

# Critical Factors for the Development of Insurance Markets in Latin America

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# Regional Approach

- Latin America shares a common language, common historical roots, and similar legal and cultural frameworks.
- The similarities between these countries facilitates a regional-level evaluation of critical issues in the insurance markets and a comparison of approaches in the region
- Common cultural and institutional characteristics among these countries may facilitate development through regional initiatives for cooperation and collaboration.

# Areas of research interest

- Role of insurance in economic development
  - Source of capital market development
  - Vehicle for savings
  - Facilitating commerce
  - Offering greater resilience against natural catastrophes
- Performance of insurance markets and of supervision
  - Consumer satisfaction with insurance
  - Efficiency and effectiveness of insurance industry
  - Efficiency and effectiveness of supervision

# Objectives of Research

- Understand what factors drive the development of insurance markets
- Complement information gathered by FSAP
- Compare and contrast the views of supervisors, insurance companies, and consumers regarding critical issues for insurance markets

# FSAP

- The FSAP process evaluates to what degree countries comply with international standards
- FSAP is primarily focused on regulators' observance of international standards of practices and processes.

# Nature of the Survey

- Survey will be a “self-assessment”, and will collect information from 3 different perspectives:
  - Consumers
  - Supervisors
  - Insurance Companies
- Survey is based on numerous indicators and aspects of performance, relationships, association, causality
- Survey gathers information on a variety of areas considered critical for the effectiveness of insurance operations and supervision.
- Joint Effort Public-Private: IADB, Fides, IIF, Assal

# Contents of Consumer Survey

- Socioeconomic characteristics of individual
- Types of insurance purchased by individual
- Alternative mechanisms used by individual to protect him/herself from risks
- Means by which decision to purchase insurance was made
- Importance and relevance of different information to the decision to buy insurance
- Importance and relevance of varying personal circumstances to the decision to buy insurance
- Satisfaction with insurance products and services
- Confidence in insurance products, markets, and supervision
- Knowledge of insurance products and how they work
- Ratings of accessibility, efficiency, and reliability of insurance company representatives and insurance market supervisors
- Ratings of different insurance products in terms of personal benefits

# Contents of Surveys for Supervisor and FIDES

- Threats facing insurance market profitability
- Causes of insurance company insolvency in markets
- Familiarity of supervisors with IAIS core principles
- Factors impeding development of the insurance market
- Resources available to supervisor and to insurance market
- Judicial, legal, and enforcement institutions and their impact on insurance
- Adequacy of capital markets
- Roles played by supervisor with respect to regulation of prices, technical reserves, and other aspects
- Availability, use of, and quality of actuaries, auditors, loss adjustors
- Underwriting, reserving, loss-adjusting practices
- Types of market statistics maintained
- Evaluation of insurance company operations
- Evaluation of supervisory activities



# Contents of Survey for Insurance Companies

- Key threats facing insurance market profitability
- Key causes of insurance company insolvency in markets
- Factors impeding development of the insurance market
- Judicial, legal, and enforcement institutions and their impact on insurance markets
- Adequacy of capital markets
- Underwriting, reserving, loss-adjusting practices
- Types of market statistics maintained
- Evaluation of insurance company operations
- Evaluation of supervisory activities

# Methodological Issues:

## Long Journey

- This is the first effort of the IDB to assess insurance markets in the entire region
- This is the first survey known to us that attempts to use scaled questions to assess insurance market and regulatory performance

# Limitations

- Many limitations:
  - Selection of “users”
  - Responses of “users”
  - Validity
  - Reliability
  - Sample size
  - Sample for groups
  - National vs. Regional
  - It assumes access to the web-based

