

BUSINESS INSURANCE[®]

WORLD

CAPTIVE FORUM

Latin American Captives

#WorldCaptiveForum

JANUARY 30 – FEBRUARY 1, 2019

Our Panel

Speakers:

- Bartolome Massot | Head of Latin America, Quest Management Services
- Javier Mirabal | Founder, Mirabal Risk Management, LLC
- Carmen Angel | Head of Risk Management, Chamber of Commerce of Medellin
- Timothy Faries | Managing Partner and Global Head of LatAm, Appleby (Bermuda) Limited.

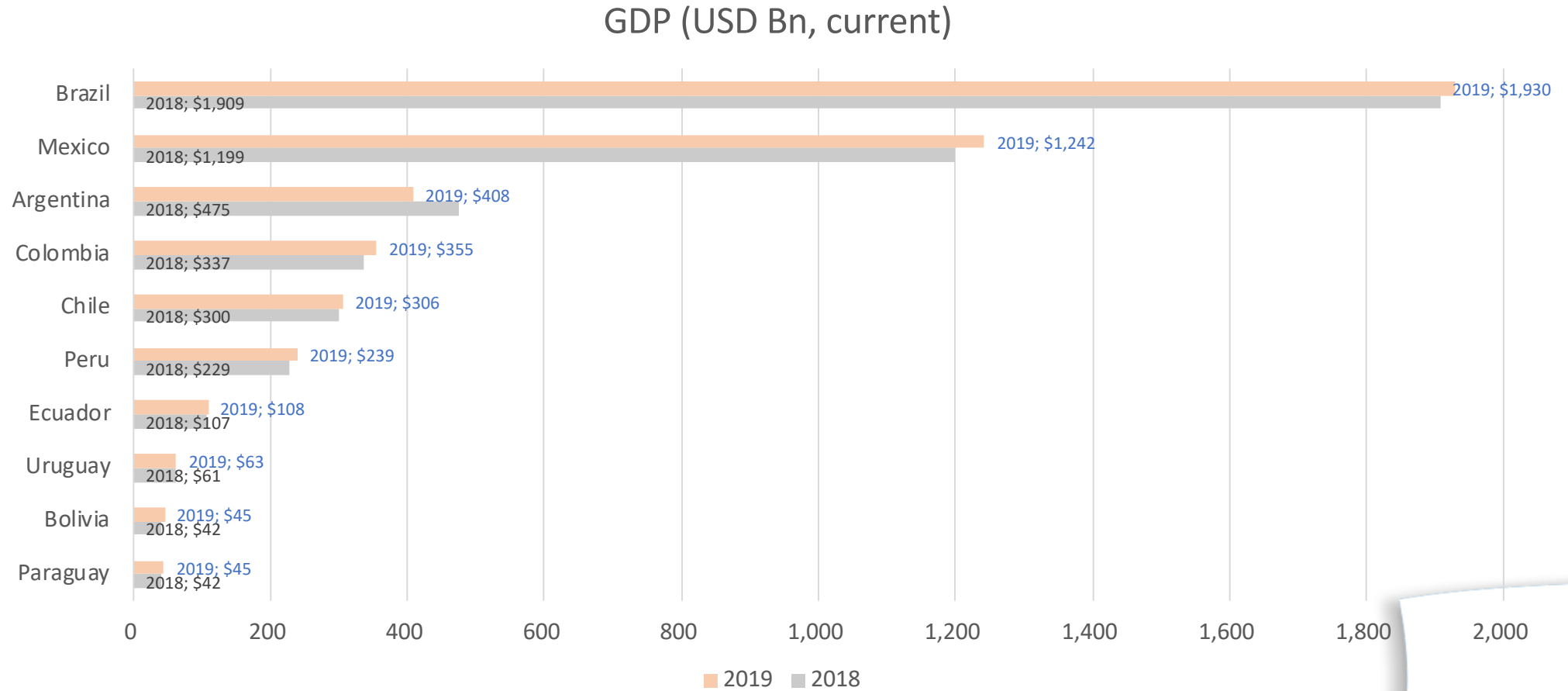
Moderator:

- Eduardo Fox | Consultant| LatAm, Appleby (Bermuda) Limited

Agenda

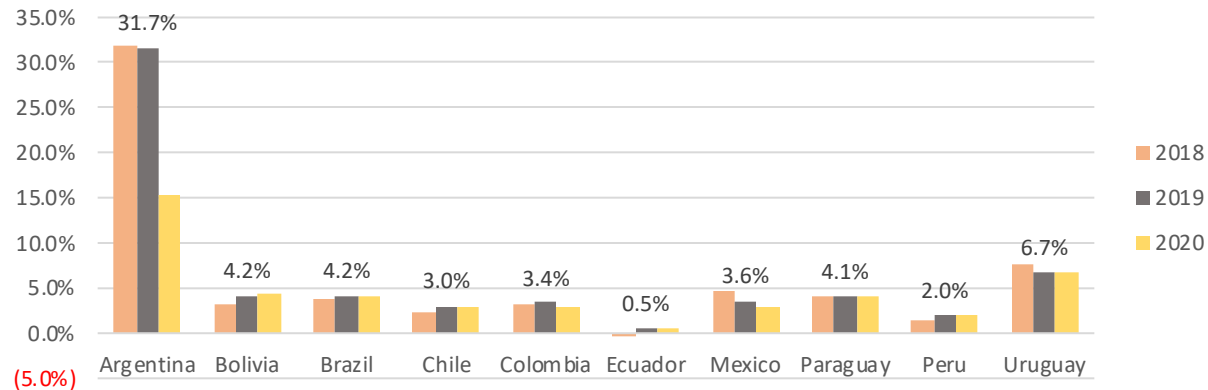
- Market Update
- Risk Management in Latin American Captives
- Risk Management Education
- Legal and Regulatory Aspects for the Latin American Captive

