

COLOMBIA INSURANCE

SPECIAL REPORT

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THE BUSINESS YEAR

COLOMBIA INSURANCE SPECIAL REPORT

Despite the market and operational challenges brought by the pandemic, optimism and excitement were the two recurring feelings expressed by Colombian insurance sector leaders during The Business Years' time gathering perspectives on the field. If there ever was a time the insurance business in Colombia has undergone a sudden leap forward, that time was the immediate post-pandemic period. The inability of providing in-person client attention services and the inability of conducting in-person business procurement, has triggered a realm of new, never before seen, solutions that lean on creativity and digitalization. The result is that the Colombian insurance industry today has never been so well prepared for the upcoming challenges of expanding coverage and keeping up with international best practices.

The Colombian insurance market is characterized by a competitive supply of policies and products. However, only 3% of Colombians hire private insurance for non-government mandated coverages. Accessing this untapped potential is the focus of insurers and government entities alike. If other countries in the region are indicative of what the Colombian insurance market could look like, there is

reason to be bullish on growth.

Two measures that would contribute to an immediate sector boost would be streamlining regulatory requirements and reducing red tape. Policy underwriting in Colombia is mired by outdated processes such as the burdensome SARLAFT, the Colombian customer knowledge form for the insurance sector. These are remnants of Colombia's desperate struggle with money laundering. However, today's technology can alleviate barriers to business while maintaining business integrity. SARLAFT 4.0, which becomes fully effective in September 2021, is a welcomed update that demonstrates government support to industry development. It is also indicative of the country's embracement of technology and digital processes.

The 4th industrial revolution is democratizing opportunities and accelerating improvements in living standards. Trends such as clickable policies, insurtech and artificial intelligence underwriting show that the sector does not want to miss the train. The Colombian insurance industry's commitment to digital processes is encouraging to those who envision a Colombian financial system made sturdy by widespread risk management. ✖

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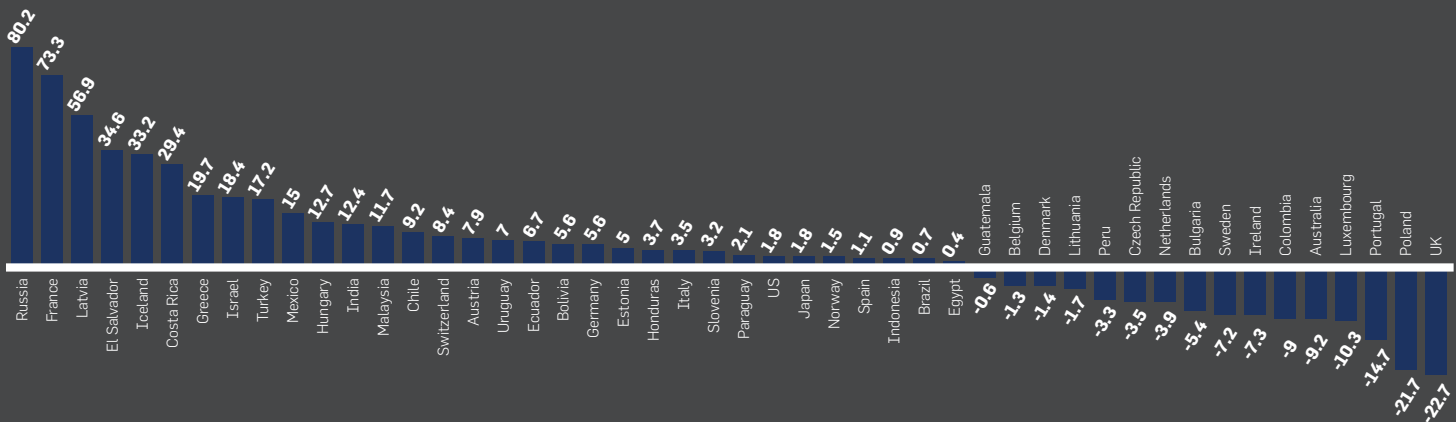
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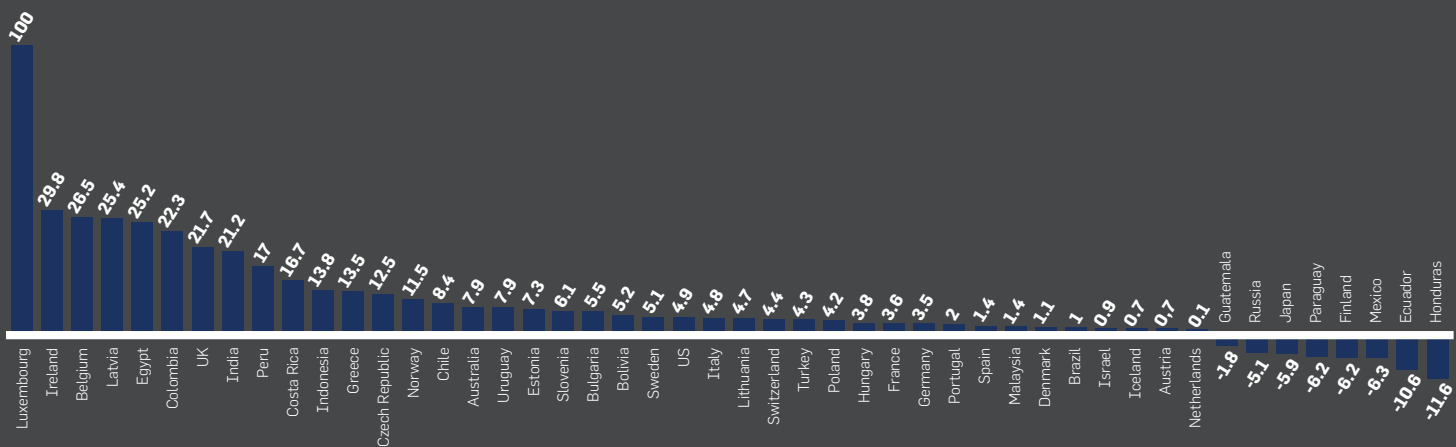
ANNUAL REAL GROWTH RATES OF GROSS CLAIMS PAYMENTS IN THE LIFE SECTOR, 2019 (%)

