

Regional Financial Sector Forum - 5th Meeting

Challenges and Opportunities for the Development of the Insurance Markets in Latin America and the Caribbean

Conclusions

November 7-8, 2005 - IDB Enrique V. Iglesias Conference Center, 1330 New York Avenue NW, Washington D.C.

Within the framework of the first regional insurance forum conducted by the Inter-American Development Bank (IDB) entitled “*Challenges and Opportunities for the Development of the Insurance Markets in Latin America and the Caribbean*,” the players involved in the region’s insurance sector (Industry, Regulators, and Users) met in order to discuss and identify the factors that make insurance effective and agree upon a working agenda for the future.

In accordance with the studies related to the survey that was conducted by the IDB, ASSAL¹ and FIDES² (“*Ensuring Insurance Market Development in Latin America and the Caribbean*” http://www.iadb.org/sds/ifm/publication/gen_495_4252_e.htm), as well as other analyses, plenary discussions, and work groups, the following were the most important factors for the sector’s development: (i) Institutional Strengthening; (ii) Effective Regulation; (iii) Political, Economic, and Natural Environment; (iv) Education, and (v) Competitiveness. These factors would make it possible for the industry to strengthen and serve the poorest population. At the forum, it was also recognized that there is a great diversity in the situation of the different markets of the region on a country-by-country basis. Along these lines, a consensus was reached among industry, regulators, the IDB, and representatives of the users regarding a joint agenda for maximizing the effectiveness index of the insurance sector, which will be headed up by ASSAL, FIDES, and the IDB.

It was recognized that the effectiveness-of-the-insurance-market index obtained from the IDB research is an important instrument—which perhaps needs further research—to measure the state of the sector and its improvement.

Institutional strengthening starts with a commitment to improve institutionality through rules, and through the legal and judicial environment. Another area on which there was consensus was that standards are lacking on good corporate governance practices. Despite that, we identified a problem that creates difficulties for standardizing adequate measurements: diversity among the countries. An important point of attack is each country’s diagnostic of the effectiveness of the insurance market. This work would make it possible to focus on priority issues within the realm of each market and take *ad hoc* measures. The diagnostic would be conducted within the scope of the IDB initiative on the business climate, or as a “*stand alone*” diagnostic. Participation by other international financial entities such as the International Monetary Fund (IMF) and the World Bank would be of major significance. Institutional strengthening requires efforts from both the industry and the supervising entities.

With respect to strengthening the regulatory and supervision framework, the determination to gradually phase in application of the basic principles of the “International Association of

¹ *Asociación de Supervisores de Seguros de América Latina* (“Latin American Association of Insurance Supervisors”)

² *Federación Interamericana de Empresas de Seguros* (“Inter-American Federation of Insurance Companies”)

Insurance Supervisors” (IAIS) in the region must be emphasized, considering the differences between each market/country. This approach seeks to strengthen institutionality, as well as solvency models in accordance with the needs of each country, and independent evaluations. It was also agreed to pursue greater cooperation among regulators for the application of accounting standards and the regulation and control of reinsurance.

Great importance was placed on the political, economic, and natural environment, within which the countries of the region must continue to improve their democratic institutions and economic stability. The issue of natural disasters was emphasized—which strike at the poorest populations—along with the need to intervene in mitigation and transfer of the risk.

A task that lies ahead for the industry, “*policy makers*,” and also supervisors and the IDB is to promote measures that increase the industry’s competitiveness. A culture is needed that accepts competition. Also necessary is standardized collection of complete, reliable information from each market in the region in order to understand the degree of competitiveness and effectiveness of the insurance market. Within the framework of competition, a great obstacle is the low penetration of insurance in the region, with only 2% of total premiums worldwide. Instruments need to be developed—obligatory insurance, agricultural insurance, and insurance against natural disasters—that make it possible to reach the poorest segments, broadening social content.

Regarding the issue of training, there is agreement over the need for actuaries, well-trained supervisors, and knowledgeable, informed users. Some of the issues are regional in scope, such as the training of actuaries, who could have a regional certification. Both the insurers and supervisors believe that the lack of certified actuaries in Latin America creates concern over the methods and techniques used to calculate premiums and technical reserves. It is necessary to standardize the actuarial profession in the region.

As mentioned above, these discussion conclusions are regional in scope. Since there are also country-by-country differences in intensity and substance, the problems we are now facing depend upon each country’s insurance markets. This demonstrates that there are also distinct realities and needs, which could benefit from a discussion on efforts and lessons learned.

Constant monitoring of the insurance situation was recognized as indispensable. Said monitoring must examine the various areas of strengthening to be developed, such as institutionality; a phased-in application of basic principles; training and education; cooperation among regulators; and protection of the population.

This forum, organized by the IDB, together with ASSAL and FIDES, is the proper venue for further actions in the priority areas identified and for continued studies on factors contributing to market effectiveness. The three organizations look forward to continued progress and open, efficient consultations among their representatives, who will be in contact for future work and periodic meetings of the forum in order to contribute to the economic and social development of Latin America and the Caribbean.