

Brazil's insurance industry could grow to three times its current size, according to MAPFRE

- Huertas believes that the economy could recover in four to six months

By Sérgio Tauhata. Source: Valor Económico

The Brazilian market has the greatest potential for growth in the Latin American insurance industry and is one of the world's top ten markets, according to MAPFRE Chairman and CEO Antonio Huertas Mejías. In an interview with Brazilian media outlet Valor, Huertas stated that this finding is part of the annual study carried out by MAPFRE Economics that calculates the insurance development potential index in 96 markets.

MAPFRE is present in 49 countries and posted revenue totaling 28.5 billion euros in 2019. The Group's assets amounted to 72.5 billion euros at the end of last year.

In addition to the potential for expansion, Brazil holds a strategic position in MAPFRE's plans as it is the Group's second largest market after Spain, which is where the holding company first originated. Last year, Brazilian operations represented 20.7 percent of the premiums issued by the Group. According to the annual balance sheet, Brazil accounted for 15.7 percent of net earnings.

Discussing the main global risks surrounding us at the moment, Huertas stated that slower and more uneven recovery than expected has appeared on the radar as a threat to be monitored in the wake of the second COVID-19 wave. "Many sectors may not withstand a more extensive crisis," he asserted. In Brazil, MAPFRE is operating in line with a projected rapid economic recovery in a period of "four to six months." Read on for the main excerpts from the interview.

Valor: In a post-pandemic scenario, how important is Brazil to the Group's plans?

Antonio Huertas Mejías: Once the crisis is over, the opportunities for our industry are wide-ranging because the insurance industry will be able to offer new solutions. During discussions with our partner in Brazil, Banco do Brasil, it was clear that there is a sizeable growth opportunity in the country's insurance penetration. With its economic capacity, large population and low product penetration, the Brazilian market could potentially grow to more than three times the current market size, according to studies carried out by MAPFRE Economics. We have just published the Global Insurance Potential Index for the various markets, and Brazil leads the way in Latin America. The study analyzed 96 insurance markets in total. Globally, Brazil ranks eighth overall in terms of potential for insurance market growth. MAPFRE was first established in Spain but is now a truly international group. Spain accounts for 30 percent of our business, with the

remaining 70 percent coming from international operations. Globally, Brazil is MAPFRE's second largest market.

Valor: What would these new solutions be?

Huertas: Digitalization has accelerated at an impressive pace all around the world and this presents an opportunity. We are seeing new risks and new threats emerge in our world. Those of us in the insurance industry must adapt and create different products, such as modular insurance solutions adapted to technology, on-demand insurance that can be activated via cellphone, and leveraging data to develop specific solutions that provide more effective protection for each person.

Valor: To what extent does MAPFRE estimate that it can grow in Brazil?

Huertas: Our performance will depend on how the second wave, and a possible third wave, will affect economies. But we're not worried because, according to our assessment, rapid recovery around the world is the most likely scenario. The global situation remains highly uncertain and that affects everyone. But insurance is an area of activity that has an advantage. Our work involves protecting our clients and, to do so, we must also protect ourselves. We have a longer-term vision than those pursuing other activities and we're always prepared to tackle complex scenarios. Insurance activities are therefore extremely resilient. Our overall situation in Brazil is very positive. Before the pandemic, we underwent a transition process whereby our partnership with Banco do Brasil changed, with the result that we're now more prepared to make the most of Brazil's economic growth. Now you may be wondering, how can I talk about growth if we're still in the middle of a pandemic? That's because we're confident that the Brazilian economy will improve once the pandemic is brought under control and vaccines and new medical procedures are rolled out. Brazil's economy could grow by more than 3 percent and even as much as 4 percent in the coming years. Unlike the financial crisis, which was slow and painful, returning to normality won't take very long this time.

Valor: Could the worsening international perception of Brazil in terms of environmental issues affect the flow of investment into the country?

Huertas: In Europe, I think that we have very little knowledge of the reality in Brazil in terms of environmental protection. The situation in Brazil [in terms of preservation] is seemingly positive. But certainly, many changes must be made to ensure greater protection in the future. Within the global Group, MAPFRE Brazil is one of the units that is most concerned with sustainability and inclusion. I think that this reflects the reality in Brazil in terms of society's concern regarding these topics. When we talk about Europe, we're talking about many different countries and interests. France [one of Brazil's biggest critics in terms of the environment] has its own stance, which we're all aware of. The concerns are generally more political than technical, and they lack a strong foundation, so I think we need more real information about what's happening and what

actions the government is taking before we can voice a more authoritative opinion. Every country has made countless mistakes in the past in terms of environmental preservation. Although this is no longer a problem in Europe, we must do our homework before we discuss other countries.