SOURCE: OECD



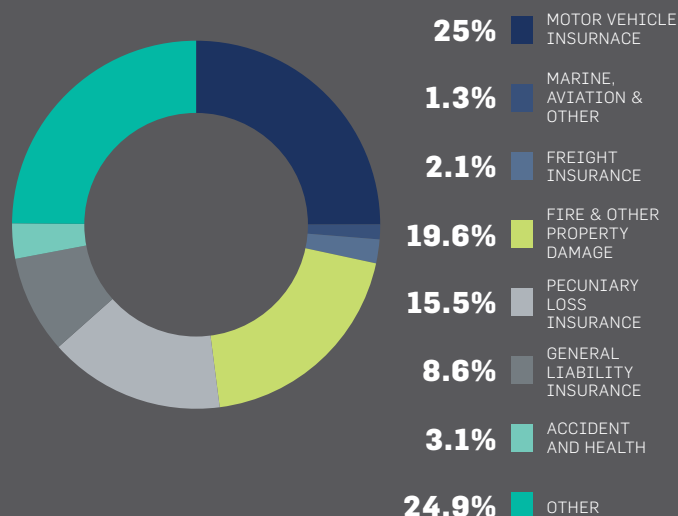
ANNUAL REAL GROWTH RATES OF GROSS CLAIMS PAYMENTS IN THE NON-LIFE SECTOR, 2019 (%)

SOURCE: OECD



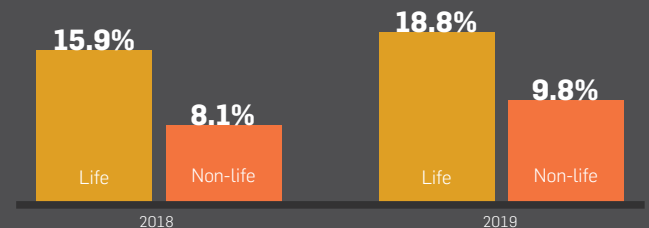
SPLIT OF DIRECT GROSS PREMIUMS IN COLOMBIA'S NON-LIFE SEGMENT, BY CLASS OF INSURANCE, IN 2019 (%)