Economic Update

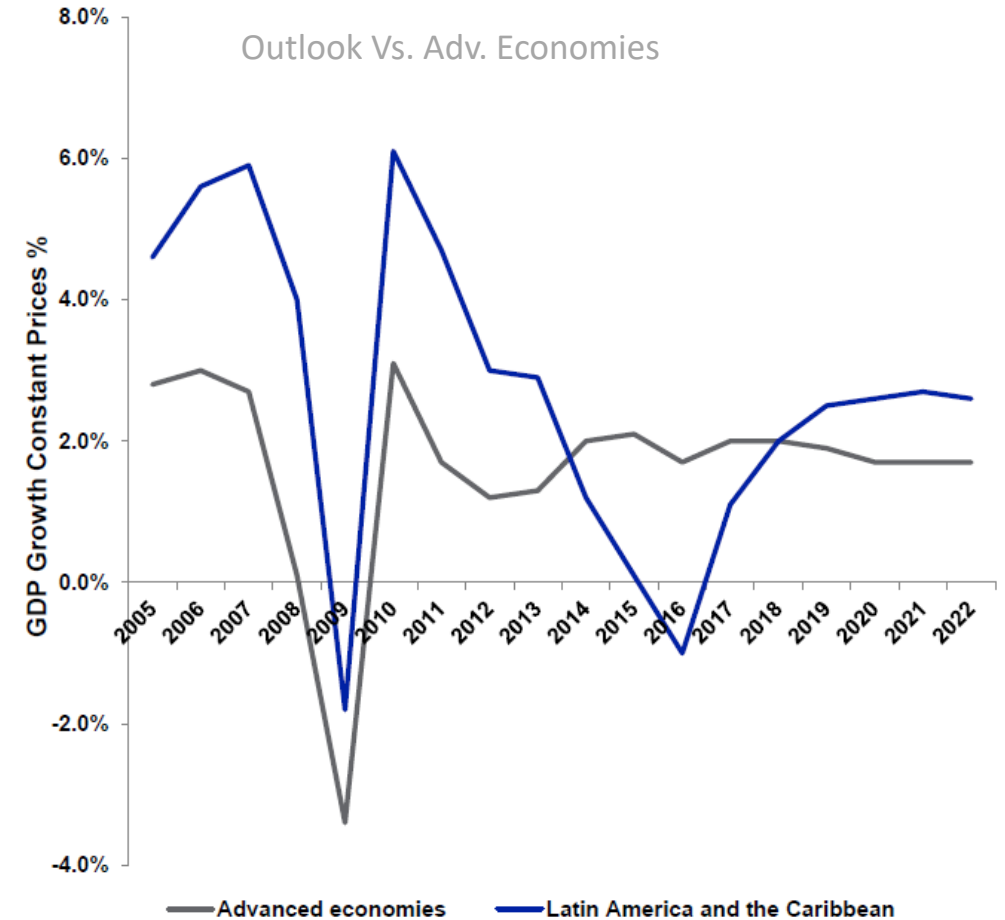
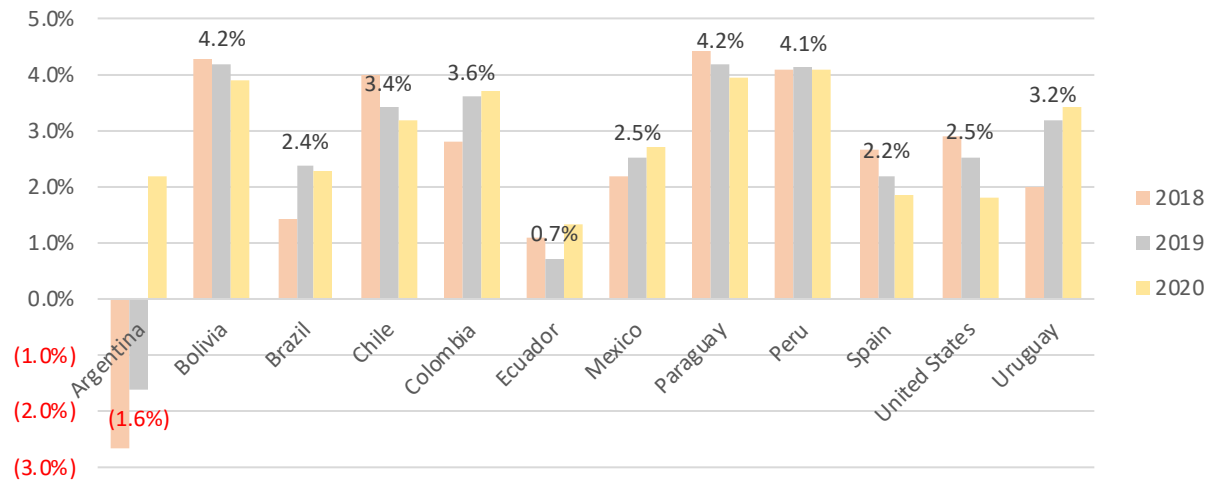


