

## In the Balance

### Venezuela's Insurance and Business Markets May Be Impacted by Coming Post-Chavez Election

By Kate Smith

The direction of Venezuela's future will be determined in a week, when voters will decide whether to follow the socialist path set forth by late President Hugo Chavez or change tacks.

#### Latin America Market Spotlight



Chavez, a popular leader who won re-election in 2012, died of cancer on March 5. Prior to undergoing medical treatment in Cuba last December, he named his vice president, Nicolas Maduro, as his preferred successor. Maduro will face opposition from Henrique Capriles, who is seen as having a more business-friendly regime, in a presidential election on April 14. Though the country faced uncertainty for two years while Chavez fought cancer, the leader's death has ushered in further uncertainty, particularly for businesses.

"The concern now is over the outcome of the election and whether the result will be followed by violent protests," said Stephen Ixer, a Latin American expert and associate at the U.K. law firm of Edwards Wildman. "There is the potential for a more business-friendly regime, led by Henrique Capriles, to take over, but this looks unlikely at present. Maduro is most likely to triumph over the opposition at the elections being held on April 14 and he is widely expected to continue Chavez's socialist policies.

"Either way, no one knows what a future without Chavez looks like, and businesses and insurers must continue to monitor the situation closely. Even if Chavez's socialist party remains in power, which seems

the most likely scenario, there may be a changing power structure within the party. This, in turn, may lead to new political appointments and business opportunities that open or close as a result of the new appointments."

The transition of power could increase political risks in the region and interrupt business for some of the country's largest sectors.

"Oil facilities and the heavy industries producing steel and aluminum could face disruption if the transition period is not smooth," Ixer said. "Legislation affecting the industry, such as the consumer-friendly 2010 Insurance Activity Law, will not be a priority for change by any new government, although new appointments at the Insurance Superintendency could see a different approach to relations with industry. Another area to watch is business from the government: public sector policies are currently being 'migrated' to state-owned insurers in accordance with the 2010 Insurance Activity Law. Many of these contracts are the largest and most lucrative in the market, such as group health cover for the various government ministries."

Uncertainty, however, is nothing new for businesses in Venezuela.

"The country has natural resources and a relatively educated population, so it has the elements there that are key to having a strong and developing economy," said Andrea Keenan, vice president of research, ratings criteria and relations for

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A.M. Best. “Government intervention is one of the major structural problems that would face a company in any industry. So it’s not so much that the insurers are facing industry challenges as it is something much broader than that. There are national economic and political challenges to operating a private company in Venezuela.”

One such challenge is the lingering threat of government nationalization of private companies. The Venezuelan government overtook the country’s fourth-largest private insurer, Seguros La Previsora, in 2010.

“Concerns that arose during the Chavez presidency remain, particularly the government’s tight grip on the economy and its penchant for nationalization, such as with Seguros La Previsora and Seguros Horizonte,” Ixer said. “Strict exchange controls and high inflation make for a very difficult operating environment. Upward cost pressures, particularly for imported replacement parts in the auto market, means that insurers are facing a squeeze.

“They may be unable to pass on all the increases through higher premiums because of concern about scrutiny from the regulator, which now has the power to review policies and premium levels, or because consumers are unable to swallow higher prices for insurance. Other issues such as high crime and a poor judicial system do not encourage companies to open branches in the country.”

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### Venezuela’s Top Companies

Ranking order of companies is based on total assets.\* Shown are the top 25 among a pool of 45 companies. (Venezuelan Bolivar fuerte 000; US\$1 = 4.289 Venezuela fuerte\*)

AMB	Company	Total assets	Rank	Capital & Surplus	Rank	NPW	Rank
84357	Seguros Caracas de Liberty Mutual CA	10,583,016	1	2,971,063	1	7,824,070	1
78134	Mercantil Seguros, C.A.	6,672,292	2	2,236,435	2	6,718,441	2
78134	Mapfre La Seguridad C.A. de Seguros	4,107,467	3	1,279,769	4	3,853,827	4
77603	C.N.A. de Seguros La Previsora	3,307,824	4	792,470	6	3,126,355	5
78130	Seguros Horizonte C.A.	2,940,789	5	1,081,201	5	4,783,390	3
78121	Seguros Horizonte C.A.	2,682,969	6	1,561,136	3	1,867,890	8
77601	Banesco Seguros C.A.	1,703,074	7	608,735	11	1,274,915	10
78158	Zurich Seguros S.A.	1,641,400	8	495,785	12	997,427	13
78138	Seguros Constitucion C.A.	1,632,578	9	637,494	10	973,701	14
77606	C.A. de Seguros La Occidental	1,628,033	10	639,467	9	2,743,461	6
78123	Seguros Altamira C.A.	1,518,279	11	657,911	7	2,387,479	7
87915	Estar Seguros, S.A.	1,303,667	12	483,895	13	1,477,583	9
78135	Seguros Piramide, C.A.	1,068,354	13	463,428	14	873,215	15
78151	Seguros Nuevo Mundo S.A.	1,064,209	14	645,462	8	407,460	21
77604	C.A. Seguros Catatumbo	823,014	15	230,856	18	648,923	16
78120	Venezolana de Seguros y de Vida C.A.	683,103	16	275,180	16	1,120,389	12
78132	Seguros Federal, C.A.	672,369	17	125,516	28	1,270,597	11
78152	Seguros Qualitas, C.A.	654,124	18	314,262	15	553,909	17
78126	Seguros Canarias de Venezuela C.A.	579,725	19	98,767	32	361,200	23
78137	Seguros Los Andes, C.A.	548,793	20	139,203	25	442,010	19
78124	Zuma Seguros C.A.	543,406	21	64,875	37	165,757	32
77600	Aseguradora Nacional Unida Uniseguros SA	538,811	22	122,260	29	397,822	22
78128	Seguros Caroni C.A.	517,281	23	211,894	20	524,265	18
78148	Proseguros, S.A.	473,350	24	151,932	23	248,478	27
78157	Seguros Universitas, C.A.	465,555	25	217,370	19	280,985	24