SOURCE: OECD



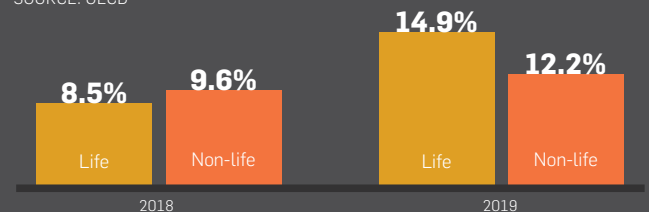
RETURN ON EQUITY BY TYPE OF INSURER IN COLOMBIA, 2019 (%)

SOURCE: OECD



CHANGE IN EQUITY POSITION BY TYPE OF INSURER IN COLOMBIA (%)

SOURCE: OECD





A NEW VISION

Alberto Carrasquilla
MINISTER OF FINANCE AND PUBLIC CREDIT

Colombia is convinced that supporting the insurance industry and enhancing access to insurance services is a valuable instrument to fight poverty and improve social and economic development.

BIO

Alberto Carrasquilla is an economist from Universidad de los Andes, with an MSc and PhD from the department of economics the University of Illinois. Between 2007 and 2017, he was the manager and partner of Konfigura Capital and professor of economics at the Universidad de los Andes. Carrasquilla served previously as minister of finance and public credit between 2003 and 2007. He has also served as president of the ministerial committee for development between 2005 and 2007 and chairman of the board for Colombia's central bank between 2003 and 2007. He has been a member of the Latin American Committee for Financial Affairs (CLAAF) since 2001.

What policies exist to support the insurance industry and increase coverage for Colombians?

There are several policies designed and implemented to increase coverage for Colombians. I want to start with policies aimed at improving risk management in rural areas. The National Development Plan (NDP) introduced the Incentive for Agricultural Insurance which subsidizes a percentage of the insurance premium. Thus, farmers are now more willing to hedge against the occurrence of natural and biological events that may negatively affect their production and income. In fact, due to this incentive more than 150,000ha are insured per year. Another recently enacted policy is the agricultural index-based insurance. In 2018, NDP introduced the possibility of offering agricultural insurance under the index-based insurance model. Additionally, the government has developed a program to subsidize a percentage of

the insurance premium. As a result, many farmers, especially those in the coffee sector, have benefited from this hedging risk product. Second, Colombia has a strong institutional framework to promote the use of insurance and protection schemes. A good example is "Banca de las oportunidades," a program created by the government to promote financial inclusion. The program designs strategies to facilitate the access of financial services, and co-finance and provide technical assistance to projects that seek insurance. Furthermore, the program is used to gather data about financial inclusion determinants and calculate indicators to feed the public policy design process. Another example is the Intersectoral Commission for economic and financial education. This commission proposes the policy, guidelines, tools, and methodologies for the adoption of the national economic and financial education strategy. In addition, the government, through the Financial Regulation Agency (URF) and the Colombian Superintendence of Finance (SFC), works to identify and eliminate regulatory or supervisory barriers that may be impeding the development of the insurance market. Finally, it is important to talk about the joint work between the government and the insurance industry in order to improve the industry's framework. In the coming weeks, the government will publish the Insurance Regulatory Roadmap 2021-2025, describing its vision of the insurance industry for the next five years. The creation of the document has opened up space for dialogue with the industry to identify the principal challenges and design strategies to dynamize the insurance market.

How is the government accompanying the industry in its transition to digital processes?

The government has been accompanying the financial and insurance industry in its digital transformation process through different strategies. One of the most important regulatory advances in this regard in recent years is the financial regulatory sandbox, which has helped develop a well-tested regulatory framework for digital transformation. This sandbox was created in 2020 for both the financial and insurance industry. The sandbox is a tool to both boost innovation in the financial system and help the government increase in its capabilities to adjust the regulatory framework to the new dynamics of the market and promote financial innovation safely. A second effort is the promotion of an insurance culture in order to increase insurance distribution. The government issued decrees 035/2015, 2123/2018, and 222 de 2020, which: allow some insurance contracts to be distributed via massive channels such as credit institutions networks and agents; broaden the types of insurance contracts that may be distributed using the before-mentioned distribution channels; and enable digital distribution channels. In this sense, in 2020, Colombia had more than 220,000 agents distributed across 100% of its municipalities. Another example of government support is Innova SFC, which consists of an innovation hub whose main purpose is to promote, investigate, and facilitate the innovation in the financial industry. Innova SFC has a hub in which more than 100 fintech companies, including insurtech companies, have been oriented in the conceptualization of their innovation plans.

How can expanded access to insurance strengthen the Colombian financial system?

