

Ecuadorean Upside

Expanding Middle Class, Urban Concentration
Have Captured the Attention of Liberty Mutual

By Kate Smith

When Liberty Mutual decided to enter the Ecuadorean market, it saw plenty of upside in this coastal country in the northwest of South America.

“Ecuador is a country of 15 million people where 75% live in urban areas,” said Victor Meintjes, President of Liberty Mutual’s Latin American operations. “The middle class is growing in an economy that is expanding strongly (8% in 2011, 5% in 2012) even in a weak international growth environment. This combination, plus the fact that the insurance penetration remains relatively low compared to other Latin American countries, makes us believe that there is a strong potential for an increase in the demand for insurance as more people enter the economically active sector. Another factor is that Ecuadorean insurance in general is a profitable market in almost every line of business.”



Last September, the Boston-based insurer purchased Panamericana de Seguros del Ecuador S.A. and Cervantes S.A. Compañía de Seguros y Reaseguros, both of which offer property/casualty products as well as group life and health insurance. Their combined property/casualty market shares positioned Liberty Mutual as the fifth-largest non-life insurer in Ecuador.

Last year was a busy year for consolidation in Ecuador, according to Manfredo Ferrada, president of the Ecuadorean Federation of Insurance Companies. In addition to Liberty Mutual’s entrance into the market, Ace acquired Rio Guayas and Equinoccial acquired Produseguros.

“The Ecuadorean market is attractive from a profitability standpoint for market leaders with diversified portfolios like Pan-American Life,” said Ferrada, the country manager for Pan-American Life Ecuador. “Market leaders that can benefit from scale and provide policyholders with better products at a lower price to consumers, while maintaining profitability, are likely to thrive, while smaller participants are likely to be acquired or remain niche players. In fact, recent regulatory and competitive pressures have led to consolidation.”

Ferrada expects consolidation to continue, in part due to a 2011 Antimonopoly Law that forced banks to divest their interest in insurance companies.

“Banks have sold their interest in the insurance companies they once owned,” he said. “The Antimonopoly Law is likely to result in further consolidation by insurance companies.”

New regulations relating to capital reserve requirements also could alter Ecuador’s insurance landscape, which currently includes 42 companies.

“The insurance market is expected to change as recent regulations intended to modernize the insurance industry will probably reduce the above-mentioned amount of companies over the coming years,” Meintjes said. “New capital

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Recent Announcements From A.M. Best Co.

March 21, 2013

A.M. Best Assigns Ratings to Zavarovalnica Triglav d.d. and Pozavarovalnica Triglav Re d.d. Ljubljana

March 20, 2013

A.M. Best Upgrades Ratings of American Resources Insurance Co. Inc.

March 19, 2013

A.M. Best Withdraws Ratings of Jamaica International Insurance Co. Ltd.

A.M. Best Maintains Under Review Status on Ratings of The Phoenix Cos. Inc. and Its Subsidiaries

A.M. Best Assigns Ratings to Palms Insurance Co. Ltd.

A.M. Best Affirms Ratings of Hallmark Financial Services Inc. and Its Subsidiaries

March 18, 2013

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A.M. Best Downgrades Ratings of National Automotive Insurance Co.

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A.M. Best Affirms Ratings of Guild Insurance Ltd.

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requirements and reinforcement of compliance policies will create great opportunities in the M&A ground that ultimately will compress the market. Further there is a more active participation of international players setting new standards in the market for customer service, technology and sales processes. We believe that this is what makes this market interesting in the near future.”

As the market continues to evolve, experts say opportunities abound. On the life side, Ferrada said he expects individual life, group life and major medical to grow in 2013.

“These areas are more conservative in terms of pricing than health products,” he said. “Another important area that we are looking forward to growing is personal accident, which has recently been launched.”

Meintjes see growth potential in both personal and commercial lines.

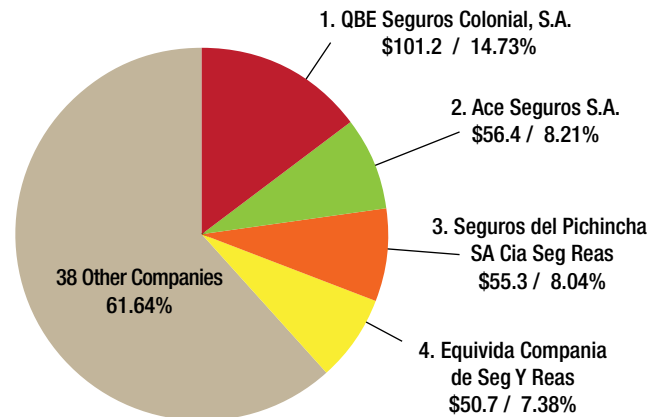
“We believe there is a great opportunity to develop both personal lines and commercial lines further for the small and medium enterprises,” he said. “Lack of appropriate service standards opens a window to compete by having a service orientation and offering better products and services than the rest of the market. An example of this is auto insurance; a line of business with great potential, where we believe that by incorporating best practices from other markets and innovating in product development, coverage and claims handling we can make a difference in the market place.”



