Swiss Re Institute

November 2022

Latin America market report 2022: moderating growth amid rising headwinds

Latin America economic and insurance market outlook

Economic outlook

- **We forecast that gross domestic product (GDP) growth in Latin America will moderate to 1.3% next year** from an estimated 3.2% in 2022. Tighter financial conditions, broadly lower (but still elevated) commodities prices and the global economic slowdown will weigh on regional growth. We project that Peru will outperform (2.5% growth), Colombia and Mexico to have a sluggish economy (1.3% each), while Brazil, the largest country in the region, to have muted growth (0.4%), and Chile to go into mild recession (-1%). Following a strong rebound last year, economic growth in the region has been stronger than expected, particularly in the first half of this year. Higher commodity prices have benefitted net commodity exporters (Chile and Peru rely heavily on metals; Mexico, Colombia and Brazil have large exposure to oil, and the region as a whole is a net exporter of agricultural goods), while robust domestic demand and normalization of contact-intensive sectors (eg, hospitality, travel, wellness) have also provided support. External headwinds to growth have included renewed supply-side shocks, geopolitical tensions in the wake of the war in Ukraine, and rising interest rates in the US. Heading into next year, rising (global) interest rates will further weaken public finances and also test private balance sheets. Weaker growth in China, a likely recession in advanced economies and social unrest are key downside risks to the economic outlook for Latin America.
- **Inflation has likely peaked but we expect it will remain elevated in the near term,** exceeding central bank targets well into 2024. As around the world, inflation has accelerated in Latin America in 2022 due to a rebound in domestic demand, higher energy and food prices, and supply-chain disruptions. We expect inflationary pressures to ease but persist into next year, due to second-round effects from higher energy and food prices passing-through to core inflation and wages. Several central banks in Latin America have been tightening monetary policy for more than a year, and are now close to or at the end of their hiking cycles. Most central banks in the region are likely to start unwinding some of their monetary tightening next year but even so, upside risks remain. For instance central banks in the region may need to raise interest rates more or keep them elevated for longer to curb capital outflows and avoid abrupt currency depreciations and pass-through inflation. We expect the policy rate in Brazil to end next year at 11.75%, while Mexico's central bank is expected to move in lockstep with the path of the US Federal Reserve (Fed).
- **Policy uncertainty will continue following political shifts.** Slower growth and social discontent with higher cost-of-living could result in more market-adverse economic policies from the left-leaning leaderships recently elected. Weaker fiscal positions in an environment of rising interest payments mean interest rates may need to remain elevated due to increased risk-premia. Persistent uncertainty regarding policy continuity has jeopardised growth prospects for Latin America.

Insurance outlook

- **We expect real premiums in Latin America to grow by 3.1% in 2023,** down from an estimated 4.2% in 2022. We forecast 3% growth in Life and Health (L&H) premiums in real terms for the region in 2023, up from an estimated 2% in 2022, as high inflation has been eroding nominal growth. Slower economic growth and higher cost-of-living will weigh on insurance spending in the near term. We expect non-life (excluding health) premium growth to moderate to 3.8% in 2023 from an estimated 8% this year, with rate hardening, particularly in property, continuing to provide support. Further out we expect total premiums for the region to grow above GDP annually over the next five years on the back of increased risk awareness and large insurance protection gaps. At the same time, structurally higher and more volatile inflation will likely remain a negative for insurance demand and profitability.
- **We expect commercial insurance prices to continue to rise.** In the third quarter of 2022, the composite commercial insurance prices index rose by 5% in Latin America (the sixteenth consecutive quarter of increase). Pricing increases were driven by property (5%) and financial and professional liability (6%), and a second quarter of growth in casualty prices (6%) for the first time since early 2020. We see rate hardening regaining momentum as economic inflation has driven up claims inflation (including health, motor and construction) and natural catastrophes losses pressure reinsurance capacity. Life profitability is benefiting from rising interest rates and normalising mortality claims related to COVID-19.

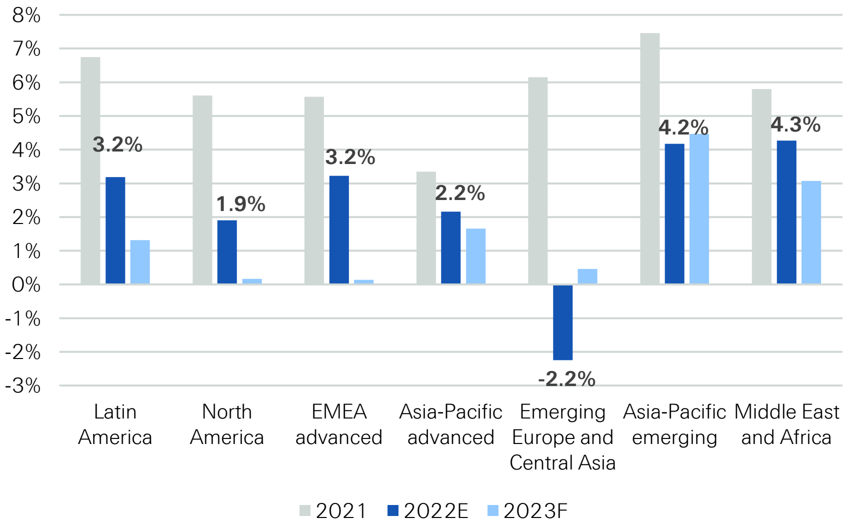
Latin America economic and insurance market outlook

Table 1
Economic indicators and forecast

	Real GDP growth (%)			Inflation (average %)			Policy rate (%)	Debt/GDP	Credit rating*
	2021	2022E	2023F	2021	2022E	2023F	2022E	2022E	Nov 2022
Brazil	5.1	2.6	0.4	8.3	9.7	6.4	13.75	96	BB-
Mexico	5.1	2.2	1.3	5.9	7.9	5.8	10.00	57	BBB-
Colombia	10.7	7.1	1.3	3.5	9.7	6.9	11.00	68	BB+
Argentina	9.3	3.7	1.6	48.4	65.9	57.0	-	87	CCC-
Chile	11.7	2.1	-1.0	4.5	11.6	7.7	11.25	33	A-
Peru	13.5	2.7	2.5	3.9	7.1	4.5	7.25	39	BBB

