Box 2

THE LATIN AMERICAN INSURANCE MARKET[1]

The banking and insurance sectors play key roles in the process of capital formation in economies, through the savings-investment nexus. The banking sector (as an intermediary between savers and borrowers) and the insurance sector (as a protector against and pooler of risks through its different business segments) support the smooth functioning of the different sectors of the real economy. In addition, Latin America is particularly exposed to significant risks stemming from climate change and natural disasters. These can have an adverse impact on activity, making it imperative that adequate insurance coverage is available for such risks.

The Latin American insurance sector in global perspective

The depth of the banking industry's penetration in an economy is typically gauged using the credit-to-GDP ratio, while for the insurance sector the usual metric is the penetration ratio (premiums/GDP). As Charts 1 and 2 illustrate, there is a close correlation between the penetration of these sectors and a country's level of economic development. In the case of Latin American economies, these sectors are broadly of a size that would be expected based on the countries' GDP per capita.

For instance, in 2022 the insurance sector's average penetration ratio in Latin America was 3.01% (1.74% in non-life insurance and 1.27% in life insurance), having followed a rising trend over the last decade driven mainly by life insurance and to a lesser extent by non-life insurance (although the latter continues to account for the bulk of the regional aggregate).[2] By contrast, the average penetration ratio in the benchmark advanced economies was 3.6% for non-life insurance and 4.5% for life insurance. However, the Latin American penetration ratio is slightly higher than that of other emerging economies. Behind this regional picture lies cross-country heterogeneity. For instance, Puerto Rico has the highest penetration ratio in the region (16.4% of GDP), due to the significant role played by insurance companies in the country's health system. In 2022, the countries with the next highest penetration ratios were Chile (4.3%), Colombia (3.2%) and Brazil (3.1%), all standing above the regional average, albeit only slightly in the case of Colombia and Brazil (see Chart 3). These stronger penetration ratios contribute to Latin America having a comparatively more developed insurance market than other emerging regions.

All told, the Latin American insurance sector has grown significantly over the last few decades. Indeed, its share in the global insurance market rose from 1.8% in 1980 to 2.6% in 2022, while in the same period Latin American GDP shrank by 2.3 percentage points (pp) as a proportion of the world economy, from 8.6% to 6.3% (see Chart 4). However, this growth has not been linear, with Latin America's share in the global insurance market shaped by the region's economic cycle. For instance, the Latin American share grew by 1.9 pp during the commodities boom (2003-2013), but shrank in periods of lower economic growth (since 2013) or during economic and financial crises in the region (e.g. the 1980s, known as "the lost decade"), a trend compounded by currency depreciation in the countries typically associated with such cyclical events.

In 2021 and 2022, stronger than expected economic growth fostered the development of non-life insurance in Latin America, while positive real interest rates gave an additional boost to life insurance, particularly in the Brazilian market which accounts for a substantial portion of the regional aggregate (34.8% of total premiums). Indeed, Brazil has made significant headway in developing its life insurance segment (putting it on a par with developed countries), thanks to public policies aimed at fostering saving through such products.[3]

Insurance activity and public policy

One significant factor behind the penetration differences across Latin American countries is the introduction of explicit public policies aimed at harnessing the insurance mechanism as a means of attaining key social objectives. An example of this is the involvement of the private

1 Box prepared in collaboration with Ricardo González (MAPFRE Economics).

2 The main insurance business lines tend to be grouped into two large segments: (i) non-life insurance, which includes motor, health, home, commercial and industrial insurance (covering risks such as fire, damage, theft or civil liability) and other general insurance (including credit, accident or funeral insurance), and (ii) life insurance, which includes protection against the risk of death, savings insurance plans and temporary or lifetime annuity schemes. For reference purposes, in 2022 motor insurance accounted for 17.1% of all premiums in Latin America (17.5% in Spain), compared with 3.4% for occupational accident insurance (0% in Spain, where it is covered by social security), 14.4% for health (16.3% in Spain) and 22.8% for other non-life insurance (28.3% in Spain). Meanwhile, the life insurance business accounted for 42.3% of all premiums in Latin America (37.9% in Spain, where it also has a low level of development).

3 MAPFRE Economics (2020), *Elements for the development of life insurance*, Madrid, Fundación MAPFRE.

Box 2
THE LATIN AMERICAN INSURANCE MARKET (cont'd)

insurance sector in social security systems, such as pensions (through the provision of annuities), compulsory health insurance coverage, health care and compensation for occupational accidents or disease (see Chart 3). The most striking case is Puerto Rico, which has a private sector-run compulsory health insurance system, similar to that in the United States. Such mechanisms also have a strong influence on penetration levels in other markets, most noticeably Chile and Uruguay, due to the role played by private insurance firms in the countries' pension systems (in both cases increasing penetration by 1.4 pp in 2022), and Colombia and Argentina, due to private sector coverage of occupational accidents.

