Powering up

BY GENY CALOISI
January 20th, 2014

The Argentine insurance market presents opportunities for those able to navigate its regulatory environment, and planned energy and agriculture initiatives may boost insurance demand.

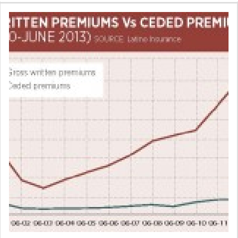
Energy generation has the potential to drive growth in the Argentine insurance market, according to an analysis of the market.

For example, the construction of Chihuido 1, a new hydroelectric power dam worth 12bn Argentine pesos ($1.94bn) presents an opportunity for the local insurance market.

Bidding documents for the tender process will be available in mid-January, and once completed, the plant is expected to produce 1,750 GWh of energy, the government has said.

Increasing energy production is a priority for the Argentine government. According to Argentina's National Institute of Statistics and Censuses (INDEC), Argentina's trade balance fell 60% year-on-year in August 2013 because of stagnant exports and the doubling of energy imports.

"Argentina's energy production is in deficit right now," says Guillermo Alvarez, director at Aon Risk Services in Argentina."This is why the government has had to import what it is not producing; but this is set to change with new energy generation initiatives."



AIG's General Manager, Paride Della Rosa points out that the country's agriculture insurance industry is also benefitting from strong growth in the sector. He says: "In terms of growth, the agro business has great potential, owing to the nature of our agricultural economical matrix. It is currently growing at a 48.3% rate."

Due to demand for commercial insurance, Della Rosa says in terms of commercial insurance AIG is focusing on diversifying product offerings to meet demand, and increasing limits for property and energy cover.

State of the market

According to Superintendencia de Seguros de la Nación (SSN), the country's insurance regulator, Agrentina is the 24th largest insurance market in the world with 0.49% of global non-life premiums, and the fourth largest in Latin America after Brazil, Mexico and Venezuela.

There are 23 insurers operating in the market, with the largest player, Generali Caja de Seguros, controlling around 10% of the industry, according to data from Latino Insurance.

"This is a very competitive market, where the [market] leader has a 10.9% market share," says Carola Fratini, CEO at QBE Seguros La Buenos Aires, who adds that the top ten companies operating in the market control 61.3% of premiums.

Carlos Salinas, executive director of the Argentina chamber of reinsurers (Cámara Argentina de Reaseguradoras), says the industry was in a different shape in the 1980s with over 300 insurers operating in the market.

Gradually, the industry consolidated in the 1990s due to companies either closing down or through mergers, Salinas adds.

Looking forward, insurers with a historical prominence in the market will fare better, according to Aon's Alvarez.

He explains that although the Argentine insurance sector is price driven, "visibility" is important, and because of this, well-known national and international players will fare better than newcomers.

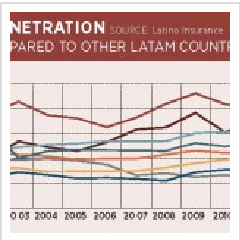
"Big traditional companies, such as Caja de Seguros, which has a strong presence in the market and a healthy advertising budget will gain more business," he says.

Alvarez points out that growth in the insurance market stands to benefit from the growth of the middle class in Argentina, and is likely to be boosted by public incentives offering financing and long term credits to boost consumption.

"We are talking about a market that has seen a 30- 35% growth, irrespective of inflation," he says. Alvarez says the government's initiative to boost consumption has had a positive impact on the insurance market. "More consumption, means more cars, more property, and more insurance."

Market entry

Entering the Argentine insurance market involves bureaucratic processes and licensing approval procedures. Unlike most other countries in the region, however, once the licence is approved, companies will be up and running within six months, according to Salinas.



Della Rosa says that in recent years there has been little increase of licenses for both insurance and reinsurance companies, due to a tightening of rules.

"All reinsurance transactions should be conducted through a 'local established reinsurer' and ceded exclusively to an 'admitted reinsurer'," he says, adding that for those companies with registered operations in Argentina, there are "interesting opportunities", which justified AIG's decision to establish a local reinsurer in the country.