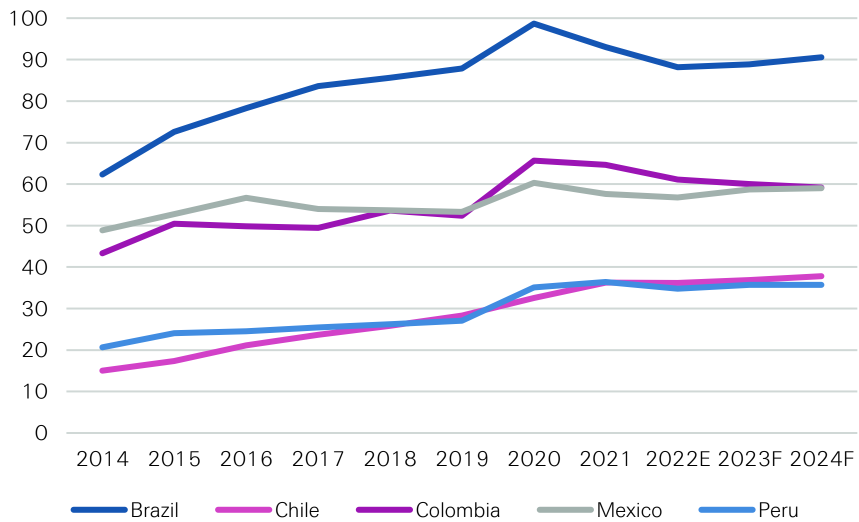
Note: E = estimate, F = forecast; *Fitch Ratings
Source: Oxford Economics, IMF, Fitch Ratings, Swiss Re Institute

Figure 1
Real GDP growth by region, 2021-2023F



Source: Oxford Economics, Swiss Re Institute

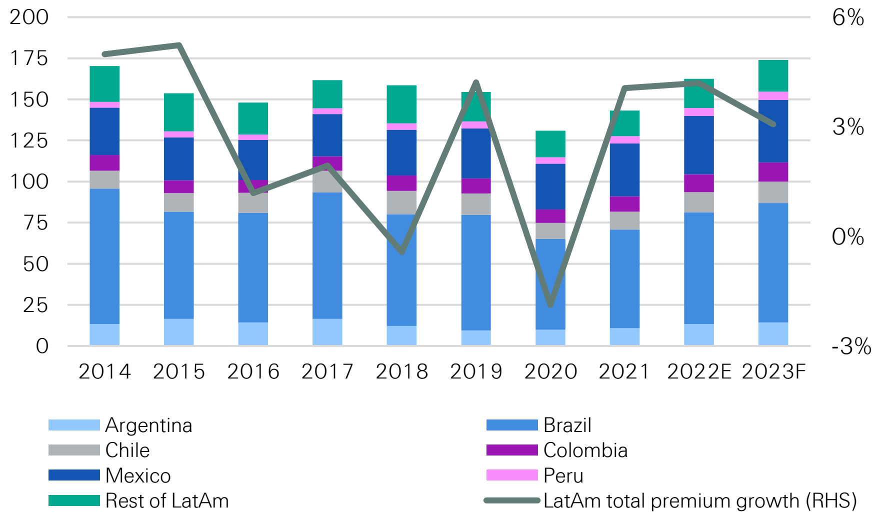
Figure 2
Government gross debt, % of GDP 2014-2024F



Source: IMF (Fiscal Monitor - October 2022), Swiss Re Institute

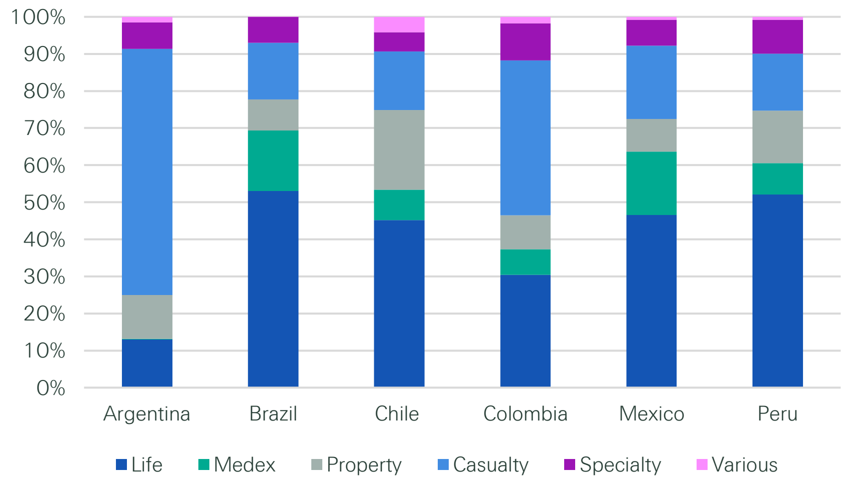
Latin America economic and insurance market outlook

Figure 3
Direct premiums written (USD bn) by country, and regional real premium growth, 2012-2022F



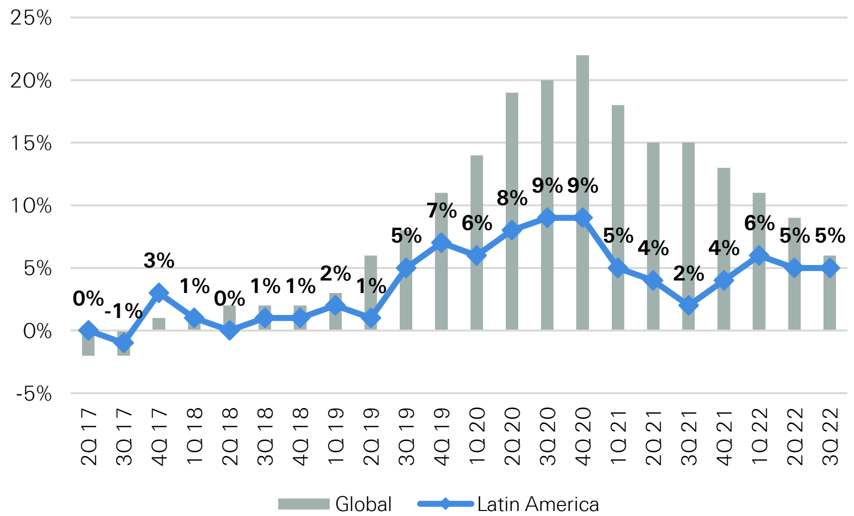
Source: National insurance associations and regulators, Swiss Re Institute

Figure 4
Insurance business mix in key markets in Latin America, 2021



Source: National insurance associations and regulators, Swiss Re Institute

Figure 5
Latin America composite insurance pricing



Source: Marsh Global Analytics, Swiss Re Institute

Risks to economic outlook

The balance of risks to the economic outlook are weighted to the downside. Recessionary risks are rising due to global economic slowdown (recessions), tighter financial conditions and declining commodity prices. Meanwhile, the political and policy outlook remains uncertain and fiscal metrics have deteriorated.