The determinants of insurance market growth in the medium term

In addition to each country's public policies, economic growth and level of economic and social development, insurance market growth can be shaped by insurance protection "gaps", meaning areas where there is sub-optimal coverage of certain eventualities or where new, hard-to-measure risks – such as those stemming from

Chart 1
Banking sector penetration

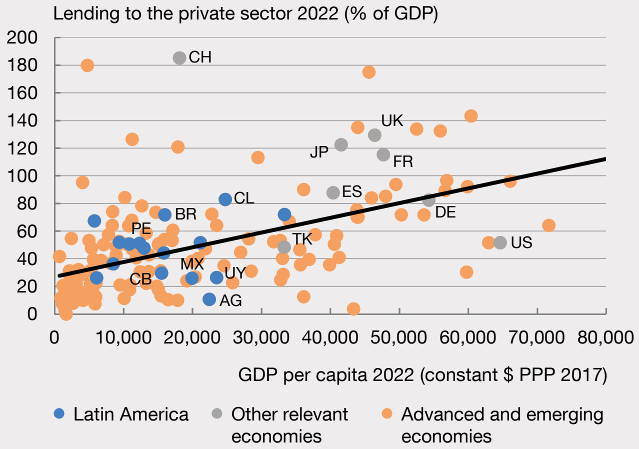


Chart 2
Insurance sector penetration

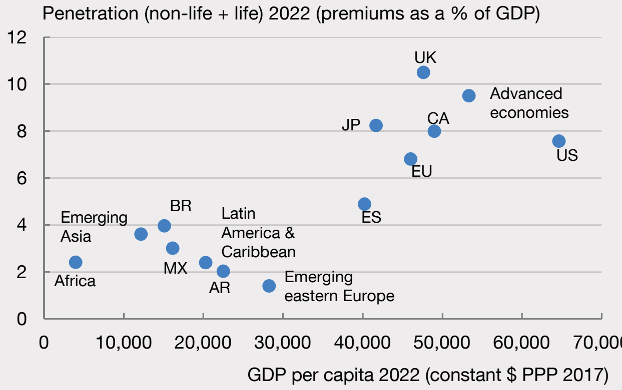


Chart 3
Insurance penetration adjusted for the effect of premiums linked to social security systems, 2022 (premiums as a % of GDP)

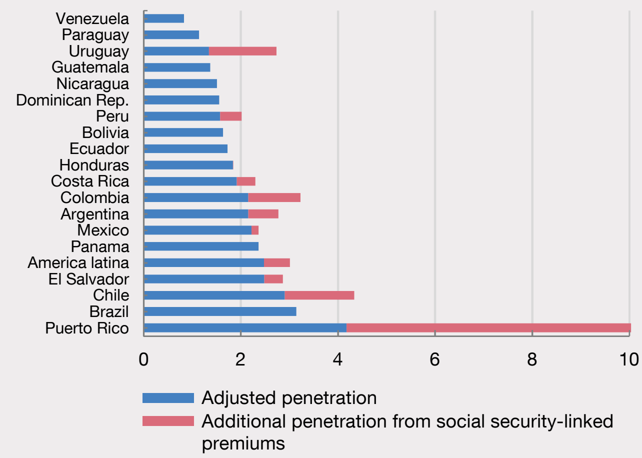
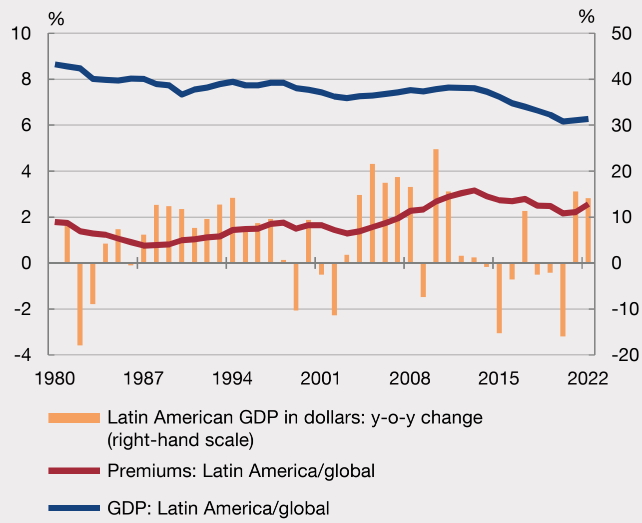


Chart 4
Share in global insurance premiums (%)



SOURCE: MAPFRE Economics (with data from the region's supervisory authorities and from the IMF, Swiss Re, EIOPA, ICEA, BoE, NAIC, LIAJ, SUSEP, CNSF and Haver Analytics).

Box 2
THE LATIN AMERICAN INSURANCE MARKET (cont'd)

climate change – have emerged that may not be fully covered by the existing insurance offering.[4] According to some studies, factors such as sustained economic growth, controlled inflation, rising disposable income, the general development of the financial system, an efficient regulatory framework and public policies aimed at driving financial inclusion and education could all bolster insurance penetration over the medium term.[5]

4 Examples of such risks are those posed by climate change (ECB and EIOPA, 2023, *Policy options to reduce the climate insurance protection gap*) and those linked to the impact of natural disasters (see, for example, EIOPA, *Dashboard on insurance protection gap for natural catastrophes*).

5 MAPFRE Economics (2023), *The Latin American Insurance Market in 2022*, Madrid, Fundación MAPFRE.