Profile on Colombian Insurance Market

Demographics and Economics

Colombia has a population of 47 million, with 65% of its populace between the ages of 15-64 years and only 5.5% over the age of 65. Colombia is the third most populated country in Latin America after Brazil and Mexico. High unemployment and tax increases continue to diminish personal consumption. But Latin America countries are populous, young, and rapidly growing, a good combination for long-term financial services growth. In general, 2008 projected GDP growth in Latin America continues to be strong, with higher than expected growth in more industrialized nations. Colombia's 2008 estimated GDP growth is 5.8%, which is higher than the GDP growth of Argentina, Peru, Chile, Brazil, Uruguay, Mexico, and even the United States which stands at 1.2%.

Colombia has experienced economic growth over the past five years as foreign investment has increased. This was achieved, in part, by improving security in the country, something foreign companies demanded. An export-oriented growth strategy, a dedication to reducing public debt, and the reining in of government budgets have all greatly helped Colombia's recovery.

Seventy-one percent of the region's wealth management assets (bank deposits, mutual funds, pensions, and life insurance) are in Brazil (54%) and Mexico (17%). Colombia has 9%, Peru 2%. McKinsey reports that future growth in investment assets in Colombia are projected to come from life insurance (14%), bank deposits (12%), pensions (9%), and mutual funds (7%).

Foreign Investment

Colombia permits one hundred percent foreign ownership of insurance firm subsidiaries. It does not, however, allow foreign insurance companies to establish local branch offices. Firms must have a commercial presence to sell policies other than those for international travel or reinsurance. One way that foreign companies are increasing their market penetration is by acquiring local companies. Entry of foreign investors has not been as large as expected, due mainly to the country’s economic difficulties.

New players entered the market in 1997. U.S. insurance giant Liberty Mutual was one and it acquired Latinoamericana and Skandia Seguros Generales. In 1990, foreign insurers' share of life insurance premiums was approximately 3%. By 1995, the percentage had increased to over 10%, and in 2000 to 30%. According to Swiss Re, Royal & Sun Alliance, Mapfre, Liberty Mutual, Generali, Chubb, BBVA, AIG/AIU, AGF, and ACE are some of the leading foreign insurers working in the country.

Sales Channels/Distribution

As the insurance industry continues to evolve worldwide, distribution becomes more of a factor. Tied agents and brokers, once the mainstay of the industry, dominated most markets. But that is changing at various rates, depending on the region. Currently, the trend is towards the development of alternative distribution channels. In South America, distribution varies by country but many are experimenting with new sales channels such as drugstores, supermarkets, and malls. Some countries in the region require an intermediary for any insurance transaction, a regulation that is preventing countries such as Brazil from developing alternative distribution systems.

In 2005, nineteen life insurers and twenty-four non -life insurers were operating in the country. Brokers and agents dominate the distribution channels in Colombia, but here too, company-employed representatives and banks are gaining ground. In Colombia brokers dominate the group life market. In 2005, 52 registered brokers were working in the field. The individual life market is dominated by agents, approximately 10,000. But it is the banks that are increasingly becoming a one-stop shop for financial services, since they have a better image than the insurance industry.

Bancassurance

Initially, this marketing channel was used primarily to sell non-life products such as fire and motor insurance. In recent years, this channel has gained importance, primarily in the life insurance business. It wasn't until the insurance market was liberalized in the 1990s that bancassurance became a distribution channel in Colombia. In 2001, bancassurance's share of the market was just two percent, but it has steadily increased. In 2005, the bancassurance market share (percent of new life insurance premiums) for Colombia was 15%, as compared with 70% for Brazil.

For bancassurance insurers, two of the greatest challenges are having appropriate products to sell, and maintaining good relationships with participating banks. Overall trends in Latin American bancassurance show that the region generally has regulations favourable to bancassurance. For example, in many countries foreign insurers can enter the bancassurance market, outbound bancassurance sales are allowed, insurance companies can own banks, and banks can own insurance companies. A few countries have set up regulatory obstacles that have impeded the growth of bancassurance. Brazil and Argentina do not allow customer information to be shared between insurers and banks.