Risk scenario	Explanation	Impact on growth & trend
Inflation risks	Inflation risks remain elevated given potential additional supply-side shocks: supply chain disruptions, labor shortages, and higher food and energy prices. The conflict in Ukraine has aggravated the current cost-of-living crisis. There is increased attention on potentially more sticky US core inflation which could trigger more Fed tightening, pressure global financial conditions, and weaken exchange rates and cause pass-through inflation in Latin America. There is also a risk of a premature dovish pivot by the Fed, allowing inflation (expectations) to become unmoored.	🔴 =
Tightening financial conditions	Aggressive policy tightening could cause more serious economic downturns or recessions. Central banks in the region have been tightening monetary policy since last year to control rising inflation. They may further tighten in order to support currencies, with advanced market central banks increasing interest rates at the fastest pace for decades. Ongoing US tightening is likely to keep global financial markets in a higher-volatility, higher-systemic risk climate.	🔴 ⬆
Political risks and social unrest	High inflation has deeply affected Latin American populations, with the most vulnerable demographics experiencing the highest pressures due to proportionally greater spending on food. Social discontent with inequality and the current cost-of-living crisis triggered a wave of protests in several countries this year (eg, Peru, Argentina, Ecuador, Panama) and could result in more unsustainable populistic economic policies.	🔴 =
Debt sustainability	Low economic growth is a threat to the adjustments needed to mitigate the large fiscal imbalances. This raises doubts over the long-term debt sustainability and increases sovereign credit risk, potentially leading to ratings downgrades, capital outflows and exchange rate depreciation. High levels of private external debt in the region are also key to watch. Risk of currency depreciation can also impact the sustainability and cost of foreign-currency denominated debt.	🔴 =
Commodity prices	Accounting for the recent decrease, we still expect commodity prices to remain elevated compared to historical levels, due to global supply chain bottlenecks, sanctions and war disruptions. However, slower global growth, especially from China, is a headwind for commodities. A more severe commodity downcycle (akin to 20011-2015) would weaken terms of trade and suppress growth.	🟢 ⬇
Weak global growth	Global growth could slow more than current baseline given that inflationary recession risks are on the rise, which in turn could expose internal economic vulnerabilities (eg, dependency on commodity exports to the US and China).	🔴 ⬇
Heightened geopolitical tensions	Ongoing uncertainty generated by the war in Ukraine and continuing global fragmentation into rival blocs and alliances suggest sustained strategic rivalries, military tensions and deglobalization are here to stay. This environment could further disrupt regional supply chain stability, adding upside risk to the inflation outlook in certain industries. US-China tensions are also key to monitor.	🔴 =

Note: Green: positive impact on growth; red: negative impact on growth

Brazil

Economic outlook

- **We expect muted economic growth of 0.4% in Brazil next year,** down from an estimated 2.6% this year. Economic activity has been stronger than expected in 2022 on the back of favorable external conditions as export revenues surged due to higher metal, oil and agricultural commodities prices, and a new round of government cash transfers to households boosted consumption. As a result, unemployment has been falling. It reached 8.9% in August, the lowest rate since 2015 and more than 300 basis points (bp) below pre-pandemic levels. All told, we expect the economy to slow down as rising real interest rates will take a toll on private consumption and investments. Meanwhile, weak global growth, especially in China, and the consequent drop in commodity prices will soften exports.
- **Reform agenda remains uncertain and debt burdens persist.** Last month left-wing former president Lula defeated the right-wing incumbent Bolsonaro with 50.9% of votes against 49.1%. With such a tight result, political and social tensions may increase in the near term. Brazil's fiscal metrics improved this year due to robust revenues bolstered by increased commodity prices, the privatization of Eletrobras and solid economic activity. However, one of the biggest challenges ahead will be fiscal consolidation. The new administration will have to decide the fiscal framework in an environment of low growth and high interest rates, while expanding social programs as promised in the campaign. Reaching political consensus on the reform agenda will be difficult given the more polarized and conservative newly-elected congress. The latter will also limit the scope of major changes proposed by the president-elect.
- **We expect inflation to ease in 2023 to an average of 6.4%** from an estimated 9.7% in 2022, but still above central bank's target of 3.25% (the fourth year in a row). Brazil has been struggling with high inflation for more than a year, but we believe prices peaked in the second quarter 2022, and inflationary pressures has started to come down. Stubbornly high inflation has led the central bank to pursue aggressive monetary policy, with 12 consecutives interest rate hikes since February 2021, rising from 2% to 13.75% in September 2022. We believe the central bank has now reached the peak of the tightening cycle, and is likely to start cutting rates in the second half of 2023, down to 11.75% by the end of the year. Nonetheless, central bank action will be influenced by external events. Higher risk-premia due to rising real interest rates has supported the exchange rate, but recession fears and the more hawkish stance by the US Fed could strength the US dollar, putting pressure on the real exchange rate.

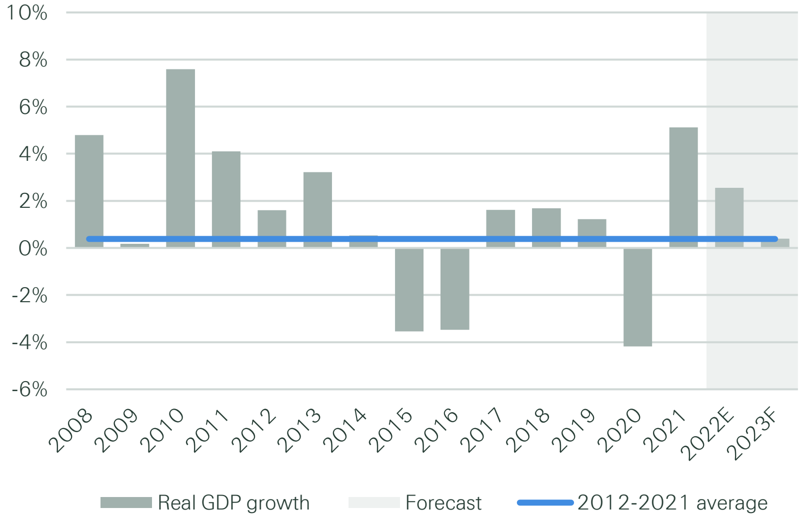
Insurance outlook

- **We forecast that total premiums will grow by 3% in real terms in 2023,** down from an estimated 4.3% in 2022. Growth has been driven by non-life and this will continue, although we expect life premium growth to strengthen next year also. The insurance market has been more resilient than expected, reflecting favorable economic activity, hardening rates due to inflation and greater public awareness for life insurance post pandemic. Innovation, digital transformation and regulatory tailwinds such as Open Insurance (the standardized sharing of data and services through the opening and integration of systems) have driven important changes in the market in recent years. Those drivers will continue to create new business opportunities to increase market penetration and above-trend growth. Our 2022 global consumer survey found that more than 50% of respondents in Brazil plan to use digital channels more for their insurance coverage needs.[1]
- **We forecast L&H premiums will increase by 2.3% in 2023,** up from 1.1% in 2022E. High inflation has offset nominal growth for life premiums, with negative growth for risk products offset by savings products. High unemployment will limit demand for health covers, which in large part comes from employer-benefits plans.
- **We project above-trend growth in non-life premiums of 4.5% in 2023,** following strong growth in 2022 (estimated 12%). This year growth has been driven by motor premiums, up on the back of higher vehicle prices and a recovery in vehicle sales (about 30% new registrations this past August). However, vehicle price increases will likely cool as supply chains normalize.