Economic Update

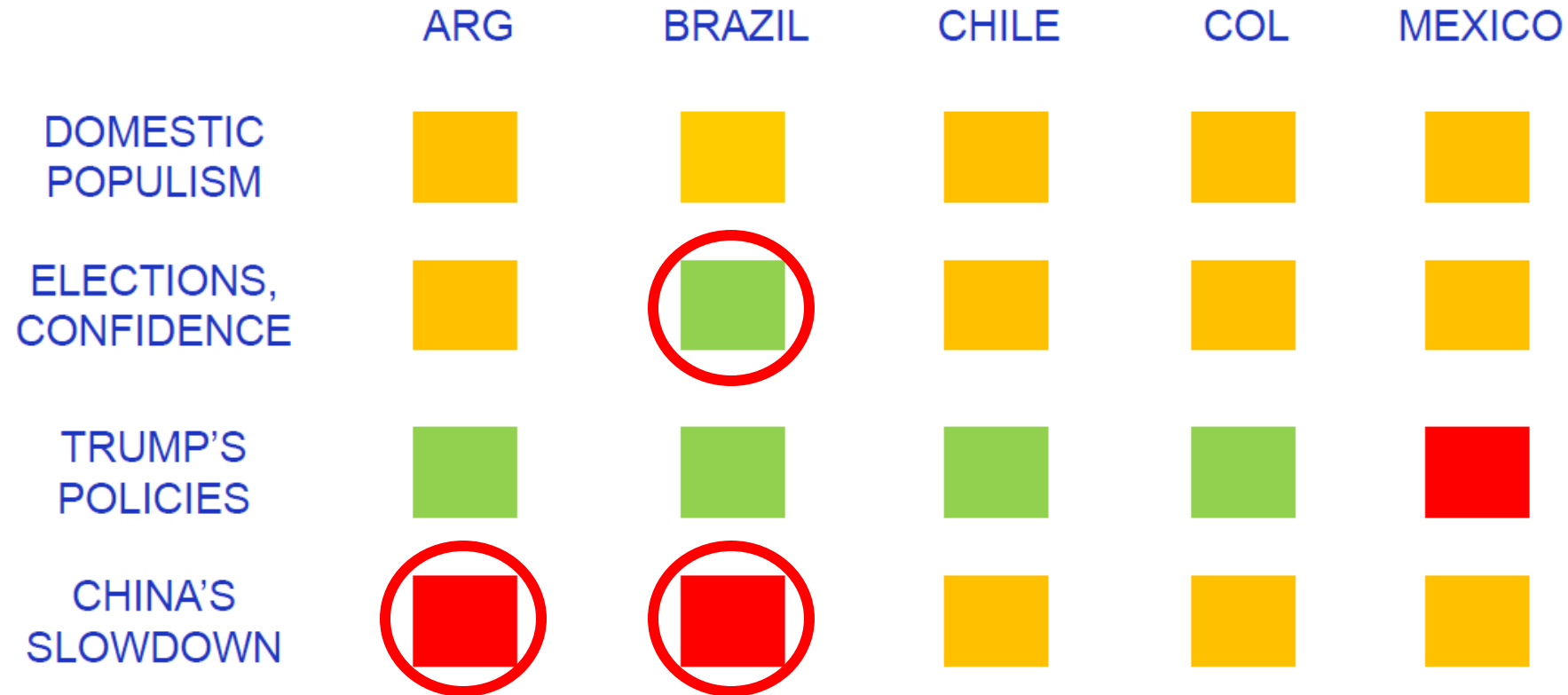
CPI (% forecast)



GDP (%chg, forecast)

