LatAm INVESTOR
The UK's only Latin America-focused investment magazine

Clear Skies for Colombian Insurance

October 20, 2016

This year the world's oldest insurance market, Lloyd's of London, launched its Colombian operations. It was a seminal moment in the development of Colombia's insurance industry as the fact that Lloyd's, a huge insurance market with a global presence, chose to set up in Colombia highlights the country's emergence as a regional hub for insurance and reinsurance.

Part of the success is down to growth. The Colombian insurance sector is expanding at around 10% per year, albeit from a small base. But fast-growing insurance markets can be found in neighbouring countries too. What adds to the Colombian story is the solid regulatory framework, deep local capacity and influx of international players.

> *What adds to the Colombian story is the solid regulatory framework, deep local capacity and influx of international players...*

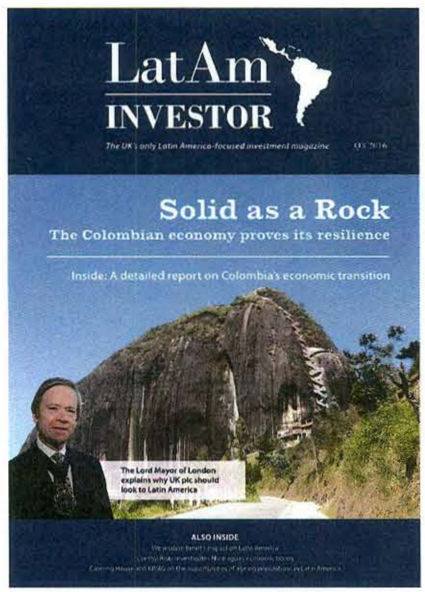
All of these factors played a part in Lloyd's deciding to open a physical office in Colombia. Indeed many reinsurers in Lloyds felt that they would be missing out if the market didn't come to the country, says Juan Carlos Realphe, Country Manager of Lloyd's Colombia. "The placement of reinsurance has changed dramatically in last five years. Five years ago 50% Colombia's reinsurance business was placed in London; nowadays it is just 25%. One reason for that is that more goes through our regional hub in Miami. But another factor is that there is more capacity and interest from local groups to meet the reinsurance demand. So with our direct local presence we hope we can increase the placement of premiums from the Colombian market to the London market."

Essentially you have a virtuous circle whereby the strength of local insurers and depth of local capacity, encourages international names to join the market, which creates yet more capacity. In the last few years large names such as Zurich and Swiss Re have come to Colombia, while local players have expanded. For example, Grupo Sura bought the Latin American operation of British insurance outfit RSA. The result is that Bogotá is turning into a regional insurance hub, says Carlos Quiñones, President of Howden Colombia, the Colombian operations of the specialist UK-based insurance broker, Howden. "We have now got 15 of the world's most important insurers and reinsurers here in Colombia and local capacity has really grown." For Quiñones the proof of this is the massive 4G infrastructure programme, which has seen $12billion worth of contracts awarded already. "When they launched the 4G infrastructure projects everyone thought that the local market would not be able to handle much of that risk, but thanks to the combination of specialist newcomers and local capacity we have ended up taking most of it."

A steady ship

Another important reason behind the success is regulation. In Colombia the insurance sector is regulated by the Financial Superintendence. Back in 2013, the regulations were modified to make it easier for international players to enter the market and Gerardo Hernandez, who heads the regulatory body, feels that events since have proved him right. "In last two years we have had new, big actors coming to the market. This is great, not just because they add capacity to the market but also because they bring expertise and innovation. As a regulator we like to see foreign investment and competition because we think it is healthy for the sector and will benefit the consumer. Insurance penetration is very low here, so there is lots of space to grow the market."

You would expect a regulator to talk up his own reforms, but the Financial Superintendence is positively viewed by the industry, with all interviewees telling LatAm INVESTOR that they feel the sector is well regulated. However, Hernandez is not resting on his laurels as he is planning another regulatory reform that will come into force at some point next year. The idea is to incorporate elements of Solvency 2 to



Local growth story

One of the basic tenets of the insurance industry is that its growth in a particular country is linked to the performance of the wider economy. That raises question marks about the Colombian insurance story as GDP growth has slowed sharply from 5% in 2013 to a projected 2.5% this year. Low oil prices, and high current account and fiscal deficits are all macroeconomic headwinds that suggest growth is unlikely to bounce back strongly in the short-term. Last year the Colombian insurance sector grew at 10% but investors will wonder if that growth can be maintained in a more sluggish economy.

Quiñones is optimistic. "The Colombian economy is losing speed, but there is room to grow in the insurance industry. Penetration is low, even by Latin American standards, so there is lots that we can do." Indeed total premiums, stand at 2.6% of GDP, while in more advanced markets like Chile it is above 4%. Meanwhile the density, or premiums per capita, is $147.

"We need to be innovative", says Quiñones, "and use the skills and expertise of our London office to develop new products for the market here. Within the industry we shouldn't just be looking to take market share of each other but grow the market by creating new products, developing alternative distribution channels and finding more clients." In particular Quiñones sees a lot of potential at the lower end of the market. "Sales of motorbikes are rocketing – they are 2.5 times greater than car sales – and that is a great opportunity for motorbike insurance. For many Colombians on lower incomes the motorbike isn't just a way to get to work it is also one of their main assets, so they are keen to protect it."

Reinsurers in Colombia are also bullish. Emmanuel Jacquemin, is the President of XL Catlin's Colombian operations, and believes that the economic slowdown shouldn't impact growth in the sector. "There are a number of structural changes that should drive demand. The ongoing infrastructure programme will continue to need local re-insurance capacity. Also, much of the insurance growth is linked to the expansion of the Colombian middle class. Even if the GDP rate is 2.5% or 3% we will still see increased demand from this new middle class for insurance products, so there is a lot to be positive about. Moreover, we have been here for 18 years, when the situation was far worse, and our goal is to be here for the long-term, so we do not get overly worried if economic growth dips for a year or two."

Another important, although difficult to measure, driver for the insurance sector is cultural attitudes. The consequence of historically low levels of insurance penetration is that much of the population is unfamiliar with the concept of, and need for, insurance. In the previous LatAm INVESTOR Colombia Report (Q1 2014) it was highlighted as a serious barrier yet this time around most interviewees feel that attitudes are changing.

"The government's social security system has helped", says *Quiñones,* "because the universal coverage means that people know they have an insurance product – albeit subsidised – so they understand what it is and the benefits it brings." Another shift is noticeable in the area of natural catastrophe cover, says Juan Carlos Realphe. "A great challenge facing Latin America is the prevalence and economic impact of natural catastrophes. Sadly in the recent Ecuadorian earthquake just 15% of losses were insured, so it creates a large burden for governments. We are keen to provide the solution to that problem." Increasingly Latin American governments are using specially designed insurance schemes to protect against specific natural threats. Colombia's government already uses some but there is scope for much more.

One of the reasons for the close investment relationship between Britain and Colombia is that they share some economic traits. For example the expertise of UK companies in oil and gas and mining meant that they were able to succeed in Colombia's burgeoning natural resource sector. Now something similar is happening in insurance. The UK has long been the world's insurance hub, so it is well-placed to participate as Colombia turns itself into a regional player.

Share this article:

LatAm INVESTOR TWEETS

LatAm INVESTOR
@LatAmINVESTOR

Colombia's Minister for Mines & Energy on what UK investors can expect from Colombia's energy sector in the future: latam-investor.com/2016/10/2680/

3h

Tracking Mexico