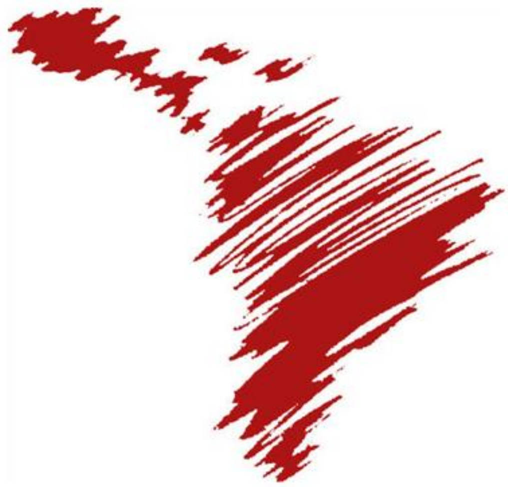
FUNDACIÓN MAPFRE

THE LATIN AMERICAN INSURANCE MARKET



Preview 2014

April 2015

THE LATIN AMERICAN INSURANCE MARKET IN 2014

1. MACROECONOMIC ENVIRONMENT[1]

The year 2014 was marked by the continuing slowdown, begun in 2011, of the Latin American and Caribbean economies, which reported a combined growth of 1.1 percent. This decline in dynamism was motivated by the minimal growth and even contraction of some of the largest economies in the region: Argentina (-0.2 percent), Brazil (0.2 percent) and the Bolivarian Republic of Venezuela (-3.0 percent). At the other end of the spectrum, the economies of Panama and the Dominican Republic experienced the highest growth (6 percent in both cases). This reduced growth also contributed to a loss of dynamism in private consumption, influenced by a labor market in which job creation stagnated and wage growth fell in real terms due to higher inflation in most of the countries in the region. All of this was accompanied by a slowdown in gross fixed capital formation and, in certain countries, the contraction of the construction sector and a general reduction in investment in machinery and equipment.

Regarding the external sector, net exports contributed to the region's growth as a result of the increase in the export of goods and services. Exports recovered most notably in Mexico and certain Central American countries, which benefited from the U.S. recovery as well as an upturn in tourism. Imports of goods and services stagnated due to the reduced dynamism of private consumption and the slowdown in gross fixed capital formation.

The regional inflation rate climbed to 9.4 percent, compared with 7.6 percent in 2013. This was particularly influenced by the vast increase in the official rates announced by Argentina (21 percent) and the Bolivarian Republic of Venezuela (68.5 percent).

The countries in the region continued to reinforce the regulation and supervision of the financial sector in line with the new external context. Macroprudential policies were also designed to stabilize the foreign exchange market, one of the most significant examples being the exchange operations implemented by the Brazilian Central Bank to mitigate the volatility of the BRL without committing its reserves.

For 2015, the ECLAC (Economic Commission for Latin America and the Caribbean) predicts a growth of 1.0 percent for the whole region, but as in 2014, there will be differences between the countries. Panama, Nicaragua and the Dominican Republic are all expected to see their economies grow, based on the anticipated increase in internal demand and, in particular, gross fixed capital formation in various South American countries motivated primarily by investment programs in infrastructure.

[1] Source: CEPAL (ECLAC). Preliminary Overview of the Economies of Latin American and the Caribbean 2014.

2. INSURANCE MARKET

In 2014 the Latin American insurance market experienced an average nominal growth of 18.3 percent, maintaining the double-digit upward trend of recent years and exceeding the previous year's variation (16.0 percent) by two percentage points. The real average growth was 5.2 percent due to the enormous impact of the high inflation rate in two countries: Argentina and Venezuela.

Nominal and actual growth in local currency

LATIN AMERICA
% VARIATION IN PREMIUM VOLUME 2014/2013

COUNTRY	Nominal Var.	Real Var.
Argentina	35.1	11.6
Bolivia	7.0	1.7
Brazil	13.8	7.0
Chile	1.6	1.6
Colombia	5.0	1.3
Costa Rica	20.2	14.3
Ecuador	2.6	-1.0
El Salvador	4.7	4.2
Guatemala	8.1	5.0
Honduras	6.2	0.3
Mexico	4.6	0.5
Nicaragua	19.0	12.3
Panama	7.9	5.2
Paraguay	14.4	7.5
Peru	12.0	8.5
Dominican Republic	7.5	5.8
Uruguay	22.4	13.0
Venezuela	66.8	1.9
Total	**18.3**	**5.2**

Discounting the effect of inflation, the greatest growth occurred in Costa Rica, Uruguay and Nicaragua. Every country in the region experienced nominal growth in local currency, with Ecuador alone reporting a real decline of one percent. Brazil, the region's largest market, obtained an actual growth of seven percent, with significant increases in the Life and Non-Life segments correcting the fall in Life premiums experienced during the first half of the year.