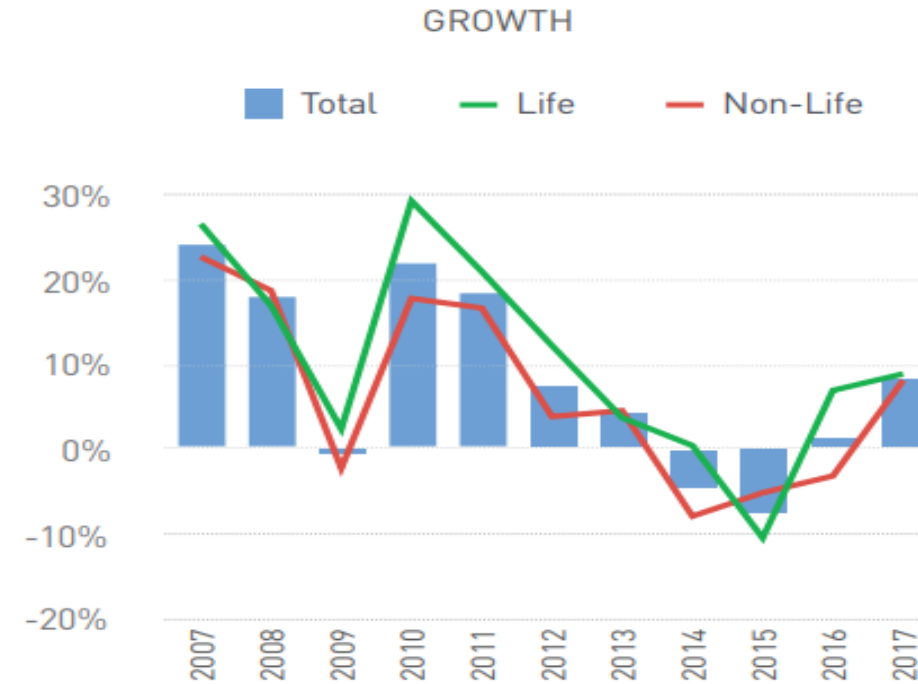
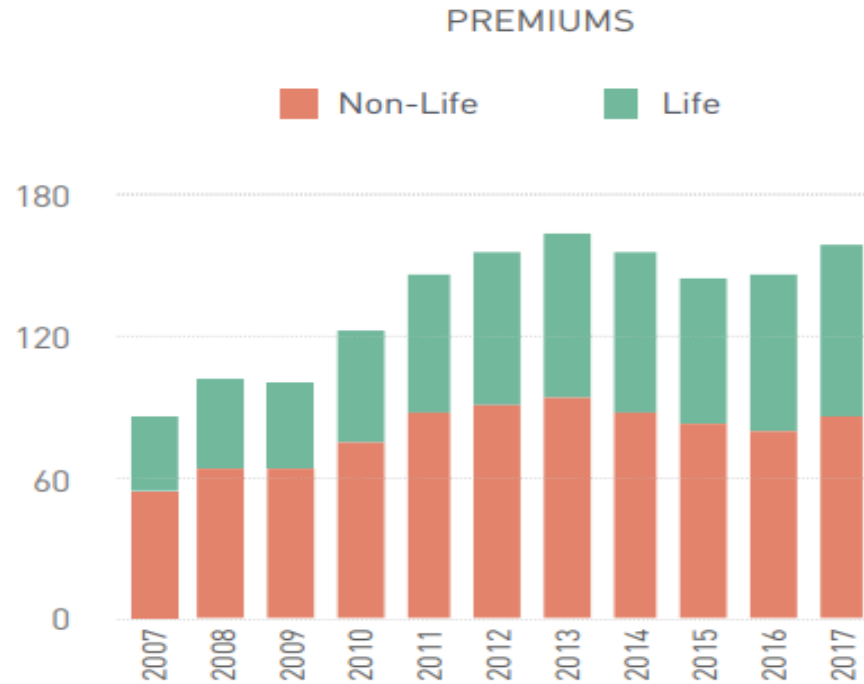


