



London's terrorism insurers must adapt to take advantage of Latin America

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The diversity and size of the Latin American re/insurance marketplace means general statements are often meaningless, failing to take into account regional requirements and local market development. However, certain elements are common (to varying degrees) across many markets across the continent.

First, competition is fierce across Latin America. While this in itself does not make the region any different from markets across the globe, the combination of high catastrophe exposure and an impressive track record of underwriting discipline has allowed insurers to turn a profit with relative consistency.

Second, it is a growing market, which offers global re/insurers the potential for growth. As GDP per capita continues to increase across the region, so too will the demand for specialist re/insurance products. One area in which Lloyd's syndicates' reputation, expertise and experience can be leveraged to increase market share is terrorism. To do so requires recognition of the unique requirements and state of each country's markets.

Colombia, with a history of more than 60 years of political violence, has understandably developed a mature market for political risk and terrorism insurance. Insureds have a strong understanding of their requirements and often implement effective risk management. There is also already significant capacity in the local market.

From London, the opportunities to further increase its market share appear limited. However, by taking ourselves closer to regional markets and working more closely with them there is still scope to increase the share of the middle market reinsurance risks. Colombia is a highly competitive and developed market, particularly for political risk reinsurance. But by understanding local requirements and working more closely with brokers and clients there is still significant potential in this market.

As one of the most dynamic economies in Latin America, Peru also presents opportunities for political violence underwriters, albeit for markedly different reasons. The combination of a rapidly growing economy, with a labour-intensive commodities extraction industry at its core and a heavily unionised workforce, has made insureds increasingly aware of the need for coverage against the threat of riots and other civil commotion.

As a far more recent phenomenon, political violence products and penetration in Peru are far less than in Colombia and the market, while growing rapidly, is significantly smaller. However, so too is the presence of non-domestic carriers. As a market, Peru is dominated by local players, which have flourished through their exceptional understanding of their clients and their market requirements.

Limited exposure

But Peru also presents opportunities. Until recently, the limited exposure to political violence perils has meant there is still scope for local underwriters to develop their expertise in these product lines. Lloyd's syndicates, with their extensive experience in his sector, can be a partner in this and in turn develop their own understanding of this market.

The Peruvian market, from a London market perspective, is relatively underdeveloped. Conversely, Chile is arguably the market within Latin America that London understands best. Lloyd's itself has a long history of operating with the Chilean marketplace and the region's brokers and carriers have a good understanding of Lloyd's and its requirements. Insurance buying is sophisticated; insureds understand their risks and requirements and insurance as a percentage of GDP is one of the highest in Latin America.

The combination of often favourable rates, high cat exposures, large industries and large insured values has made Chile a mainstay of Lloyd's underwriters' books for some time and there is still potential. Similar to Peru, civil commotion and political violence are a threat, particularly to the copper mining industry, and by increasing ease of access, Lloyd's can furnish a growing demand.

Finally, from a terrorism and political violence standpoint, Mexico, by virtue of sheer market size and the demonstrable risk of attacks, makes this a region where demand for specialist cover is likely to continue to grow.

Latin America is understandably and correctly viewed by many as an area of tremendous growth potential. Realising this potential will require adapting methods and changing processes. The markets that will be successful will be those that move closer to and better understand the risks, develop products to fit local demand and cultivate local relationships which complement long-standing partnerships.

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