Meintjes

Ecuador: Net Premiums Written

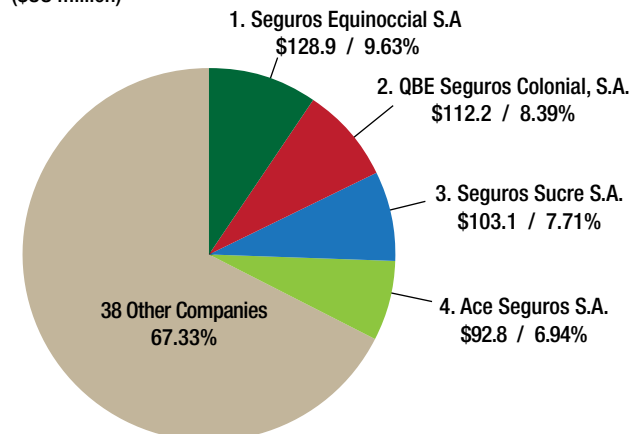
Based on statistics as of Dec. 31, 2012, the top-four ranked companies accounted for nearly 40% of the market's net premiums among a pool of 42 companies. (\$US million)



Source: BESTLINK

Ecuador: Total Assets

Based on statistics as of Dec. 31, 2012, the top-four ranked companies accounted for about one-third of the market's assets among a pool of 42 companies. (\$US million)



Source: BESTLINK

Ecuador's Top Companies

Ranking order of companies is based on total assets.* Shown are the top 25 among a pool of 42 companies. (\$US 000)

AMB	Company	Total assets	Rank	Capital & Surplus	Rank	NPW	Rank
77771	Seguros Equinoccial S.A.	128,866	1	22,761	5	40,053	5
77225	QBE Seguros Colonial, S.A.	112,203	2	26,126	3	101,235	1
77253	Seguros Sucre S.A.	103,085	3	21,536	6	32,508	7
77217	ACE Seguros S.A.	92,805	4	31,607	2	56,427	2
77218	AIG Metropolitana Cia de Seg y Reas	64,328	5	32,051	1	37,587	6
77251	Seguros del Pichincha SA Cia Seg Reas	59,202	6	23,832	4	55,301	3
77254	Seguros Unidos S.A.	58,117	7	13,537	8	14,860	14
77767	Panamericana Ecuador SA Co	47,660	8	11,350	11	31,032	8
77221	Mapfre Atlas Compania de Seguros SA	43,423	9	12,979	9	20,282	11
77256	Latina Seguros y Reaseguros C.A.	41,587	10	9,159	15	26,858	9
77233	Equivida Compania de Seg Y Reas	39,177	11	10,959	12	50,706	4
77220	Aseguradora del Sur C.A.	38,240	12	12,173	10	19,424	13
77229	Seguros Oriente S.A.	37,090	13	5,902	21	10,629	20
77223	Bolivar Compania de Seguros del Ecuador	34,342	14	9,516	14	5,681	25
84983	Compania de Seguros Condor S.A.	33,881	15	19,076	7	3,873	30
77252	Rocafuerte Seguros S.A.	29,304	16	8,797	16	12,921	16
77230	Confianza Compania Seguros Reaseguros SA	28,901	17	6,937	18	3,012	34
77234	Generali Ecuador Cia de Seg SA	27,919	18	8,242	17	14,314	15
77246	Union Cia Nacional de Seg SA	26,561	19	6,567	20	1,188	39
92301	Cia de Seg Generales PRODUSEGUROS SA	25,289	20	5,901	22	2,797	35
77235	Hispana de Seguros S.A.	24,180	21	5,756	23	22,303	10
77766	Pan-American Life Insurance Company ECB	21,806	22	10,583	13	12,133	17
77245	Interoceanica CA de Seg y Reas	21,548	23	3,223	33	5,599	27
77247	Constitucion C.A. Compania de Seguros	19,483	24	3,607	30	2,685	36
77219	Alianza Compania de Seg y Reas SA	19,393	25	4,255	26	5,611	26

* As of Dec. 31, 2012
Source: BESTLINK