Most regulations in Colombia are quite conducive to bancassurance. Banks are allowed to own insurance companies, and insurance companies can own banks. Banks and insurers can share customer information and outbound telephone marketing is allowed. However, there is a limitation on the types of products that can be sold through bancassurance. Individual life, group life, pension, seguro exequial (funeral insurance), and health insurance are allowed to be sold, along with personal accident, unemployment, and auto insurance. In Colombia, getting banks' cooperation and training bank staff to sell insurance are two significant challenges.

The most common bancassurance model used throughout Latin America is the pure distributor model, used 39% of the time. It allows a bank to offer the products of more than one insurance company. Strategic alliances come in second at 37% and require a bank to sell only the products of one insurance company. Colombia allows pure distribution, strategic alliances, and financial holding companies, but joint ventures are not found in the country. Argentina, Brazil, and Mexico allow all four models.

Credit life, term insurance, pension products, and personal accident insurance are commonly sold through banks. Proprietary products are also available and these are developed jointly by the bank and insurer. LIMRA reports that the most popular way to sell insurance through bancassurance channels in Latin America is by using the bank’s own staff; 79% of the products are distributed in this way by licensed bankers and trained bank staff. Thirty-seven percent of bancassurers also use financial consultants to sell their products, 33% of the companies use direct response, 26% employ retail life agents, with insurer life agents (23%) and advanced sales reps (19%) rounding out the top six. Note: these figures add up to more than 100% due to the use of multiple distribution methods by some bancassurers. Also note that direct response means individual life insurance or annuities sold through the mail, over the phone from a call center, or through the bank’s Web site without face-to-face contact.

The majority of products currently sold through bancassurance are pension products, whose popularity is increasing due to a growing middle class in many Latin American countries. Insurance companies in Latin America routinely develop and market their bancassurance products primarily for the middle market. The second and third most sought after markets are the emerging affluent and the lower income. Small business and commercial loans come in next, while the pre-retiree and retiree markets are virtually untapped.

Some of the leading bancassurers in Colombia are Liberty Seguros, S.A., Bancolombia, Conavi and Colmena.

Direct Sales

Direct marketing of insurance is not popular in Colombia but a few companies offer these services via direct mail.

Insurance companies and banks selling bancassurance products are reaching out to middle-and-lower-income clients through telephone marketing. Direct mailing campaigns are also getting more popular. Larger department stores, supermarkets, gas stations, car dealerships, credit card companies, and travel agents are also being used to make contact with potential customers. Some supermarkets are providing short-term life insurance to high-spend purchasers, which entitle dependents of the customer to free food for a specified period of time, if the customer dies within the term of the insurance. Direct marketing is used almost exclusively in industrial business between insurers and policyholders belonging to the same industrial group.

In Latin America, insurance companies are using the Internet primarily as a way to market their products and as a communication tool for agents, but not as a way to sell direct. Visitors to insurance websites can view a company's products and often can calculate an estimate for simple products, but cannot purchase them. Scepticism on the part of clients, the high investment required to set up ecommerce sites, and a lack of necessary core technological infrastructure are three reasons why the Internet is used for marketing rather than as a distribution tool. Electronic marketing channels would be suitable for low price standardized products but in Latin America, customers who would be interested in such products usually do not own computers. That's why sales via banks are growing. People have to bank, even people without computers.

In general, new marketing channels are still generating only a relatively low premium volume, which leaves lots of room for growth.

New marketing channels are still generating only a relatively low premium volume

	Brokers/ free agents		Field reps		Telephone, mailing		Internet		Bank		Department stores, employers, etc.	
	Non-life	Life	Non-life	Life	Non-life	Life	Non-life	Life	Non-life	Life	Non-life	Life
Argentina	***	***	*	**	**	*	*	*	*	*	*	*
Brazil*	***	***	–	–	*	*	*	*	**	**	*	*
Chile	***	*	*	***	*	*	–	–	**	**	*	*
Colombia	***	**	*	**	*	*	*	*	*	*	*	*
Mexico	***	***	–	*	*	*	–	–	**	**	*	*
Venezuela	***	***	–	–	*	*	–	–	*	*	*	*

Explanation: 1 – 10%=*, 10 – 40%=**, >40%=***

* In Brazil a broker is always involved for legal reasons.