Valor: What is MAPFRE's base scenario in terms of Brazil?

Huertas: We expect the reform agenda to continue. It must continue. What the country didn't get done before the pandemic broke out, it must do now, when it begins to emerge from the crisis. The necessary adjustments to ensure economic growth must not be put to one side. It's a matter of social security, to ensure access to employment and education and to increase competitiveness. That's why reforms are important, and I think the government wants to continue along this path. In addition to continuing the reform programs, Brazil must help its companies to be more competitive. It's not enough for a company to do well in just Brazil alone. A business must be competitive internationally to ensure its longevity and future.

Valor: You mentioned a third wave. Is this a risk that needs to be monitored in case the coronavirus mutates, for example?

Huertas: In reality, we see little chance of that happening. The healthcare issue still persists, but many initiatives are already in progress. I don't think a third wave is a credible scenario at the moment. MAPFRE will recover in four to six months, and we'll generally see rapid recovery around the world. The main risk associated with recovery is the lack of balance. We could see some industries making a quick comeback, but others not so quick. For example, tourism is very important in Spain. If people don't trust the vaccine, we won't have any tourists for a year or 18 months. Brazil faces the same issues. Some industries may behave differently. That's why governments must help to protect jobs and ensure recovery across activity sectors. I have no doubt that the economy will recover.

Valor: Could the divergence between markets and the real economy pose a risk post-pandemic?

Huertas: I think that the main global financial risk relates less to markets and more to banks' performance. That's not through any fault of their own. But there is the possibility, albeit small, of a scenario in which economic recovery is relatively weak.

Within this scenario, repayments may decrease, resulting in increased default and reduced credit. This could affect the solvency of some banks. In the previous crisis, in the last decade, the banks' problem was one of solvency. At the moment, the situation remains favorable. But if clients were to stop making payments on their loans, many banks would face problems. Nonetheless, I think that with the current conditions and help from governments, families will be able to maintain payments and meet basic needs. I think it's unlikely that this risk will

materialize. It could well happen if the crisis were to persist for a longer period of time. Unlike the 10-year financial crisis, the current crisis is short-lived. In a few months, we'll have the healthcare solutions necessary to ensure that we return to normal. Some countries still face difficulties in terms of public finances. This isn't a risk in itself, as several economies are experiencing this situation. In other words, the challenge lies in ensuring that growth in public spending remains lower than the growth rate of the economy. However, we don't think that Brazil will face this issue. We believe that Brazil has scope to permit an increase in debt and be able to fund [support] measures. But it is true that Brazil must stay on track with structural reforms to ensure fiscal sustainability and, consequently, the viability of public health, education and welfare systems.

Valor: What new threats does the pandemic pose in terms of emerging risks?

Huertas: In reality, we believe that the conditions that existed prior to the pandemic haven't changed. We still have many situations that remain unresolved, including cyber risk. MAPFRE suffered a cyberattack as recently as August in Spain. But we managed to return to normal quite quickly. This is an important lesson going forward. Companies must protect their systems and not just have good technology in place, but also financial collateral to address the costs associated with cyber-related problems. Companies all around the world are still unprepared for cyber risk. Organizations don't think that protection costs should be fixed, and some don't even think that they need protection. Beyond cyber issues, natural disasters will also continue to be problematic. We'll still have to deal with storms, flooding and other disasters. After the pandemic, we'll also face new challenges, including in health protection. For example, more coverage will be required to ensure access to medical services in a number of situations, such as while people are traveling, as well as the possibility of using technology to resolve everyday situations. Another issue relates to protection for the most vulnerable companies. Discussion is ongoing worldwide about how insurance can help to ensure the continuity of small businesses after a crisis such as this one. We have solutions, but convincing governments and businesses themselves that insurance cover must be taken out in advance, when there are no obvious problems to counter, is no easy task. Discussions have been underway in Europe on how governments can create a scenario for public-private collaboration. Governments alone cannot protect businesses and people, but with our help as private players, this is indeed possible.

The European bloc, for example, established the "Next Generation" program, which is a financial instrument of around 750 billion euros allocated to help countries affected by the pandemic. The primary requirement is that funds must be used for a public-private collaboration.