Key Risks to Latin America's Growth Prospects



Source: 2016 Lloyd's report

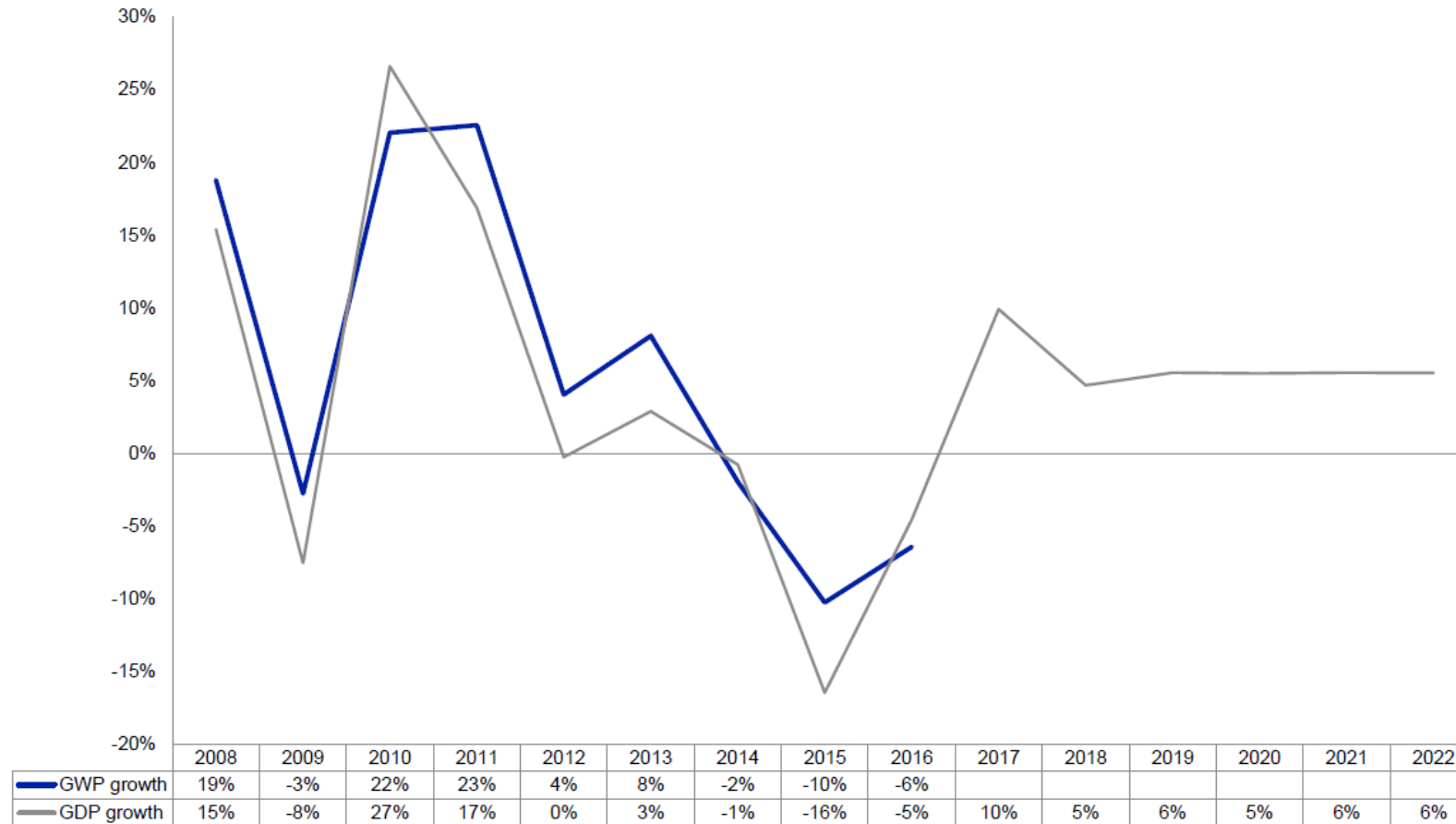
Premium Growth vs. GDP Growth



Source: MAPFRE Economic Research (based on data from supervisory bodies)

LATAM6 - Premium Growth vs. GDP Growth

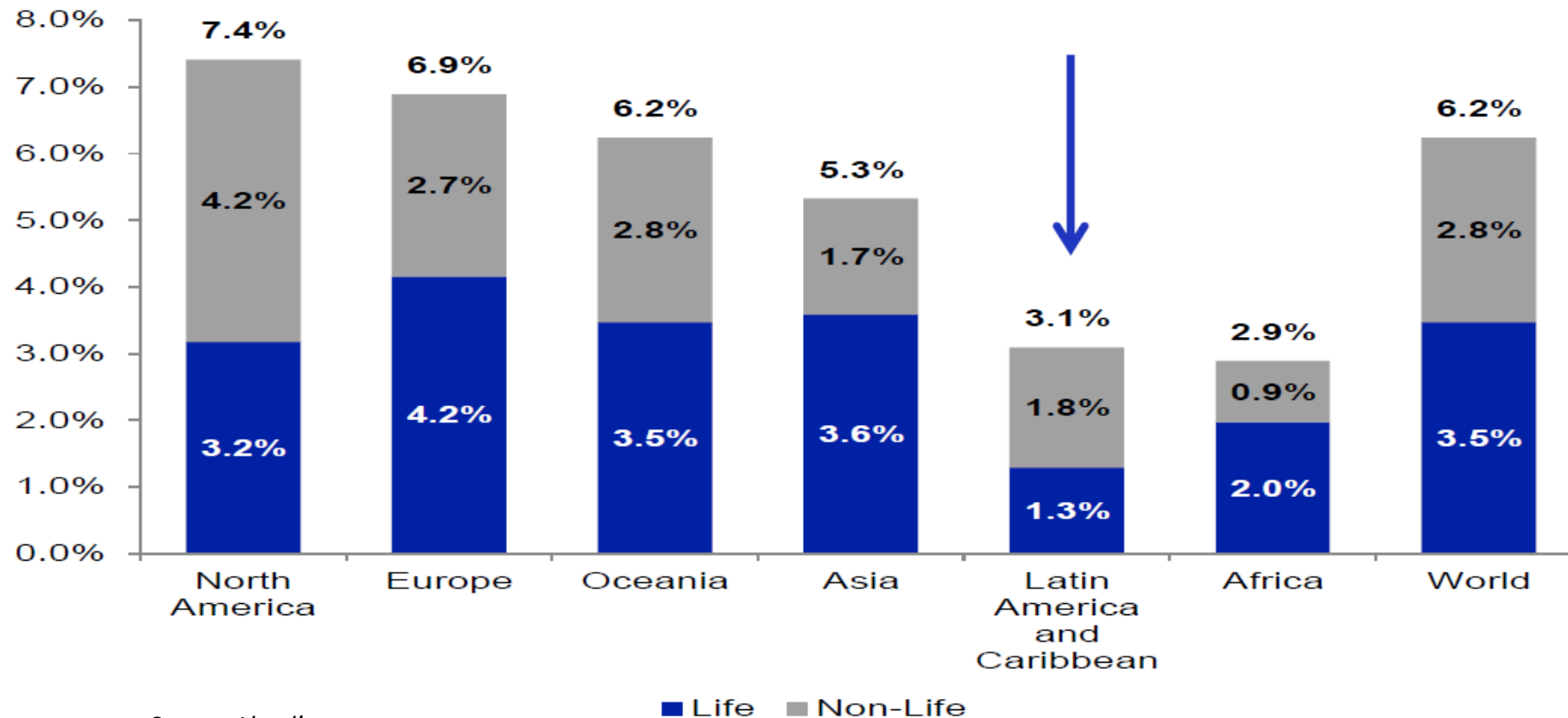
- LATAM6: ARG, BRA, CHL, COL, MEX, PER



Source: IMF World Economic Outlook

Insurance Penetration

2015 World Insurance Penetration
(% of GDP)



Source: Lloyd's

Lines of Business

Line of business	2016	2017	Growth (%)	Share (%)
Life - Group and individual	57,497	63,141	10%	40%
Life - Social protection and/or pensions	8,799	9,128	4%	6%
Life	66,296	72,269		45.70%