Colombia is a country case where micro-insurance has been developing rapidly through private sector initiatives, without any special laws, rules or regulations. More than 40% of insurance companies in Colombia (national and foreign capital based, mutual cooperatives and one state-owned) already offer some type of micro-insurance products. Equidad and Solidaria, the cooperative insurance companies, have had great success with this type of insurance.

Insurance Penetration and Growth Metrics

Colombia had nearly US$2.2 billion in premiums in 1997. The penetration ratio was 2.4%. Thirty-one insurance groups were operating in the country by 1999, as compared to 37 in 1989. According to Swiss Re and DRI-WEFA, life insurance had a growth rate in Colombia of 9.8% from 1995-2000.

LEADING LIFE INSURANCE COMPANIES, 2006

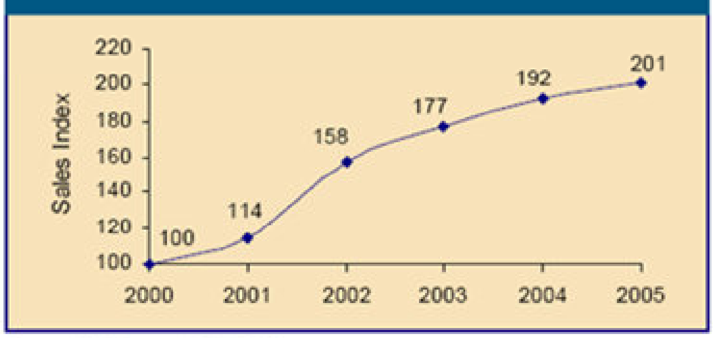
	Gross written premiums	
Company	COP Mn	USD Mn
Suramericana	623,064.3	263.9
Bolivar	433,249.9	183.5
Alfa	270,060.0	114.4
Colseguros	204,107.8	86.4
SURATEP	193,681.9	82.0
Liberty	186,923.2	79.2
Colpatria	173,325.0	73.4
BBVA Seguros	142,011.4	60.1
COLMENA RP	118,920.1	50.4
Agricola	118,526.6	50.2

Overall premium volume in Colombia in the year 2000 was 1829 (USD million). Brazil's overall premium volume in USD million for the same period was 12 554, Mexico's was 9866, with Chile at 2687 and Peru at 555. Growth rates for Colombia for the years 1995-2000 were GDP: 0.9%; overall premiums: 2.3%; and for life insurance: 9.8% (Swiss Re).

In 2000, of the 22 countries in the region, 15 generated a premium volume of over USD 100 million. In six countries premiums topped the billion market. These six countries -- Argentina, Brazil, Chile, Colombia, Mexico, and Venezuela -- generated 92% of all premiums in the region. Colombia claimed 5%. Life insurance penetration for Colombia was particularly low for the same period.

Demand for insurance has never been very strong in Colombia. Although originally introduced in the early 1800s, high rates of dependence on the social security system, low incomes, and little knowledge of the insurance industry has not created a strong market for insurance products. No tax incentives provided for insurance policyholders is also a factor. But things are beginning to change. As is the case with many developing countries, more property damage insurance is sold in Colombia, while a lower proportion covers personal insurance lines. This is slowly changing and the trend is that more people will be purchasing personal insurance lines, including health insurance, as opposed to property insurance. Although Colombia has the 40th largest life insurance market in the world, the popularity of group insurance has caused growth in the product area to steadily increase.

Figure 8
Trends in Life Sales — Colombia



Source: AXCO reports; 2000=100.