[1] *Swiss Re global COVID-19 consumer survey 2022*, Swiss Re Institute, June 2022.

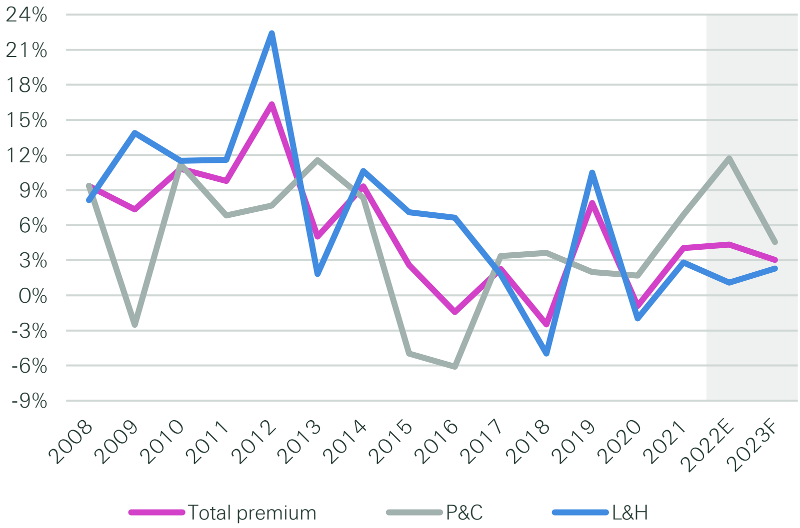
Brazil

Figure 6
Real GDP growth



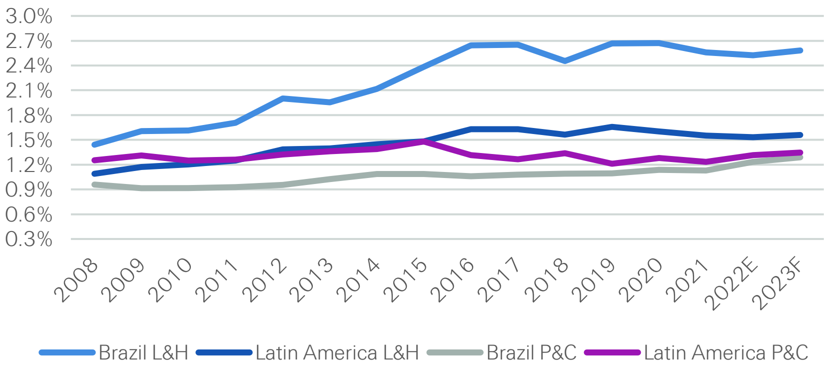
Source: National statistics agency, Swiss Re Institute

Figure 7
Real premium growth



Source: National insurance regulator, Swiss Re Institute

Figure 8
Insurance penetration



Source: Swiss Re Institute

Mexico

Economic outlook

- **We forecast economic growth to slow to 1.3% next year** from an estimated 2.2% in 2022. Growth has been stronger-than-expected this year with sustained wage gains (in real terms), robust tourism revenues and high remittances supporting private consumption. However, the momentum will not last. Higher interest rates and lower purchasing power will likely weigh on consumer spending, and slowdown in the US will dent demand for Mexico's manufacturing exports. Historically, Mexico has risen and fallen to the tune of the US economy, which accounts for 80% of its total exports. Other internal factors such as tight fiscal policy and renewed uncertainty due to the energy dispute with the US and Canada will also weigh on activity. Post-pandemic recovery has been hampered by fiscal austerity, with the government having not provided adequate relief measures to mitigate the slowdown from the COVID-19 crisis. Risks to the outlook are tilted to the downside amid a potential hard economic landing in the US. On the upside, the country could benefit from restructuring of global supply chains.
- **Policy uncertainty persists and deters recovery in investment.** Business sentiment is likely to remain depressed given microeconomic interventions by the government and unorthodox economic agenda, which has kept investment subdued. Fixed investment has only partially recovered from the pandemic and is still 8% below what it was in 2018. The government's efforts to regain control over the energy sector is also increasing uncertainty and dissuading investment in Mexico. The formal dispute resolution process requested by the US and Canada due to Mexico's policies that favor the Federal Electricity Commission and state oil company Pemex over private and foreign firms, could take months to resolve. A result could be imposition of tariffs on exports from Mexico.
- **We expect inflation to ease in 2023 to an average of 5.8%** from 7.9% in 2022, but to remain above the central bank's target of 3%. Adverse weather conditions, higher commodities prices and supply-chain disruptions have kept headline inflation pressures elevated. However, the inflation peak was likely in the third quarter, helped by government measures to contain pressures on food and gasoline prices. With stubbornly high inflation and more aggressive stance by the US Fed, we expect the central bank to raise interest rates to 10% by year-end 2022 (from 9.25% currently, already a record high) and to 10.5% at the beginning of next year, before starting to cut rates in 2024. That said, the central bank will ultimately have to match the path taken by the US Federal Reserve.

