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Editor's Notes

by Kevin M. Law

We are fortunate once again to present in this issue of *International Section News* an outstanding selection of articles of interest to actuaries involved with international business including material on a number of different countries and/or regions—Asia, Italy, Taiwan, Ireland, Brazil, Philippines, Spain, and Latin America.

Given the quantity of material in this edition, I will be deliberately brief in this column. I would like to express my appreciation to all of the authors for their contributions, and in particular to Ronald Poon-Affat for his timely lead article on the recent health insurance legislation in Brazil. This is Ronald's second article on Brazilian private health insurance and we look forward to receiving additional material from him for future newsletters that covers various aspects of the insurance industry in Brazil.

As my term is now expiring on the Section Council, I would like to take this opportunity to thank my fellow Council members for their contributions to the Section and for their support in my roles as newsletter editor and as the Chairperson for 1995–1996. Special thanks and appreciation are also due to the excellent, hard-working SOA staff that make possible our activities, functions, and publications. In particular, I would like to personally thank Barbara Simmons, Susan Martz, and Lois Chinnock, with whom I have worked closely over the last several years.

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Foreign Insurance Investors in Latin America: Can They All Survive and Prosper?

by Camilo J. Salazar

Latin America has become an integral part of the globalization process. Multinational insurance companies and international financial groups are making strategic investments in the region equal in size to other investments in North American, Europe, or the Far East.

As regional economies have opened, the transfer of ownership in the financial services industry from local hands to foreign hands has been fast and decisive. In the last few years, the growth in the supply of insurance products and carriers has been impressive. This article explores some issues related to the growth in supply capacity, the relatively slower pace of growth in consumer demand for these products, and the factors that companies can identify in forming their strategies to achieve their objectives.

When a multinational insurance company evaluates an expansion strategy in Latin America, or any other region, it typically relies on data such as:

- Political stability
- Key economic data (economic policy, GDP, trade balance, income per capita)
- Size of the market, labor force
- Demographic profile of the country
- Macroeconomic indicators (inflation, currency, interest rates)
- Insurance penetration and premium density as a percentage of GDP
- Insurance industry regulation.

For many countries in the region, these macro indicators point to a new frontier of future potential and growth. Premium penetration and premium density numbers in these countries make it clear that there is quite a gap to fill.

Understanding the local market context in which these indicators are present today is critical to understanding how quickly these markets will be able to fulfill their future potential tomorrow.

Background

Until the late 1980s, the economic development strategy applied by almost every country in the region was characterized by a high level of protectionism and import-substitution. The state exercised generalized control over all economic activity.

Two main events can perhaps be credited with forcing a dramatic change in economic policy in the region: (1) the debt crisis of the 1980s which exposed the failure of the economic models and (2) the fall of the "iron curtain" and disintegration of the Soviet bloc.

Latin America was a strategically important battleground for the cold war, both on an economic as well as political basis. Under the label of "nonaligned countries," many countries in the region played the United States against the Soviet bloc as a source of foreign credits and economic aid, which helped mask the failure of their own economic policies. With the collapse of the Soviet bloc, the only alternative was to attract foreign capital through open economic development.

The economic transformation of the region has been brought about by a radical change in economic policies in most Latin American countries, with a clear focus toward open and market-oriented economies in which the state plays a very different role than before.

Supply and Demand

The rapid influx of foreign capital and presence has not been matched by an equally fast growth in demand for insurance products. This is not to say that insurance activity is not growing. Both life and property and casualty premiums are growing at rates higher than GDP growth, but there is a mismatch of supply and demand at this point.

On one hand, the supply of foreign carriers and new companies has occurred very quickly. Aided by regulatory changes and the lifting of foreign