The insurance industry is essential within the financial system. In this order, if access to insurance is expanded, we expect less vulnerability to shocks and greater depth of the financial market. First, the government is convinced that a greater identification, mitigation, and management of risk reduces the vulnerability of the economy to catastrophic events. In this sense, expanding the access to insurance allows households and firms to face risks and avoiding eventual income shocks that may affect the stability of financial system. Second, the massification of insurance services will increase the amount of premiums under administration by insurance companies. As a result, a larger amount of reserves would need to be held by the insurance companies, which in turn would be invested in capital markets. Thus, greater levels of insurance market depth will require insurance companies to invest more resources in the capital market, which would have a positive impact on the entire financial system.

How do you envision the future of the Colombian insurance industry?

The government will publish the Insurance Regulatory Roadmap 2021-2025, which describes its vision of the insurance industry for the coming years, based on three pillars: resilience and alignment with international standards; transparent and safe for consumers; and inclusive and capable of adopting technological innovations. The government expects such strategies to improve the market depth indicator (premiums/GDP). The progress of this indicator will reflect better risk management by Colombians as an effective tool to reduce levels of poverty and vulnerability. In 2019, the ratio of direct gross premiums to GDP was 2.8%. For 2025, this ratio is expected to rise to 3.5%. ✖

UNMASKING THE PLUSSES

Accepting a "new normal" requires parallel new modes of conducting governance, executing commerce, and reaching the consumer, not least for tougher-to-sell items such as insurance.

COUNTRIES THE WORLD OVER are today contending with the prospective reset in social, commercial and, by extension, environmental dynamics. As elsewhere in the world, Colombia's mandatory quarantine and curbed travel have for much of 2020 together paralyzed the services sector. And meanwhile, closed businesses and resulting unemployment have baked a legal hot potato of unpaid rent, with its own economic fallout rippling across stalled economies.

A SPUR TO EFFICIENCY

On the plus side, the impact of Covid-19 has forced the hand of business and industry towards swifter digitalization. At the governmental level, as recently as November 2020 Colombia announced receipt of a USD250 million loan from the Inter-American Development Bank (IDB) directed at streamlining its tax and customs administration. The program involves the digital transformation of Colombia's National Tax and Customs Directorate (DIAN), to bolster its tax collecting and foreign trade facilitating function. Primarily under scrutiny will be the efficiency of the existing institutional governance and technological management model. The loan will also cover implementation of the new, integrated tax and customs management system based on microservices, where a hybrid multi-cloud service solution will maximize security and operational capabilities. Such measures are essential regardless of the pandemic but have doubtless been expedited in light of it.

UNDER COVER VISITORS

Colombia's government extended to end-November its health emergency status introduced by decree back in August—a costly

one for tourism revenues, but ultimately an unavoidable one. A related concern has been for the potential overwhelming of the local health service by new COVID-19 cases among locals, let alone from among visitors. In January 2020, hence prior to the pandemic, Colombia's Ministry of Health had issued a decree ensuring additional resources to bolster the social security system against over-stretch. Subsequently, the Ministry of Foreign affairs has been monitoring all V visa (Colombian Tourist Visa issued to short-stay foreigners) applications for international medical insurance to check that individuals are not likely to make undue demands of the local system to the cost of locals. As the Ministry itself puts it, "The pandemic has revealed the weaknesses of health services at a global level [whereby] as a self-protection measure, medical insurance is being requested."

POLICY OF TRUTH

As remote working continues to prove a viable alternative to the 3D workspace, citizens are experiencing new ways of accessing and being accessed by businesses. Insurance, indeed, all financial services, being no exception to that rule. Unpredictable events inevitably hit many hard, most notably the unprepared. And just like after a major tremor – think Turkey in 1999 – earthquake insurance suddenly became a household phrase, later made mandatory in law, so too is health insurance becoming a must-have for many in the wake of the pandemic.

Yet educating the uninsured public as to the merits of cover against illness or disaster, much less as a pillar of their future security, poses certain challenges. And so to counter the rather abstract nature of insurance, digital advertising is proving to be a prime

means of converting today's consumer into tomorrow's premium. A study in July 2019 showed that by digital ad spend Fogafin led the pack in Colombia's insurance and pension plans industry on 25.51% of the industry total. Protección was second on 21.69%. And completing the top-five were Compensar, Seguros Exitos and Sura, respectively on 14.23%, 9.53% and 7.07%.