Line of business	2016	2017	Growth (%)	Share (%)
Workplace accidents	6,207	7,121	15%	5%
Personal accident	3,949	4,348	10%	3%
Automobile	27,810	30,393	9%	19%
Credit and/or surety	1,802	2,230	24%	1%
Fire and/or allied lines	7,091	7,685	8%	5%
Other damage	10,856	12,129	12%	8%
Third-party liability	2,058	2,290	11%	1%
Health	15,797	16,607	5%	11%
Transport	2,759	3,116	13%	2%
Non-Life	78,329	85,919		54%

Total	144,625	158,188		100.00%
--------------	----------------	----------------	--	----------------

Source: Quest based on data from Fundacion Mapfre, Llody's and Latino Insurance

Market Concentration

Generally, the lower the concentration, the greater the competitive effort required. Based on the Herfindahl index (HHI):

- **High** (HHI of 1,800): Costa Rica, Uruguay and Nicaragua
- **Moderate** (HHI of 1,000-1,800) **Brazil, Peru**, Honduras, Guatemala, the Dominican Republic, Panama and Bolivia
- **Low** (HHI of <1000): rest of Latin America countries. **Argentina** showing the least concentration, followed by **Chile, Colombia** and **Mexico**.

Captive Market

- Barriers to entry: Medium to low
 - ART knowledge, fronting, capital requirements
- Power of Suppliers: Largest
 - Big players: Brokerage vs Captive Management
 - Significant influence on customers
- Power of Customers: Large to Medium
 - New concept,
 - Heavy vetting process = Slow decision making
 - Few (very concentrated) suppliers = low pricing power
- Substitutes:
 - Hedging instruments not highly developed in LATAM

Last thoughts

1. Macroeconomic environment and implications for re/insurance growth

- Positive long-term growth prospects despite global risks
- Close correlation between premiums and GDP growth suggests that premium growth will return in 2019+

2. Cession rates and premium fluctuation

- Low insurance penetration indicates size of opportunity is significant
- Low/medium concentration – premium rates not globally competitive
- Brazil exhibits highest concentration - could this change as market opens up

3. Reinsurance impact

- RI loss ratios more volatile than insurance loss ratios – room for fronting arrangements
- Global policies lead to multiple exposures linked to the same events
- Lloyd's:
 - Grows at a slower pace than the local market in Mexico, Brazil, Colombia and Peru
 - Latam is the lowest of Lloyd's six regions, enormous room for growth

Latin America Market (Size)



<http://www.martinsaphug.com/learn/maps-2/latin-america-maps-quizzes/>

LatAm Captive Market (Size)



Latin-American Companies with revenues over US\$ 1.25 Billion in 2017 (Privately owned - Multilatinas and Nationals)

LatAm Countries	# of Companies (Multilatinas)	# of Companies (Nationals)	Total
Brazil	30	61	91
Mexico	44	22	66
Chile	26	11	37
Argentina	6	9	15
Colombia	6	6	12
Peru	5	7	12
TOTALS	117	116	233

LatAm Captive Market (Size)



Latin America

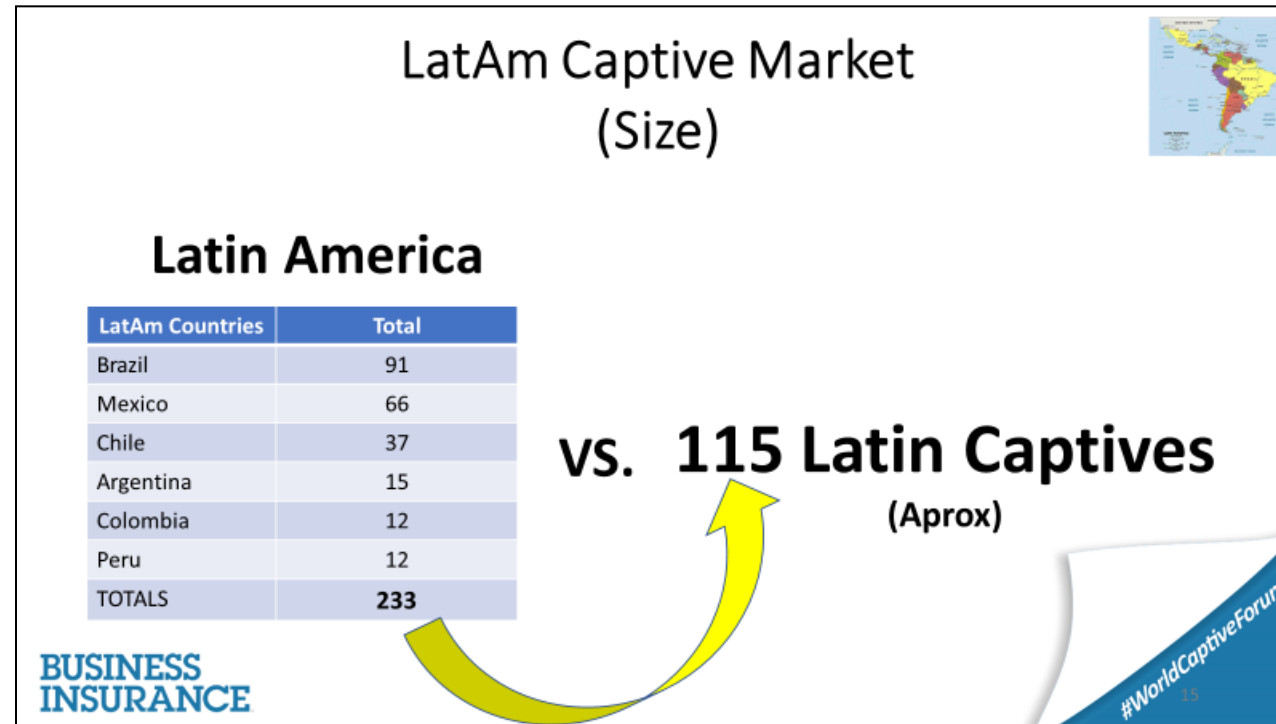
LatAm Countries	Total
Brazil	91
Mexico	66
Chile	37
Argentina	15
Colombia	12
Peru	12
TOTALS	233

vs. 115 Latin Captives
(Aprox)

LatAm Captive Market (Size)



Why the Gap?