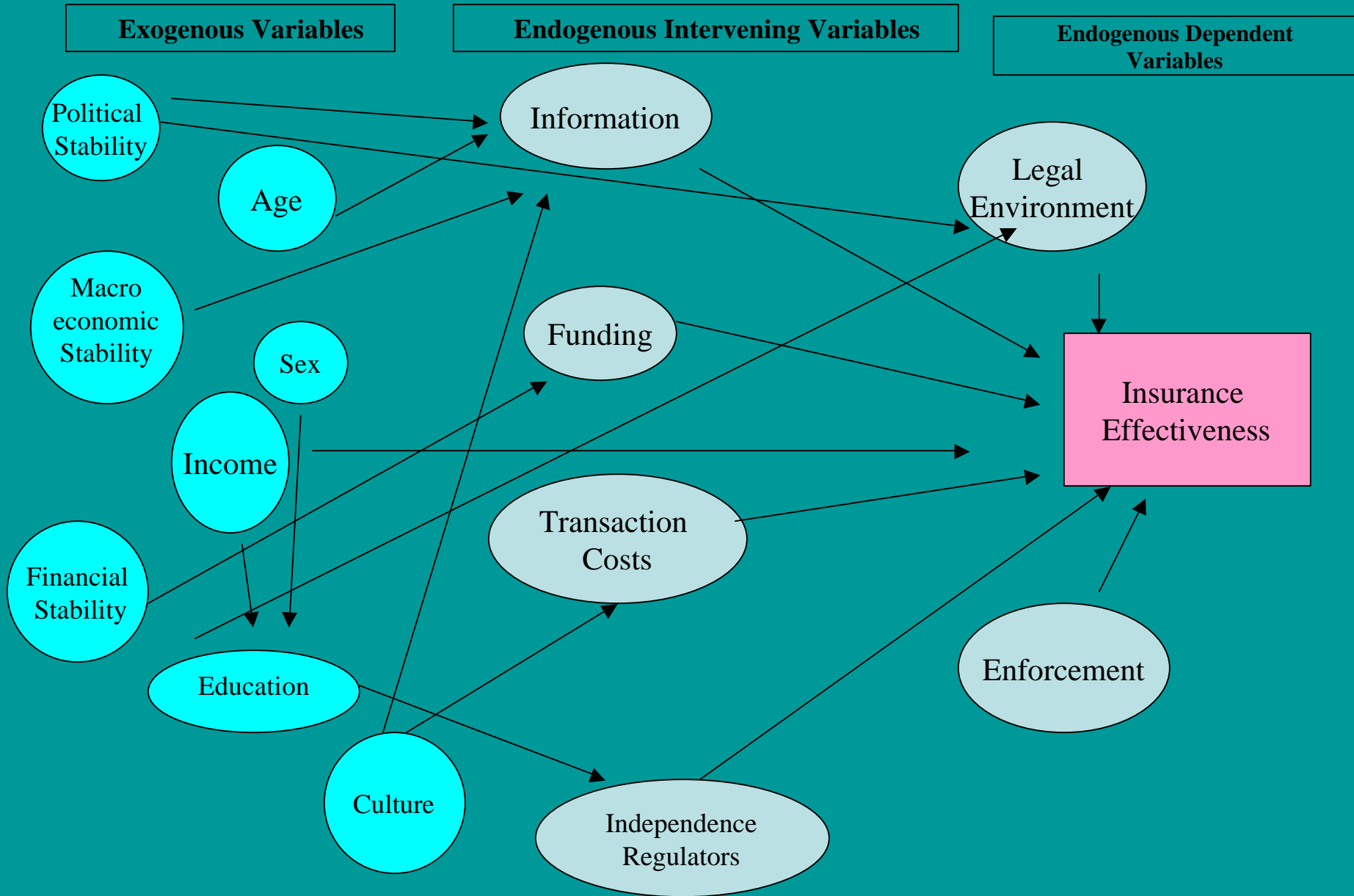
# Results: analysis of responses

- The survey results collected will be broken down by country and market characteristics
- Comparisons, averages, and benchmarks, along various dimensions of performance will be calculated for the region
- Statistical analysis will be used to explore potential causal relationships between aspects of insurance markets and their environments

# Results: analysis of quantitative data with qualitative responses

- Quantitative data from each market will be integrated with the qualitative survey results to cross-examine the information collected from each source
- Several research papers are planned using the data collected
  - the role of insurance in economic development
  - institutional and environmental factors affecting insurance market performance
  - compliance with international standards versus indicators of industry and regulatory performance

# Structural Model for Lac Insurance Markets



# Results: conference

- A conference on “*Critical Factors for the Development of Insurance Markets in Latin America*” will be organized in 2005
- Review results of the Survey
- Complement and contrast with studies, analysis, and experiences outside the survey
- Convene public and private sector leaders to discuss critical issues, and regional approaches to address them