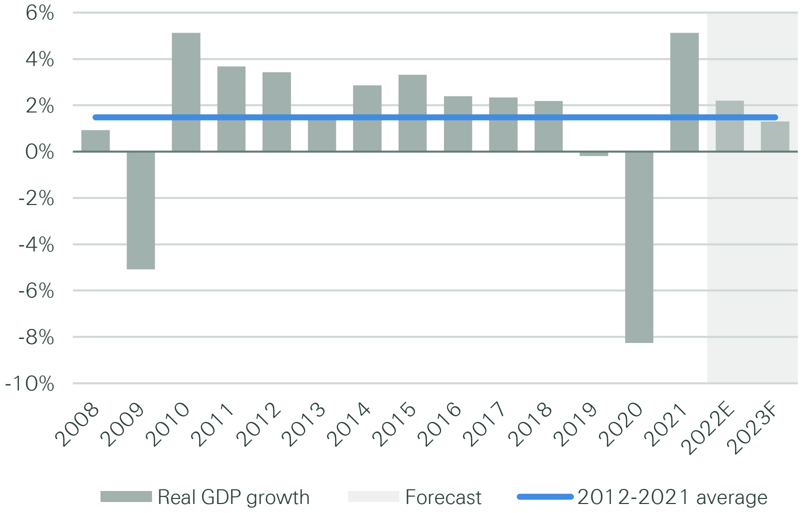
Insurance outlook

- **We forecast total premiums to grow just shy of 3% in real terms in 2023,** down slightly from an estimated 3.4% in 2022. Robust growth in health and non-life premiums has been partially offset by a decline in the life segment. High inflation and weak economic activity will slow insurance demand. Meanwhile, underwriting results may come under pressure from lower growth in the customer base and lower underwriting margins. However, large infrastructure projects, increasing frequency of natural catastrophes and increased uptake of health insurance after the pandemic will support premium growth in the medium-term, with plenty of room for growth given the low existing penetration rate.
- **We expect L&H premiums growth to recover in 2023 to 3.3%,** after remaining flat in 2022 (estimated 0.1%). We expect life premiums to recover, particularly products with a savings component given rising real interest rates, while increased consumer risk awareness will continue to support demand for health coverage. Our 2022 global consumer survey shows that out of 20 countries, Mexico had the second highest level of consumer concerns about physical and mental health status following the COVID-19 experience.[2]
- **We forecast that non-life premium growth will slow down next year to 2.2%,** from a strong estimated 9.3% in 2022. Growth this year has been driven by property, accident, liability and specialty lines, fully offsetting a drop in motor premiums. We expect motor premiums to recover as vehicles sales return to pre-pandemic levels. Rate hardening should support growth in commercial lines.

[2] Ibid.

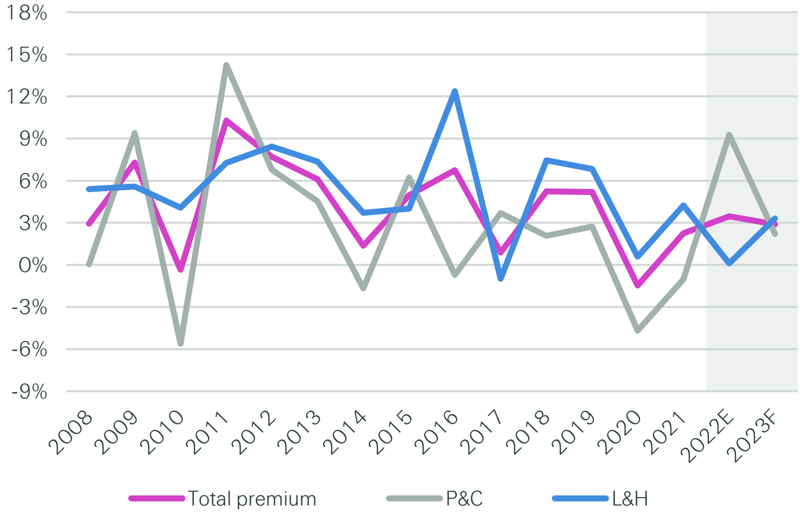
Mexico

Figure 9
Real GDP growth



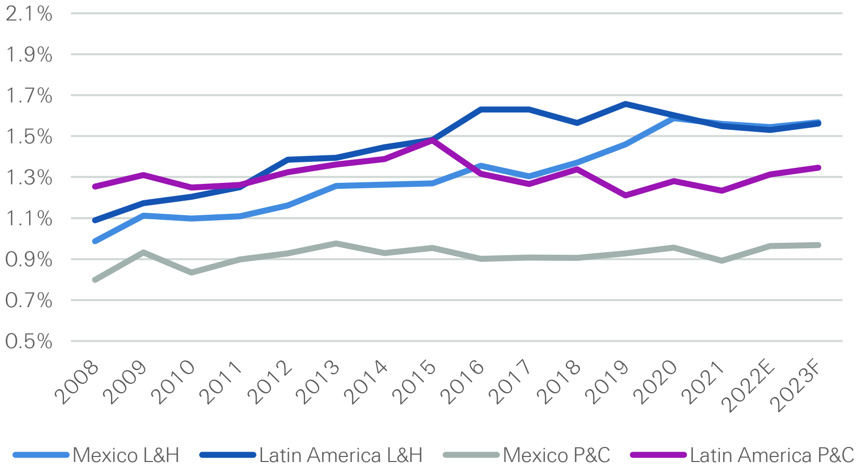
Source: National statistics agency, Swiss Re Institute

Figure 10
Real premiums growth



Source: National insurance regulator, Swiss Re Institute

Figure 11
Insurance penetration



Source: Swiss Re Institute

Colombia

Economic outlook

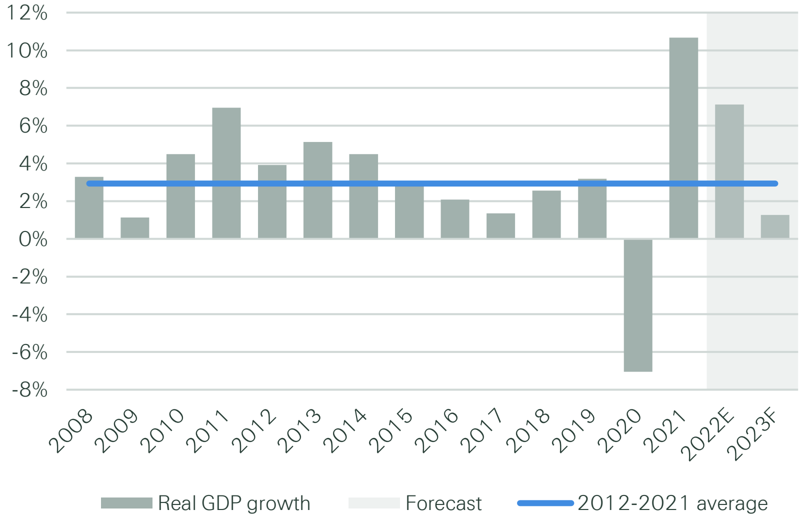
- **We expect GDP growth in Colombia to slow to 1.3% in 2023** after strong growth of 7.1% (estimate) in 2022. This year's momentum has been driven by robust consumer spending and exports. The surge in oil and coal prices have supported strong economic activity with the two commodities accounting for about 50% of exports. Concerns over energy shortages have led Europe to double its coal imports from Colombia since the start of the Ukraine war. While we believe exports will remain robust, we expect growth will weaken in 2023. High inflation, monetary policy tightening and fading fiscal policy will weigh on private consumption. With low domestic savings, the economy faces a large external deficit, this mostly financed by foreign direct investment. The external deficit has been declining gradually but it will remain a challenge in the medium-term.
- **Policy uncertainty and fiscal challenges remain.** The coalition led by Gustavo Petro won the presidential elections in June, Colombia's first ever left-wing president. During the campaign, he promised to revise the pension (currently scheduled for 2023) and the healthcare systems, pursue a greener agenda and increase the installed capacity of renewable energy. Since the pandemic, Colombia has loosened its fiscal policy based on debt sustainability. Despite the improvement in revenues this year, fiscal accounts are still under strain after the return to austerity in April last year failed, following heightened social turmoil. Without reforms and with higher debt servicing costs, public debt will return to an upward trend. The new administration has recently been able to pass a tax reform bill to increase public revenues. The bill cuts corporate tax exemptions, increases export taxes on oil and gas, and also high incomes.
- **We expect inflation to slowly moderate in 2023 to an average 6.9%,** from an estimated 9.7% in 2022, but still above the central bank target of 3%. Inflation has been more persistent than expected, reaching decade highs. High demand, food and energy prices, and global supply bottlenecks and currency depreciation have fuelled inflationary pressures. As a result, the central bank has tightened monetary policy to 11%, which we expect will continue until the beginning of next year. We expect the central bank will start to cut interest rates moderately next year to 10%. But additional tightening of global financial conditions and US dollar appreciation instead may prompt further hikes.