A FEW NUMBERS

Sector data indicates that as of November 2019, Colombia had become Latin America's sixth-largest insurance market, sitting on premiums of USD7.8 billion, with an insurance penetration rate (percentage/GDP) of roughly 2.6%. Latin America and the Caribbean overall claim just over 3%, despite accounting for 8.6% of the world's population by UN data. And having grown 50% from 2016, assets under management (AUM) had scaled USD25 billion. Predictably though, rating agency AM Best changed its insurance sector outlook from stable to negative in light of the demands COVID-19 would have on the sector and public alike.

When the era of Covid-19 ends, and new strains notwithstanding, end it surely will, the world will not simply revert to the 'way things were.' The last pandemic, some one hundred years before, blighted a world still in the industrial era where geography was an unavoidable reality of business, work, education and governance. Who, after all, can fail to remember that official on a European Parliamentary Zoom meeting inadvertently revealed to be in his underwear? And as the glitches are ironed out one by one, every component of daily life will acclimatize to the digital environment. A point essentially of no return, effective even once humans, as is their habit, once again become complacent about their wellbeing. ✖

GDP FORECAST (%)

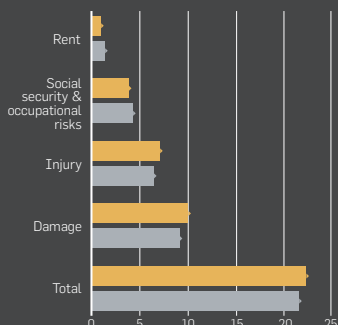
SOURCE: AM BEST DATA AND RESEARCH; LOCAL REGULATORS; NATIONAL ASSOCIATION OF INSURERS DATA

	2020	2021
MEXICO	-6.6	3
BRAZIL	-5.3	2.9
CHILE	-4.5	5.3
COLOMBIA	-2.4	3.7
PERU	-4.5	5.2
PANAMA	-2.1	4
ECUADOR	-6.3	3.9
ARGENTINA	-5.7	4.4
GUATEMALA	-2	5.5
COSTA RICA	-3.3	3
DOMINICAN REPUBLIC	-1	4
BOLIVIA	-2.9	2.9
EL SALVADOR	-5.4	4.5
HONDURAS	2.4	4.1
URUGUAY	-3	5
NICARAGUA	-6	0

PREMIUMS ISSUED (IN BILLIONS OF COP)

SOURCE: TBY RESEARCH

■ Sep 2020 ■ Sep 2019

**Insurance****At a turning point**

The word on the street is that society's involvement with technology advanced seven years in seven months thanks to the pandemic. This metric illustrates the state of innovation within the Colombian insurance industry fittingly, and also comfortingly since the improvements will contribute to the sector's robustness going forward.