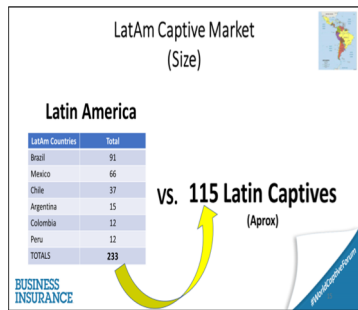
LatAm Captive Market (Size)



Why the Gap?

1. Lack of Knowledge about the real role of a captive inside the Risk financing process (financial retention vehicle vs additional fronting/broker).
2. Cost-Benefit analysis usually focuses in short term operational objectives (e.g. insurance premium reduction) than long term strategic objectives (e.g. total cost of risk stabilization).
3. Preference for Low Frequency-High Severity risks than High Frequency-Low/Medium Severity risk (uncertainty versus certainty).

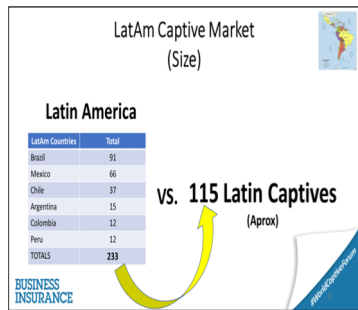
LatAm Captive Market (Size)



Why the Gap?

4. Lack of application of financial metrics (e.g. loss ratio, expenses ration, etc.) and benchmarking (e.g. cost-of risk surveys, etc.) to assess the performance of the transference to the insurance/reinsurance market.
5. Purchase of insurance like a product (e.g. procurement dept.) instead a risk financing strategy
6. Lack of organizational power of the risk and insurance management area to make financial decisions (lack of empowerment)
7. No integration of the insurable risks with the rest of the risks faced by the organization (financials, operational, businesses, etc.) in a Enterprise Risk Management (ERM) approach, then lack of alignment with the strategy of the organization

LatAm Captive Market (Size)



Why the Gap?

8. In some LatAm countries, double admittance principle (insurance companies-reinsurance companies) as part of the insurance-reinsurance legal framework.
9. Reputational risk exposure (e.g. fiscal money laundering)
10. Transfer pricing (captive as filial, subsidiary or any type of controlled company)
11. Fiscal legal framework for: export of capital (captive capitalization), import of profits (consolidation of financial results), any other fiscal transactional event in connection with the captive business model.
12. Under Latin culture, difficult to accept “risk as opportunity”

Risk Management Education



The Chamber constantly works on 3 strategic lines seeking consolidation and **competitiveness** of the companies incorporated locally. This work offers necessary tools for our businesses to access international markets and provides their business model to endure, providing profits to their owners, generating employment in the region and boosting economy growth.

Risk Management Education



The Chamber is a leading entity in the region, with a focus on business services and clear objectives on three fundamental areas:

1 FORMALIZATION



2 MODERNIZATION



3 COMPETITIVENESS



Risk Management Education

COMPETITIVENESS



★ Cluster Strategy

The Cluster Community is a strategy for the city, led by the Mayor's Office of Medellin, the Chamber of Commerce of Medellin for Antioquia and regional business community with the support of multiple institutions; it seeks to **promote the development and competitiveness** of Medellín and Antioquia.

Risk Management Education

★ Cluster Strategy



Risk Management Education

★ Cluster Strategy

Benefits

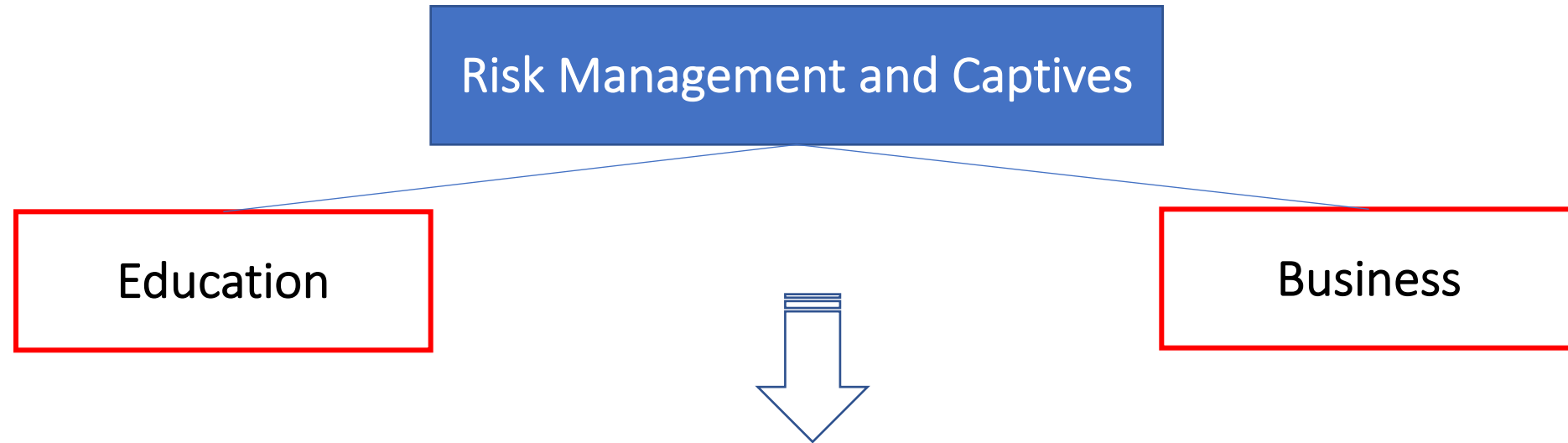
1. Training forums and knowledge transfer.
2. Participation in business promotion and networking.
3. Promotion and leadership of the six strategic sectors of the city.
4. Promoting “Smart Specialization”.