\* As of Dec. 31, 2012  
Source: BESTLINK

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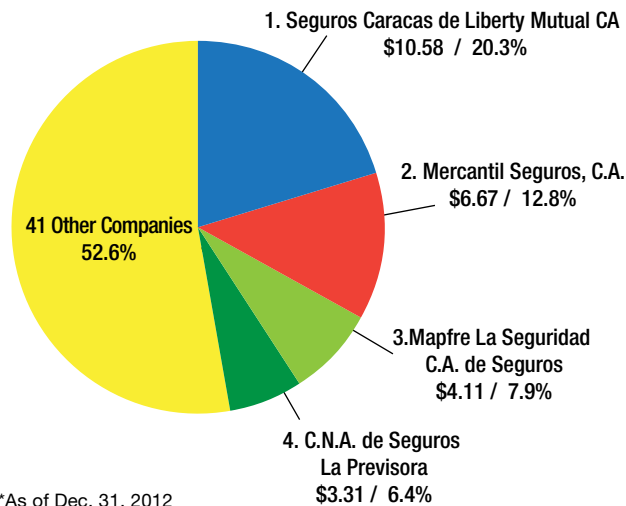
Despite the ups and downs Venezuela has been facing throughout Chavez's illness and now leading up to its presidential elections, the insurance market has been resilient. Net premiums written more than doubled from 2009 to 2012, growing from 23.23 billion Venezuelan bolivar fuerte (US\$3.7 billion) in 2009 to 47.76 billion Venezuelan bolivar fuerte in 2012, according to BestLink, A.M. Best's online financial system.

"Venezuela's economy has also been growing over the last two years, posting over 4% GDP growth in both 2011 and 2012," Ixer said. "High government spending ahead of the 2012 presidential elections helped, as much of the economy is reliant on the public sector recycling Venezuela's vast oil revenue. Insurers also benefited to some extent.

"Venezuela's insurance industry has a strong history. Brands are well-established and there is good public awareness of insurance products, with one of the highest penetration levels in the region. Most market players are not new entrants who are scared off by the instability; they are established companies which take a long-term view of the country. The strong history has bred good market knowledge and insurers have adapted their business models and products to suit the circumstances of the country."

### Venezuela: Total Assets

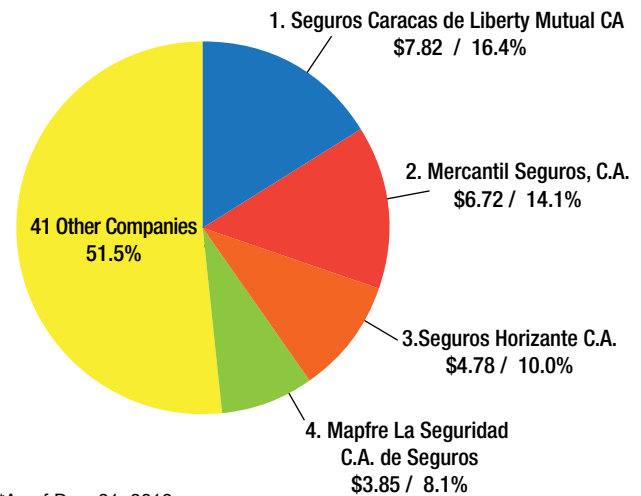
Based on statistics as of Dec. 31, 2012, the top-four ranked companies accounted for about 47% of the market's assets among a pool of 45 companies.  
(Venezuelan Bolivar fuerte in billions; US\$1 = 4.289 Venezuela fuerte\*)



\*As of Dec. 31, 2012  
Source: BESTLINK

### Venezuela: Net Premiums Written

Based on statistics as of Dec. 31, 2012, the top-four ranked companies accounted for nearly 49% of the market's net premiums among a pool of 45 companies.  
(Venezuelan Bolivar fuerte in billions; US\$1 = 4.289 Venezuela fuerte\*)



\*As of Dec. 31, 2012  
Source: BESTLINK