

Argentina Tempts Investors

But In Past 18 Months, New Insurance Regulations Have Squeezed Many Risk Management Paths

By Kate Smith

As the fourth-largest market in one of the fastest-growing regions in the world, Argentina, in theory, should be a hot market. It's large, it has a strong history and it has an educated population — all of which make it attractive. But the market's potential is being hindered by a regulatory environment that makes operating in Argentina more than a little challenging.

Latin America Market Spotlight



In the past year and a half, regulators have forced insurers to repatriate investments kept abroad, restricted the purchase of reinsurance in international markets, and forced insurance companies to invest a portion of their holdings into state-run infrastructure projects.

Market Distortions

“There is widespread concern that the new insurance regulations will greatly hamper the industry’s ability to effectively manage liquidity, investment and inflation risk,” said James Gillard, assistant vice president of economic and industry research for A.M. Best. “Increased capital controls and the new investment guidelines for insurance companies negatively impact Argentina’s policy framework and increase market distortions.”

As investors clamor to get into Latin America, Argentina is missing out.

“Recent regulatory actions in Argentina have further worsened the operating environment in the country,” said Andrea Keenan, vice president of research, ratings criteria and relations for A.M. Best. “During a time when Latin American

countries are all competing in attracting high-quality investment dollars, this makes the domicile relatively unattractive, discouraging new investment.

Unpredictable Returns

“So, while the country was long known as a regional leader and globally significant and economically attractive, it has become a market that cannot possibly produce returns that adjust for the risk to companies. The result will be a period of stagnation, so any business plan of a company there will have to be with long-term objectives, as short-term returns are unpredictable.”

In addition to the regulatory challenges, insurers face significant pricing competition, particularly in the property, motor and liability lines that account for 90% of nonlife premiums. In its Detailed Assessment of Observance of Principles for Insurance Super-



Keenan



Gillard

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vision, the International Monetary Fund raised concerns that pricing discounts could affect reserves.

“Excessive premium discounting by insurance companies (particularly in [motor third party liability]) is creating risks that insurance companies may be under-reserved and may not be able to meet future liabilities,” the report said. “Many small-size insurers are suspected of being under-reserved. Under-reserving is probably frequent among companies specializing in motor insurance because of their adoption of risky rebate policies. This results from low underwriting skills among many direct underwriters as well as from fierce competition.”

Although Argentina’s market has its share of negatives, it also has some very compelling positives.

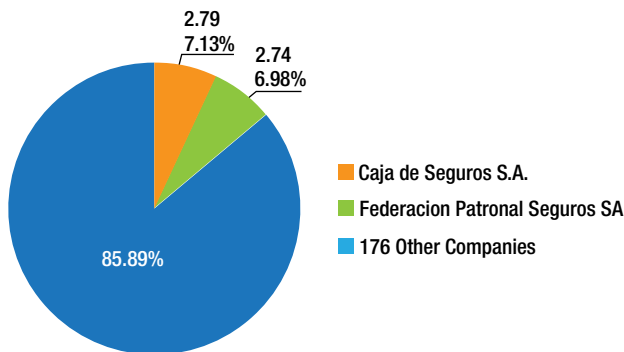
“At its foundation, Argentina is still a strong country with an educated population and strong history, so its longer term outlook can still be optimistic,” Keenan said.

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Argentina: Net Premiums Written

The two topped-ranked companies accounted for more than 14% of the market’s net premiums among a pool of 178 companies.

(Argentine pesos billions; US\$1 = 4.103 Argentine pesos*)

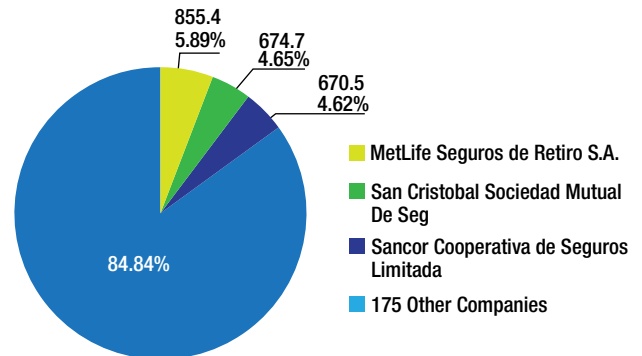


* As of June 30, 2011
Source: BESTLINK

Argentina: Capital & Surplus

The three topped-ranked companies accounted for more than 15% of the market’s capital & surplus among a pool of 178 companies.

(Argentine pesos millions; US\$1 = 4.103 Argentine pesos*)



* As of June 30, 2011
Source: BESTLINK

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Argentina's Top Companies

Ranking order of companies is based on total assets.* Shown are the top 25 among a pool of 178 companies. (Argentine pesos thousands; US\$1 = 4.103 Argentine pesos*)

AMB	Company	Total assets	Rank	Capital & surplus	Rank	NPW	Rank
77565	Federacion Patronal Seguros SA	4,941,204	1	482,971	5	2,735,731	2
77661	HSBC Life Seguros de Retiro (AR)	3,458,162	2	492,111	4	83,279	72
78863	Origenes Seguros de Retiro S.A.	3,373,669	3	326,432	8	31,024	102
77752	MetLife Seguros de Retiro S.A.	3,282,921	4	855,428	1	5,857	139
86957	Caja de Seguros S.A.	2,558,997	5	459,234	7	2,794,770	1
77659	Estrella SA Cia Seg Retiro	2,446,146	6	132,439	28	462,427	28
77502	Zurich Intl Life LTD Sucursal Argentina	2,086,798	7	318,915	9	161,740	56
77400	San Cristobal Sociedad Mutual De Seg	2,026,970	8	674,730	2	1,209,581	6
77743	Nacion Seguros de Retiro S.A.	1,976,384	9	162,842	25	120,411	66
77417	Sancor Cooperativa de Seguros Limitada	1,956,202	10	670,518	3	1,310,304	5
77433	Segunda Cooperativa Limitada Seguros	1,701,455	11	462,980	6	965,042	10
77538	Prevencion ART S.A.	1,673,791	12	272,037	14	1,760,220	3
77526	QBE Argentina ART SA	1,610,134	13	303,083	12	944,085	13
77527	Consolidar ART S.A.	1,478,496	14	227,755	18	1,111,494	7
86948	QBE Seguros La Buenos Aires S.A.	1,452,726	15	263,121	16	1,384,618	4
77500	Provincia Seguros S.A.	1,348,822	16	271,561	15	948,813	11
77362	Asociart Aseguradora Riesgos Trabajo	1,127,592	17	202,424	21	944,918	12
77402	Zurich Argentina Cia de Seg SA	1,086,620	18	235,779	17	770,575	16
84212	Mapfre Argentina Seguros S.A.	1,083,429	19	273,657	13	977,837	9
84211	Mapfre Argentina A.R.T. S.A.	1,005,593	20	191,052	24	1,016,279	8
77528	Caja ART ART SA	1,003,449	21	158,746	26	886,798	14
77751	San Cristobal Seg Retiro SA	989,357	22	103,545	43	42,778	89
77411	Meridional Cia Argentina de Seg SA	910,947	23	116,635	34	540,734	25
77539	Provincia ART S.A.	891,763	24	83,389	50	761,518	17
77346	Allianz Argentina Compania de Seguros SA	861,634	25	192,222	23	492,374	26

* As of June 30, 2011

Source:  BESTLINK