Insurance outlook

- **We forecast that total premium growth will slow to 3.1% in real terms in 2023,** after a strong showing in 2022. This year growth has been driven by L&H, casualty and specialty premiums on the back of the robust economic recovery. However, lower purchasing power due to higher inflation and less favourable economic conditions will likely weigh on demand going forward. Higher claims inflation owing to currency depreciation and supply chain disruptions, particularly for motor and medical expenses, has put pressure on profitability. On the upside, higher interest rates boost investment income, particularly for life insurers.
- **We expect L&H premiums to increase by 3.3% in 2023,** down from estimated growth 11.6% in 2022. Increased risk awareness has driven demand for life products and health insurance, and we expect this to continue. We forecast 3.2% growth in life premiums in 2023, and 3.4% growth in health premiums.
- **We forecast non-life premium growth to moderate next year to 3%,** from an estimate 9% in 2022. Growth has been driven by casualty and specialty lines on the back of continued rate hardening in motor and commercial lines, offsetting a decline in property premiums. Prices in motor have been pushed higher by increases in repair costs, vehicle prices and claims frequency. We expect growth in motor premiums, the largest non-life line of business, to ease to 3% in 2023 as vehicle sales cool and cover becomes less affordable.

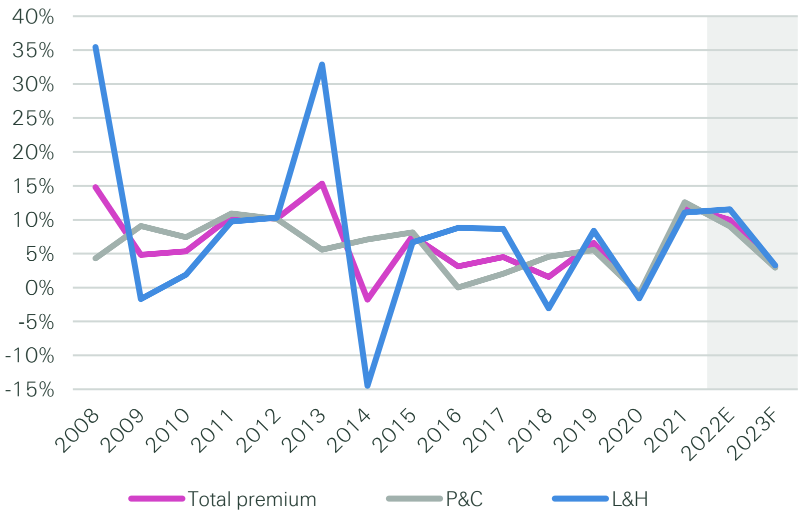
Colombia

Figure 12
Real GDP growth



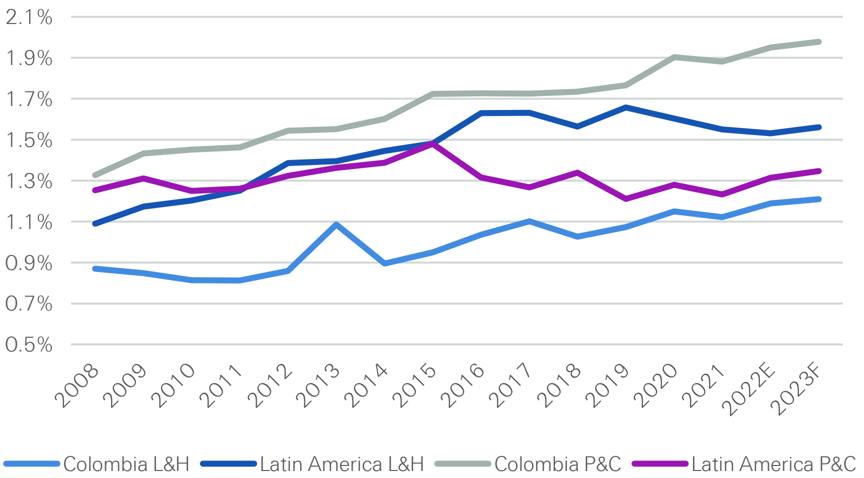
Source: National statistics agency, Swiss Re Institute

Figure 13
Real premium growth



Source: National insurance regulator, Swiss Re Institute

Figure 14
Insurance penetration



Source: Swiss Re Institute

Chile

Economic outlook

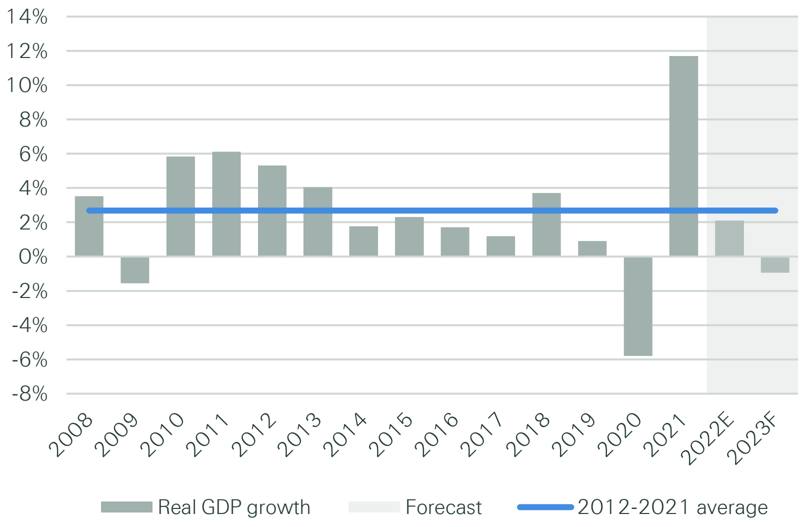
- **We forecast a 1% contraction in Chile's economy next year** after estimated growth of 2.1% in 2022. Fiscal stimulus and pension withdrawal allowances boosted private consumption at the beginning of this year. However, high inflation, tighter financial conditions and the withdrawal of stimulus measures will weigh on economic activity. Growth next year will also be subdued by weaker demand globally, including in China, which will put pressure on copper prices, Chile's main export. Strong domestic demand, increased energy imports and falling exports have resulted in a sharp widening of the current account deficit, which has been on an upward trend since 2016. This, alongside heightened political uncertainty and currency volatility, will further compound the country's economic vulnerability.
- **The rewrite of the Constitution will continue to cloud policy agenda and weigh on business confidence.** In 2020 Chileans voted to rewrite the dictatorship-era constitution, but the first draft was rejected on a referendum vote in September this year. The changes were considered too drastic, expanding the role of the government and raising uncertainty over changes to the business-friendly regulatory framework and to public finances. As a result, the left-leaning president, Gabriel Boric, reshuffled his cabinet to older, center-left politicians, to push a more moderate draft. Discussions about the path for a new constitution are underway, but the process could last one or two more years. We believe Chile will opt for a higher level of structural debt so as to expand fiscal spending on social welfare and pension reform. In this environment of high political uncertainty, firms are likely to delay investments until there is more visibility and certainty on policy direction.
- **We expect inflation to moderate to an average 7.7% in 2023,** that more than twice the central bank target of 3%. Inflation likely peaked in the third quarter of 2022 and we estimate a full-year average rate of 11.6%. Core inflation has shown signs of easing, but high food and energy prices, and currency depreciation will keep the headline number elevated. The central bank has increase interest rates by 10.75 percentage points since July 2021, and we expect a year-end rate of 11.25% (the highest since November 1998). We anticipate cuts to 9.25% in 2023. However, risks for the policy rate are to the upside, there being potential for further volatility in global financial markets and currency depreciation.

