employee benefits programs to manage operating expense and ensure the highest priority benefits continue to be covered.

Colombia	**Life and Health Insurance**
	• The life insurance market is dynamic at this time, with a lower cost of reinsurance and increased market competition for businesses leading to a decrease in average rates being passed on to the customer.
	• Moderate decrease in the number of accidents reported over the last year.
	• Proposed labor and pension reforms are still being discussed in the Congress of the Republic, as the draft Labor Reform Bill is awaiting its first debate and the Pension Reform will enter its second round of debate. Dates for these discussions are to be confirmed (as of October 2023).
	• Approval of the Health Care Reform is underway in the House of Representatives. As of October 10, 2023, the House of Representatives and Committee have processed and approved 71 articles of the 143 provisions contained in the Health Reform Bill, and now undergoing implementation in the Congress of the Republic and set to become law. Current expectations are of a two-year timeline to fully implement this legislation.
	• The current state of the reform process has presented the market with uncertainty. Should the health reform pass as originally proposed, changes in the programs that have insurance additional to the mandatory plan (POS) could have the following impact:
	  o Most voluntary health plans operate in synchronization with the Mandatory Health Plan POS (no revisit required). The government's bill eliminates synchronization. Therefore, for users of prepaid medicine or insurance plans, in the case of exclusions and pre-existing conditions, they will have to access the public health system independently and possibly generate reprocesses, longer service times, and access to standard hospitals.
	  o This duplication of operations, non-coverage of existing coverage, and no access to the preferential network that is currently complemented by the POS will likely generate a demand for expansion of coverage and, therefore, a greater increase in prices in voluntary health insurance.
	  o The demand for prepaid medicine and health policies will increase, given that the social security system will be exclusively managed by the state.
	  o Employees will value the health benefits granted by companies and will seek to improve products in coverage, hospitality, and insured values for both them and their families.

Peru	**Workers' Compensation** • Rates continue to be challenging, particularly in the mining, fisheries, and marine sectors. A potential positive is capacity returning to the local market, bringing increased competition and potential improvement on rates.

Latin America: Sector growth spotlights

Food and Agriculture	**Peru:** Anticipated 5.69% year-on-year growth (CAGR 2023-2028). Food market project revenue in 2023 amounts to USD51.1B: meat/livestock products is the largest segment, delivering USD12.1B in 2023 (~24%). **Brazil:** Largest agricultural and food exporter (USD79.3 billion in 2017) in the region and expected to grow annually by 7.13%, followed by Argentina (USD35.0 billion), Mexico (USD32.5 billion), Chile (USD17 billion), Ecuador (USD10.4 billion) and Peru (USD8.8 billion).[5] **Colombia:** Agriculture market share expected to increase by USD7.86 billion from 2021 to 2026, at a CAGR of 7.10%, influenced by high growth potential for agricultural exports including coffee and bananas.[6] **Chile:** Expected to grow annually by 5.69% (CAGR 2023-2028).
Construction and Infrastructure	**Peru:** USD36.6 billion market size in 2022. **Brazil:** Construction market value is forecast to grow by 2.7% in real terms in 2023 (2022: 7.4%). A key growth market will be the infrastructure market, with output rising by 3.7% in real terms. **Colombia:** USD42.9 billion in 2022; the market is projected to achieve an AAGR of more than 4% during 2024-2027. **Chile:** The growth momentum is expected to continue over the forecast period, recording a CAGR of 3.6% during 2023-2027. The construction output in the country is expected to reach CLP19,117.1 billion by 2027.
Energy, Power Generation and Renewables	**Chile** has set an ambitious target to transition 70% of its total energy consumption to renewables by 2030 and achieve carbon neutral status by 2050.[7] Clean energy transition has been broadly supported by political agenda and positive public sentiment. **Brazil:** The Brazilian Energy Planning Agency's (EPE) Energy Expansion Plan (PDE) for 2021-2031 indicates that renewable sources will remain a high priority in Brazil's energy market, comprising about 50% of Brazil's energy matrix between 2021 and 2031.[8] **Peru:** Through a mix of industry change and regulatory controls, Peru has improved its renewable energy matrix year-on-year,[9] with hydroelectric contribution to almost half (43.68%) and other alternative energy sources steadily replacing traditional/thermal power generation (Wind: 3.44%; Solar 1.46%). **Colombia:** The Colombian government introduced a 10% renewable energy target of 10% by 2022, stimulating increased investment in projects, particularly in wind and solar power,[10] and hydroelectric plants currently producing up to 70% of annual electricity production (2022: 12GW).

Source: GlobalData

Citations

[1]LATIN AMERICA, CARIBBEAN ECONOMIES TO GROW 1.5% IN 2024 -ECLAC *Reuters.*

[2]Notícias PDE 2027 – The Ten-Year Energy Expansion Plan 2027 (epe.gov.br)

[3]THE LATIN AMERICAN INSURANCE MARKET GREW TO 173.674 BILLION DOLLARS IN 2022. MAPFRE (Sept 2023).
The Latin American insurance market grew to 173.674 billion dollars in 2022, an increase of 15.9% | MAPFRE

[4]El Mercado Asegurador Latinoamericano en 2022. Fundación MAPFRE (September 2023).
El mercado asegurador latinoamericano en 2022 (fundacionmapfre.org)

[5]OECD-FAO Agricultural Outlook 2019-2028 – Special Focus Latin America.

[6]COLOMBIA: AGURCULTURE MARKET BY CROP TYPE AND SALES TYPE. FORECAST AND ANALYSIS 2022-2026. Technavio (Feb 2022).
Colombia Agriculture Market Size, Share, Growth, Trends, Forecast 2026 (technavio.com)

[7]CONLEY, TIMOTHY. HOW CHILE IS BECOMING A LEADER IN RENEWABLE ENERGY. World Economic Forum (Jan 2023).
How Chile is becoming a leader in renewable energy | World Economic Forum (weforum.org)

[8]International Trade Administration. Brazil – Country Commercial Guide (Updated March 2023).
Brazil - Energy (trade.gov)

[9]Laub, Gomero, Doig, de la Cruz. Alternative Energy & Power 2023. Chambers and Partners (Updated July 2023).
Alternative Energy & Power 2023 - Peru | Global Practice Guides | Chambers and Partners

[10]ENERGY MARKET INSIGHTS – COLOMBIA. Statista.
Energy - Colombia | Statista Market Forecast

AJG.com **The Gallagher Way.** Since 1927.

Gallagher