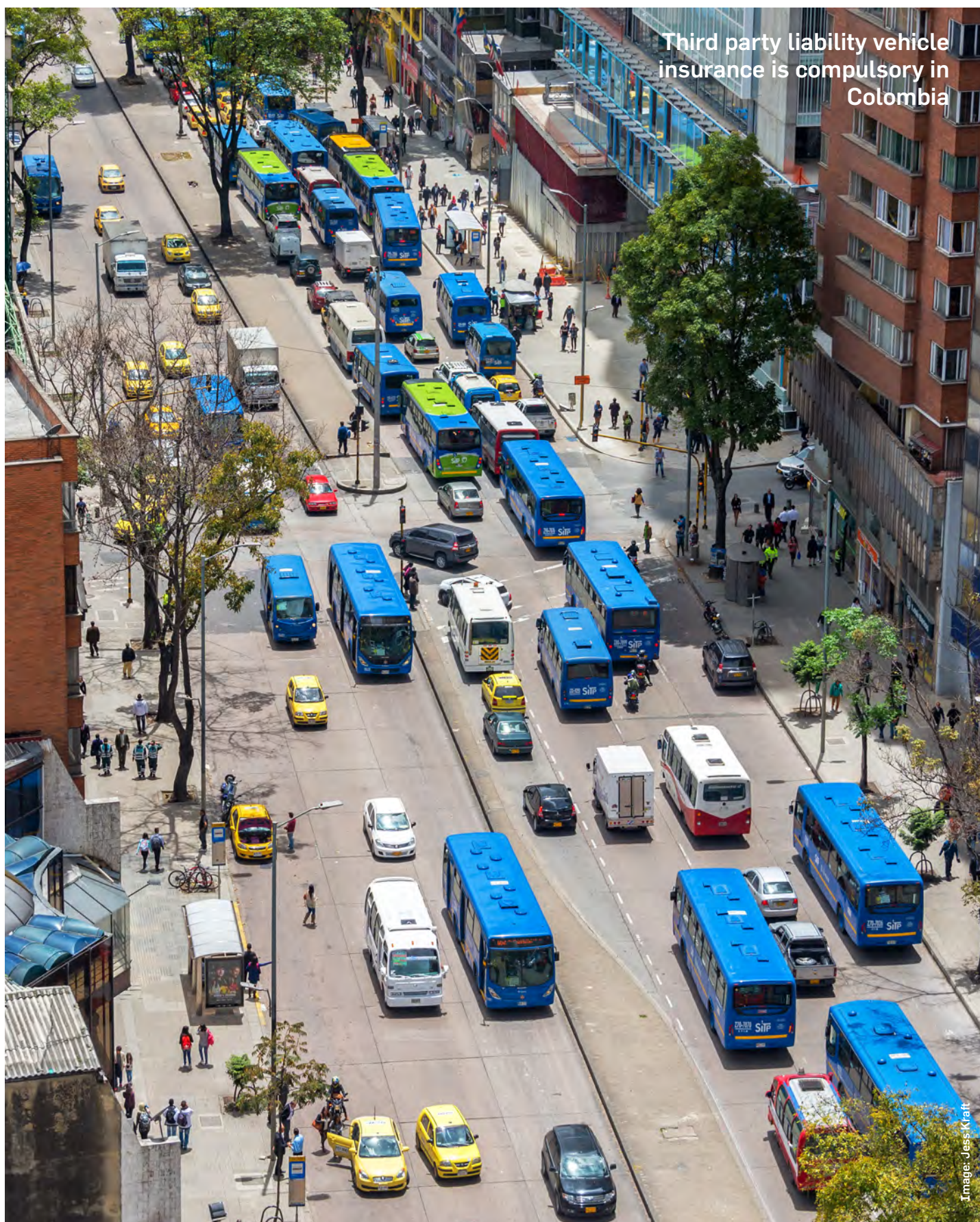
The digitalization of operations and market procurement processes are industry dynamics that will contribute to company resilience and competitiveness long term. Ultimately, these leaps expand access to insurance products for Colombians. At a penetration rate of 3%, the country lags behind the global average for insurance coverage. A 21st century approach to policy provision and management of claims means insurance will reach more people, more effectively.

Providers in Colombia are moving quickly to offer products that are clickable and that cover new and unconsidered risks. They are also strengthening their capacity for client relations and their ability to provide satisfactory service to policy holders. These changes are welcome. Although stay-at-home orders were their catalyst, these are permanent improvements to business.

Colombians now have new ways of acquiring policies and a supply of increasingly tailored products—data is bolstering product creation at unseen rates. Pay-per-use services and smart contracts are beginning to dot the websites of insurance providers in Colombia.

Miguel Gómez, president of the Colombian Federation of Insurers (FASECOLDA), explained that “innovative, simpler, and more affordable insurance products [will] deepen the penetration of insurance in society.” Accessing that untapped market of insurance consumers will unlock the potential that exists in the country and bring greater resilience to the Colombian financial system. Government support and a regulatory framework that is conducive to business will ensure that the industry escapes unscathed from pandemic-related drops in demand and lives to reap the benefits of innovation. ✕

Third party liability vehicle insurance is compulsory in Colombia





NEW OPPORTUNITIES

Miguel Gómez Martínez
PRESIDENT,
FEDERACIÓN DE ASEGURADORES
COLOMBIANOS (FASECOLDA)

Faselcolda believes the Colombian insurance industry will reach people who have never had coverage before as a result of the innovation spurred by the crisis.

BIO

Miguel Gómez Martínez holds a bachelor's and master's degree in economics from The Paris Institute of Political Studies. He is currently a PhD candidate at the Center for Diplomatic and Strategic Studies (CEDS) in Paris. Before becoming president of Faselcolda in 2020, he held roles such as president and general manager of Asocolflores, economic advisor for the Ministry of Commerce, and president of Bancoldex. He was also dean of the faculty of economics at the Universidad del Rosario and a professor of economics at the College of Higher Administration Studies (CESA). Additionally, he has been a representative to the Colombian congress, ambassador to France, and a print press columnist, among others.