Insurance outlook

- **We forecast total premiums to increase by 3.5% in real terms in 2023,** down from estimated 7.2% growth in 2022. This year's increase has been driven by property, motor (excluding liability lines) and a recovery in life premiums. We expect this to continue next year, but at a slower pace. We believe the market will be resilient in the face of an expected recession next year, but the balance of risks are to the downside. The industry has been affected by high inflation, currency depreciation and volatile financial markets, while political tensions may create additional challenges. Chile's insurance market is one of the most developed in Latin America in terms of penetration, financial flexibility and depth.
- **We expect L&H premiums to rise by 4.5% in 2023,** after near 10% growth in 2022. We forecast a recovery in life premiums next year (up 5%) after years of weak growth or contraction due to regulatory changes. Health premiums, however, will remain largely flat due to segment changes, including regulatory. Demand for life products with a savings component will be supported by higher interest rates in the near term. Meanwhile, increased consumer risk awareness post pandemic should support demand for protection-type and health covers in the medium-term.
- **We forecast that non-life premium growth will slow to 2.3% next year** from an estimated 4.3% in 2022. We expect motor and property premiums, which account for more than two-thirds of the non-life sector, to continue to drive growth due to rate hardening, the latter on account of claims inflation. Rising theft of vehicles and auto parts has also contributed to higher claims.

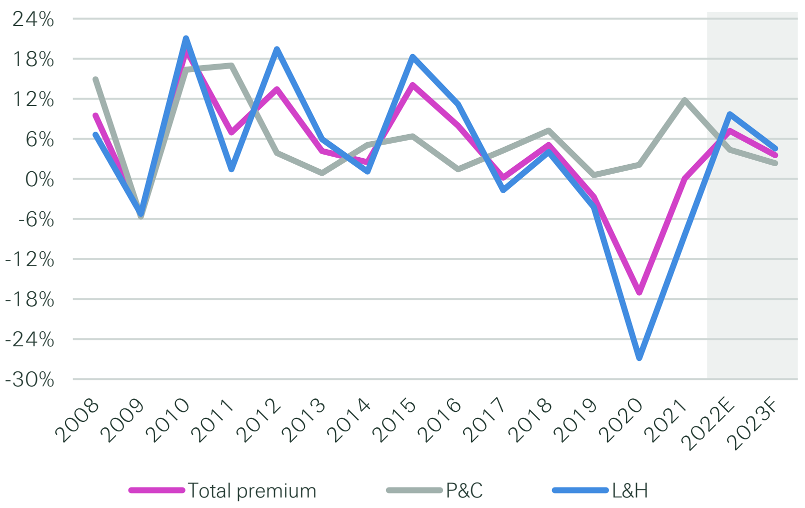
Chile

Figure 15
Real GDP growth



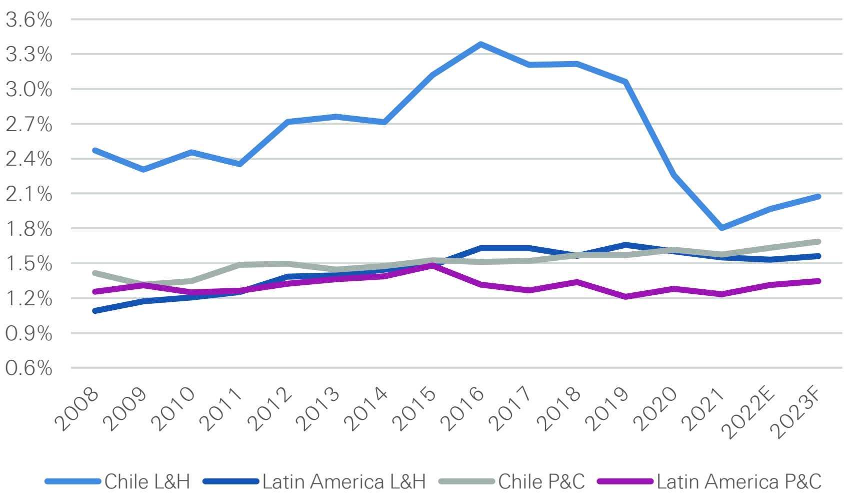
Source: National statistics agency, Swiss Re Institute