When asked how the macro- economic environment affects operations, Della Rosa says: "We are expecting new foreign exchange regulations in the new year. This is constantly changing and it affects the daily reinsurance operation and other contracts and payments."

Reasons to be positive

In spite of political volatility in the country, there are reasons to be positive about the outlook for Argentina. For example, net written premiums reached 80.62bn Argentine pesos ($13.81bn) during H1 2013, rising 19.6% in real terms year-on-year (YoY) according to recent data from the country's insurance regulator,

Superintendencia de Seguros de la Nación (SSN). Covering insurance market activity until 30 June, 2013, the figures show that workers' compensation and auto – which make up the majority of the non-life sector in the country – saw the greatest year-on-year premium growth rate in Q2 2013.

Salinas concludes: "The government would like to see the insurance market accounting for 5% of the GDP by 2020 – at present it is just 3%. This growth expectation would be normal in a stable country, but this is not the case of Argentina.

"Living in a country that has had to face various economic upheavals, we can say that we have good practice when it comes to change. This adaptability stimulates creativity."

LEGAL VIEWPOINT: MANDATORY INVESTMENT RULES FOR INSURERS (PlaNeS)

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— Alex Guillamont

— Daniel Barón

Alex Guillamont, director, Kennedys Miami office for Latin America & Caribbean and **Daniel Barón**, associate at Kennedys Latin America & Caribbean discuss Argentina's regulatory landscape

A little over a year ago, Argentine President Cristina Fernández de Kirchner announced the implementation of PlaNes (Plan Nacional Estrategico del Seguro), a national strategic plan for insurance. As part of this initiative, official Decree number 37,163 was issued by the superintendent of the country's insurance regulator, the Superintendencia de Seguros de la Nacion (SSN) instituting a change to Regulation 21,523/92. One of the keystones of this Kirchner administration modification is an addition to section 35.8.1, named "Subsection K", which refers to insurers' investments.

It is hardly uncommon to see investment rules for insurance companies, which apply around the globe. As a matter of public policy, the state is understandably interested in the financial wellbeing of insurers, who need to use the funds raised through the collection of premiums to pay claims. These rules normally entail restrictions which apply not only in traditionally controlled markets such as China, but also in those known as "free" markets such as the United States. Regulations relating to investments are drafted for the benefit of policyholders, so as to avoid deceiving expectations relating to the transfer of risk.

But PlaNeS provides investment rules of a rather unique variety, at least not solely related to preserving the financial integrity of insurance companies for their policyholders. Rather than this, "Subsection K" focuses on Argentine insurers –who jointly manage a total yearly capital portfolio of approximately $11bn- as predominant investors. The purpose is to direct a portion of these institutional investments away from short-term "financial" alternatives, towards the "real economy" (the resources concerned with actually producing goods and services). The scheme is intended to inject capital into the local economy, fuelling local endeavours and ultimately contributing to local growth.

"Subsection K" establishes that insurers are to place a percentage of their total investments (except real estate investments) in "real economy" ventures. These percentages vary depending on the line of business. For example, lines of business with high claims turnover require greater liquidity, and thus cannot afford to invest large proportions of capital in longer-term "real economy" endeavours.

Perhaps the radical aspect of "Subsection K" is not the idea of putting insurer's investment capital to practical use, but rather doing so on a whole new scale. Contributions from insurers as institutional investors are not simply "encouraged" or "privileged", but mandatory. But even more important, this is not a matter of isolated good-will gestures towards poverty, but part of a wide-ranging scheme applicable to the whole market to help fuel the general economy.

As the new regulations clearly surpass the limit of providing reasonable security to policyholders, "Subsection K" could be thought of as exceeding constitutional barriers which are in place to protect private property. "Subsection K" was enacted about a year after the SSN had issued a resolution requiring insurers to repatriate all assets abroad by 31 December 2011. Shortly before then, the SSN had issued a series of resolutions changing reinsurance underwriting rules and prohibiting most cross-border reinsurance operations. If international insurers value their global networks, not only inflation, but also regulatory changes causing practical and technical difficulties – as well as a series of other individual market challenges in different countries – have to be assumed as part of the operational risk.

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