The appreciation of the U.S. dollar against local currencies led to a smaller growth in the premium volume for the region expressed in that currency, with reported revenues of nearly $162 billion representing an increase of 2.7 percent on the previous year. Brazil remains the indisputable leader of the region with a premium volume in excess of $70 billion. Mexico and Venezuela occupy the second and third positions respectively, the latter country having recovered the slot which it held in 2012 but lost to Argentina in 2013. The appreciation of the dollar against the Argentine, Chilean and Colombian pesos resulted in a decline in premium revenues for these markets.

Figures in millions of $: Nominal growth in $

LATIN AMERICA
PREMIUM VOLUME 2014

COUNTRY	2013	2014	Var. %
Brazil	67,338	70,128	*4.1*
Mexico	26,596	26,699	*0.4*
Venezuela	14,123	16,484	*16.7*
Argentina	16,336	16,041	*-1.8*
Chile	11,746	10,593	*-9.8*
Colombia	9,659	9,456	*-2.1*
Peru	3,335	3,473	*4.1*
Ecuador	1,659	1,703	*2.6*
Panama	1,244	1,343	*7.9*
Uruguay	1,209	1,299	*7.4*
Costa Rica	1,036	1,161	*12.1*
Dominican Republic	738	762	*3.3*
Guatemala	664	731	*10.0*
El Salvador	546	572	*4.7*
Bolivia*	371	397	*7.0*
Paraguay	356	393	*10.3*
Honduras	373	388	*4.1*
Nicaragua	156	177	*13.4*
Total	**157,487**	**161,801**	***2.7***

* Estimate based on information published in November 2014

Although some countries have yet to publish statistics per line of business for the financial year 2014, the Centro de Estudios estimates a growth rate of approximately four percent for the Non-Life lines and an increase of around one percent for Life insurance, thanks to the positive performance of the largest markets: Brazil, Mexico and Argentina. Individual and group Life insurance[2] grew slightly, while there was a decline in pension premiums due to the reduced dynamism of this segment in Mexico and the decrease in Life Annuities in Chile and Retirement insurance in Argentina. With regard to Non-Life, Automobile and Healthcare insurance were the most buoyant lines.

The aggregate net result for the insurance industry in 2014 was $13.52 billion, up by 9.3 percent on the previous year. This figure does not include the financial results for Bolivia, Panama and the Dominican Republic, which in 2013 made up 1.1 percent of the region's net income and have not yet been published. As with the premium figures, the appreciation of the dollar against most of the local currencies has influenced this outcome.

There is significant disparity between the financial results of the different countries, with variations fluctuating between 73.3 percent in Colombia and -18.6 percent in Uruguay. If the results are expressed in local currency, the only declines occurred in El Salvador (-0.9), Honduras (-5.3) and Uruguay (-7.3). The

[2] Includes VGBL insurance in Brazil.

financial result for Brazil – $7.48 billion – represents 55 percent of the total revenues for the industry in Latin America.

Figures in millions of $

LATIN AMERICA
2014 NET RESULT PER COUNTRY

COUNTRY	2013	2014	*Var. %*
Brazil	7,287	7,483	*2.7*
Mexico	1,784	1,902	*6.6*
Argentina	909	1,513	*66.5*
Venezuela	827	752	*-9.0*
Chile	595	576	*-3.3*
Colombia	311	539	*73.3*
Peru	253	320	*26.1*
Costa Rica	81	86	*6.0*
Ecuador	39	70	*79.9*
El Salvador	57	56	*-0.9*
Guatemala	76	83	*8.7*
Honduras	37	35	*-7.2*
Uruguay	53	43	*-18.6*
Paraguay	37	41	*10.9*
Nicaragua	14	17	*20.1*
Total	**12,362**	**13,517**	***9.3***

In Colombia the strong growth was motivated by the enhanced performance of Life insurance and by the return on investments, mainly driven by the buoyancy of fixed-income securities, whose assets were mostly represented by Colombian government bonds. In Argentina and Ecuador the increases were the result of the strong financial revenues obtained. Ecuador also improved its claims ratio, which served to optimize its technical profitability.