Figure 16
Real premium growth



Source: National insurance regulator, Swiss Re Institute

Figure 17
Insurance penetration



Source: Swiss Re Institute

Peru

Economic outlook

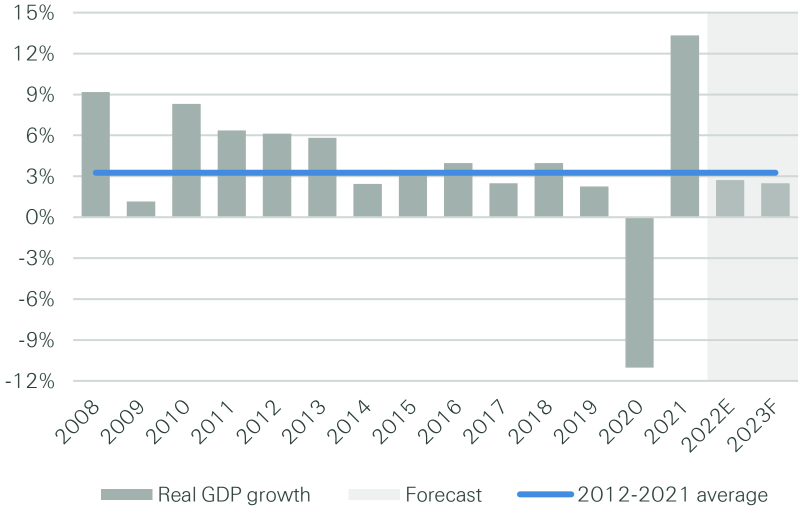
- **We expect subdued growth of 2.5% in 2023** after an estimated 2.7% increase in 2022. Political instability is weighing on economic growth, with social conflicts disrupting mining production and high turnover in the cabinet delaying public investment. These developments have offset the positive growth impact of a boost in natural gas and oil production. We expect monetary policy tightening and lower purchasing power will likely weigh on consumption next year. At the same time weaker global growth, particularly in China, will put downward pressure on metal prices, Peru's main export and, consequently, private investment. As a result, the recovery of formal employment and high-quality jobs will be slow, restraining both wages and productivity gains. On the upside, the government recently announced a fiscal stimulus package to increase public investment. Addressing the large informal sector (about three-quarters of workers) and low productivity will be key to improve long-term growth prospects.
- **Political uncertainty and social instability will continue to cloud the outlook.** Recent political turmoil has involved multiple corruption investigations linking president Castillo and his affiliates, two failed impeachment attempts and high turnover in the cabinet. This political instability weighs in business confidence. The environment will remain challenging, with Peru's fragmented and unpredictable Congress not helping. Social discontent could lead violent protests, as seen this year. The deterioration in political stability and weakening governance have mounted downside risks to investment and economic growth, and can also result in rating downgrades (Peru is currently just one notch above investment grade).
- **We expect inflation to fall to 4.5% in 2023** from an estimated 7.1% in 2022, well above the central bank target (2%). Inflation accelerated this year, mainly due to the rise in commodity prices and robust domestic demand. We expect prices to remain elevated next year, although the peak has likely passed. To anchor inflation expectations, the central bank has hiked interest rates by 700 basis point since August 2021. We expect rates will remain at 7.25% by the end of the year, and forecast rates cuts from the second half of next year to 6.5%. However, risks are to the upside with internal and external factors potentially sparking further currency depreciation and the recently-announced fiscal package adding to inflation pressures.

Insurance outlook

- **We forecast that total premiums to grow by 4.4% in real terms in 2023,** a similar pace as in 2022. Premiums have been driven by strong growth in casualty and property lines, offsetting slower growth in L&H. We expect the market will remain resilient and outpace subdued economic growth. On the downside, political instability can continue to create challenges. While claims related to COVID-19 deaths have declined, profitability has been pressured by higher claims inflation.
- **We expect L&H premiums to increase by 4.5% in 2023,** up from estimated 3.2% growth in 2022. This year growth in life premiums, which represent 52% of the total insurance market, have slowed after a very strong recovery in 2021 from the pandemic-induced slump in demand. Life insurers in Peru have been negatively affected by early withdrawals of the insurance component from the Private Pension Funds. The proposed reform to eliminate the mandatory pension savings system, if approved, will present additional headwinds. On the upside, higher interest rates should support demand for life products with a savings component. And increased risk awareness post COVID-19 will continue to drive demand for health covers.
- **We forecast non-life premiums to grow by 4.1% in 2023,** down from an estimate growth of 6.5% in 2022. Rate hardening in commercial lines will continue to underpin growth in property and casualty premiums. Motor premiums have recovered from the decline during the pandemic, but high motor-related inflation and rising vehicle accident rates have resulted in higher claim costs. Peru has the lowest non-life insurance penetration rate of its major peers in Latin America due to the high level of informal labor in the economy and low income levels.

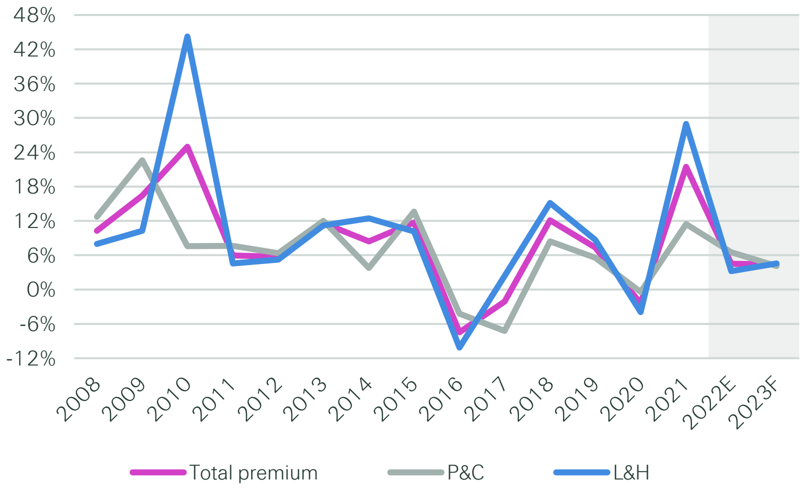
Peru

Figure 18
Real GDP growth



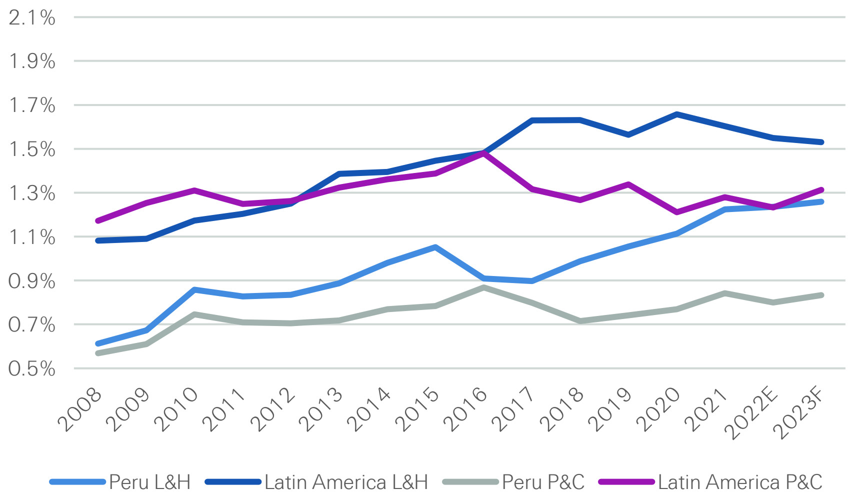
Source: National statistics agency, Swiss Re Institute

Figure 19
Real premium growth



Source: National insurance regulator, Swiss Re Institute

Figure 20
Insurance penetration



Source: Swiss Re Institute

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