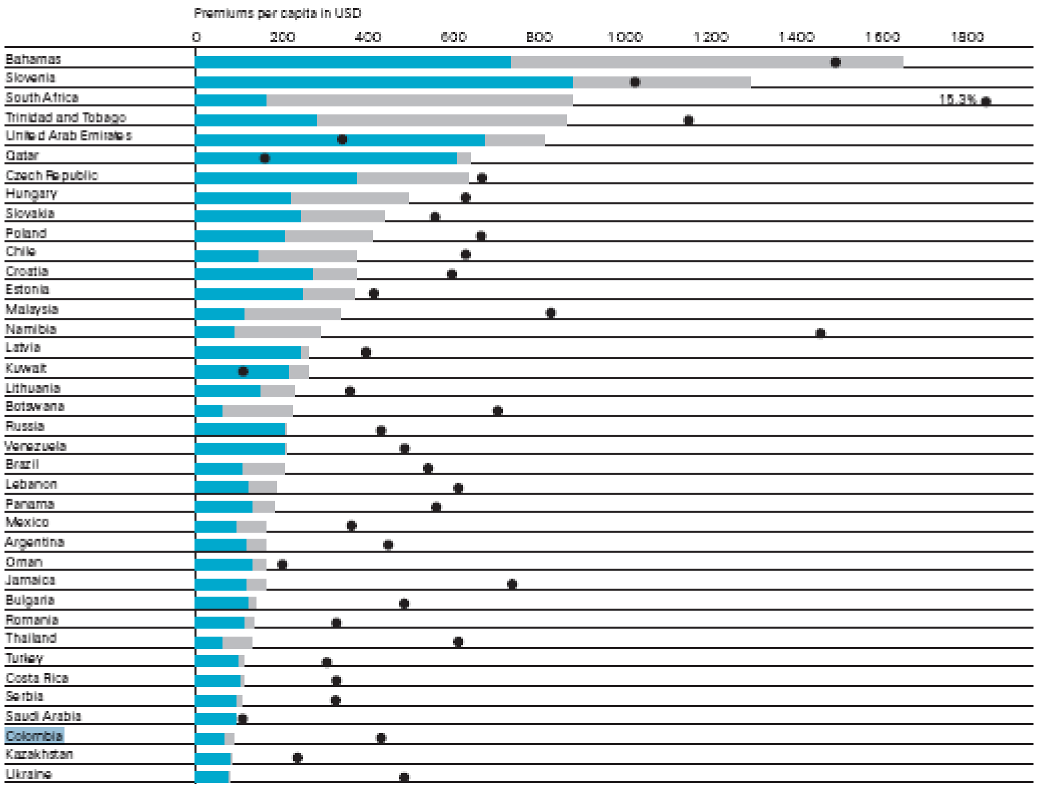
The World Bank reports that life insurance penetration rates for Colombia were: 1996 (0.46), 1997 (0.50), 1998 (0.57), 1999 (0.60), 2000 (0.61).

Life premium volume in Colombia for 2005 was 3%, a very low penetration, especially when compared to other Latin American countries like Brazil (40%) and Mexico (28%). The numbers didn't change for Colombia in 2006, although life premium volume for Brazil increased to 47%.

According to LIMRA, Colombia currently has a 0.7 market penetration premium percent of GDP. The market density per capita (USD) is 20.5. There are forty-five insurance companies currently active in the industry, with the dominating channel being brokers.

In 2007, the direct premiums written for life insurance in U.S. $ millions was 1,150. Insurance density (premiums per capita in USD in 2007) for life business in Colombia was 24.9, while non-life business was 64. In terms of premiums in % of GDP in 2007, insurance penetration for life business was 0.7, non-life, 1.7 (Swiss Re, 2008).

Figure 15
Emerging markets:
insurance density and penetration



Health

The private health insurance industry in Latin America is significant for some of the countries. For instance, in Uruguay, over 60 percent of the population is covered through private health insurance. In 2000, the U.S. Department of Commerce reported that half the population of Colombia already had private health insurance. Currently, government regulations require employers to provide insurance to all full-time employees.

LIMRA is forecasting that countries such as Chile and Colombia will experience rapid growth in their health insurance markets over the next few years.