Education

Business

Risk Management
and Captives

Risk Management Education



Risk Management and Captives

Education

Business

- ✓ Sessions related to risks and captives.
- ✓ Risk management related courses.
- ✓ AIRM certification (ALARYS).
- ✓ Risk management consulting.
- ✓ Support and advice on risk and captive matters.
- ✓ Intermediation on captive formation.

Risk Management Education

★ Cluster Strategy

+

Risk Management and Captives

This approach allows entrepreneurs:

- ✓ Access to information and specialized knowledge, experiences and good practices.
- ✓ Participation in strategic projects.
- ✓ Participation in collaborative networks that result in projects and joint actions of impact for business.
- ✓ Establishment of relationships with peers at national and international levels to stimulate the transfer of knowledge, the generation of business opportunities or the development of joint strategic projects.
- ✓ Business strengthening and improvement of the competitive position in the markets.

Legal and Regulatory Aspects for the Latin American Captive

Timothy Faries

Managing Partner and Global Head of LatAm- Appleby (Bermuda) Limited

Latin America: The *real* new frontier

A Summary

Why do we call it the *real* new frontier?

Sophistication and understanding from LatAm

The Offshore Captive Landscape

- **Regulatory reforms, and continued establishment of Tax Information Exchange Agreements (TIEAs)**
- **Global Solvency standard**

The Offshore Captive Landscape and the Bermuda Perspective

- **Tax Exchange Information Agreements or TIEAs**

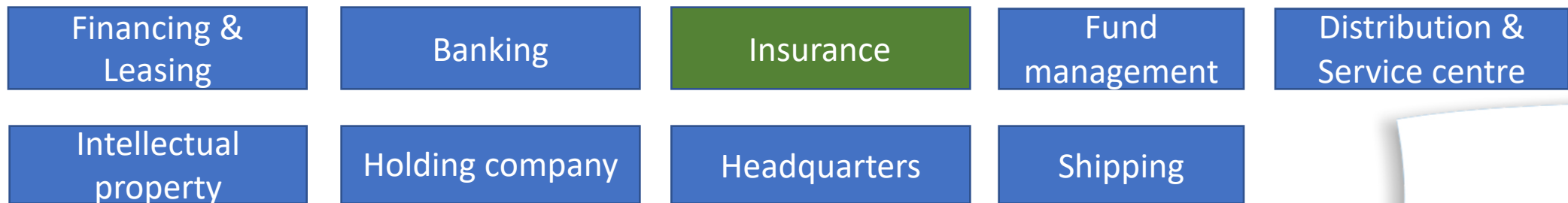
The Bermuda Perspective

Blue Chip Offshore Domicile

- Third largest (re)insurance market in the world after New York and London
- Largest captive insurance market in the world
- Leader in:
 - Transparency
 - International Cooperation
 - International Accreditation
- Global leader as captive domicile with over 700 captives registered
- Bermuda captive insurers generate over US\$20bn in annual gross written premiums
- LatAm region representing the 4th largest geographic area from which risks are assumed
- Bermuda is home to just over 2/3 of all LatAm Captives in the world

Economic substance

- Driven by EU Code of Conduct Group (Business Taxation). Assessment of “tax good governance” - tax transparency, fair taxation and anti-BEPS measures in “no or nominal corporate income tax” jurisdictions.
- Bermuda and others (incl. BVI / Cayman) introduced legislation at the end of 2018.
- Economic Substance Act 2018: economic substance requirements (“ESR”) in Bermuda capture the following “relevant activities”.



Economic substance

- ESR - management and direction; core income generating activities; adequate physical presence; adequate, qualified FTE all in Bermuda.
- Insurance companies registered under IA1978 deemed compliant with ESR if:
 - Compliant with existing corporate governance obligations under CA1981.
 - Compliant with existing requirements and regulations under IA1978 and Code of Conduct.
 - Submit annual declaration of economic substance to the Registrar of Companies.
- Assessment of group corporate structure required: no group exemptions.
- Legislation may evolve post EU assessment – no jurisdictional arbitrage.
- Next steps – process through 2019 and into 2020.

Legal and Regulatory Aspects for the Latin American Captive

Timothy Faries

Managing Partner and Global Head of LatAm- Appleby (Bermuda) Limited

tfaries@applebyglobal.com