As President of Faselcolda, how would you assess the local insurance sector's performance in 2020, and what were the main challenges and opportunities for growth?

The pandemic has encouraged innovation in matters of business operation, coverage, and risk assessment. We have identified efficiencies that have positive impacts on our sector and will benefit policyholders, providers, intermediaries, and reinsurers. Keeping in touch with customers has been one of the main challenges. This was quickly understood by not only insurers, but also the different industry actors—intermediaries, reinsurers, the supervisory authority, and the regulatory entity. The national government has imposed strong periods of isolation since April, and the industry has stepped up to the associated challenges, especially in terms of client relations. The crisis has been a catalyst for various projects that seek to make insurers more accessible to policyholders, not only for policy provision but also the manage-

ment of claims. Our task as the insurance sector is to identify new protection needs. Product development has focused strongly on updating workers' compensation insurance. Companies must recognize the new risks for workers in industries that have been permanently changed by the pandemic. Inclusive insurance will benefit from the innovation spurred by the crisis. The Colombian insurance industry will reach people who have never had coverage before through products that satisfy extremely specific needs that could not be easily identified and met in the past. All these opportunities require the sector to adopt an innovative approach in risk analysis, pricing, and proper reinsurance coverage. The risk and actuarial areas of companies are being changed to migrate from the traditional models of frequency and severity to data analytics, the internet of things, and AI. We expect deep and faster transformations in the next five years than those that have occurred in the last 20 years in the sector.

In what ways has Faselcolda changed internally to remain effective and operational?

Faselcolda has a light operating structure that allowed us to adapt quickly to new working conditions. In a few weeks, we managed to have the entire team remotely connected and meet the requirements of our affiliates. We strengthened the internal and external communication channels to keep cohesion in the different workgroups, provided employees with the necessary elements to carry out their work from home, and started a project to identify opportunities for improvement in different topics

such as leadership and teamwork. We also provided support to our staff on adapting to change, communication, and psychosocial risks.

One of the major priorities for insurers is raising the level of penetration so that all Colombians have access to insurance. What are your strategies for achieving this?

Insurance penetration in Colombia is below the global average, which is around 7%. However, our country is a leader in Latin America, with a penetration close to 3%, the region's average. The national insurance industry is firmly committed to expanding the coverage of risks for Colombians. To this end, Fasescolda has been developing the Más seguro, más futuro (Safer, more future) program since 2016 together with the government program Banca de las Oportunidades. This public-private initiative aims to identify and remove various supply and demand barriers that limit the access to insurance for Colombians who, traditionally, have not been protected against different risks. The focus is on strengthening access to innovative, simpler, and more affordable insurance products that are tailored to people's needs. Inclusive insurance is the spearhead of the industry to deepen the penetration of insurance in society. We have been fortunate to have the committed collaboration of the national government through the supervisory authority and the regulatory entity. In order to expand the public's knowledge on insurance issues, Fasescolda leads the financial education program of the insurance industry, Viva Seguro (Live safely). It has different

tools that allow all current and potential insurance consumers to understand the importance of managing their risks properly and make healthy financial decisions regarding access and use of these products.

Which trends will be key for the insurance sector going ahead?

In order to promote and facilitate the innovation and digital transformation processes of the insurance industry, Fasescolda, through the National Insurance Institute (INS) and the Colombian Insurance Foundation (Fundaseg), hired PricewaterhouseCoopers (PwC) in 2019 to carry out a research on the prospective vision and training needs of human talent for the future of the insurance industry in Colombia. Eight challenges were identified: the speed of technological change; the difficulty in attracting and retaining the right human talent; the protection of sensitive data from cyberattacks; natural disasters and environmental protection; changes in consumer behavior; new competitors and ways of competing; lower profitability of investments in a scenario of high operating costs; and the timely adoption of standards and regulation. Although these challenges imply important changes in the sector, they bring opportunities for innovation. To translate the challenges into opportunities, the insurance industry needs to undertake the journey of digital transformation. A model of strategic and managerial thinking that, although supported by technologies and information, requires ensuring digital capabilities in human talent and a corporate culture ready for change. ✖



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