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Insurance Practice

Global Insurance Report 2023: Capturing growth in Latin America

Latin America's insurance market is booming—both in premium growth and complexity. The opportunities available to global, regional, and local insurers are immense.

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Latin America's insurance market is a fertile territory for accelerated growth and business model innovations. It is already the fastest-growing regional insurance market globally—in both life and nonlife segments—and it's among the most profitable markets for insurers globally. However, several structural challenges, such as a fragmented market and socioeconomic factors, persist. For the region to fully bridge the gap between its current insurance penetration levels and those of more-mature markets worldwide, insurers in the region will need to identify their unique path to profitable growth.

As more consumers in Latin America gain access to the tools of developed markets, such as bank accounts and smartphones, insurance becomes both more accessible and more necessary. And as insurers seek growth and efficiency, leaders are increasingly asking bold questions about what products could meet the demands of underserved populations.

Recognizing the significance of addressing these challenges, this report—the first geography-focused edition of McKinsey's *Global Insurance Report*—offers actionable recommendations to global, regional, and local insurers, as well as to policy makers, regulators, and industry stakeholders, to navigate the complexities of Latin America's insurance market. By addressing these issues head-on, Latin America can further propel its insurance market, working toward comprehensive coverage and financial protection for more of its diverse population.

The state of the Latin American insurance industry

Latin America is on the move, and the opportunities in the region's insurance market are wide-ranging and promising. Rapidly expanding economies, an emerging middle class, and an increasing awareness among consumers of the value of financial protection have made Latin America a region in which insurers can thrive. In this chapter, we offer a data-based overview of the market (see sidebar, "About the research"). New McKinsey analysis offers insights into the drivers of growth in the region, the varying performance in vastly different markets, the stubborn protection gap, and inefficiencies that represent the main barriers to growth.

About the research

The research for this report involved collecting data from regulatory authorities of nine countries: Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Panama, and Peru. The reported data represent the full year of 2022 in local currency, except for Panama, for which the fourth quarter was estimated based on annualization of data from the first three quarters.

Our estimate of total Latin America gross written premiums (GWP) in 2022 is based on the proportion that the selected countries have represented in total Latin America GWP over the past ten years. When categorizing lines of business in the insurance market, the nonlife category includes health and accident insurance, along with other nonlife insurance segments.

It is important to note that the data collected may contain outliers because of new companies entering the market. For example, in Colombia, during the fourth quarter of 2022, Asulado commenced operations by transferring funds from another company. These funds were recategorized and included as GWP by the regulatory authority.

The data undergirding the report were obtained from the World Bank and are presented in nominal terms, without adjusting for inflation. Notably, the data for Argentina are heavily influenced by inflation, with an accumulated inflation rate of approximately 95 percent in 2022.

To maintain consistency and eliminate the impact of currency fluctuations, a fixed exchange rate was applied to convert the data into US dollars. The exchange rate used corresponds to the 2022 average exchange rate for each country: Argentina = 157.7; Brazil= 5.2; Chile = 882.0; Colombia = 4,305.1; Ecuador = 1.0; Guatemala = 7.8; Mexico = 19.9; Panama = 1.0; and Peru = 3.8.

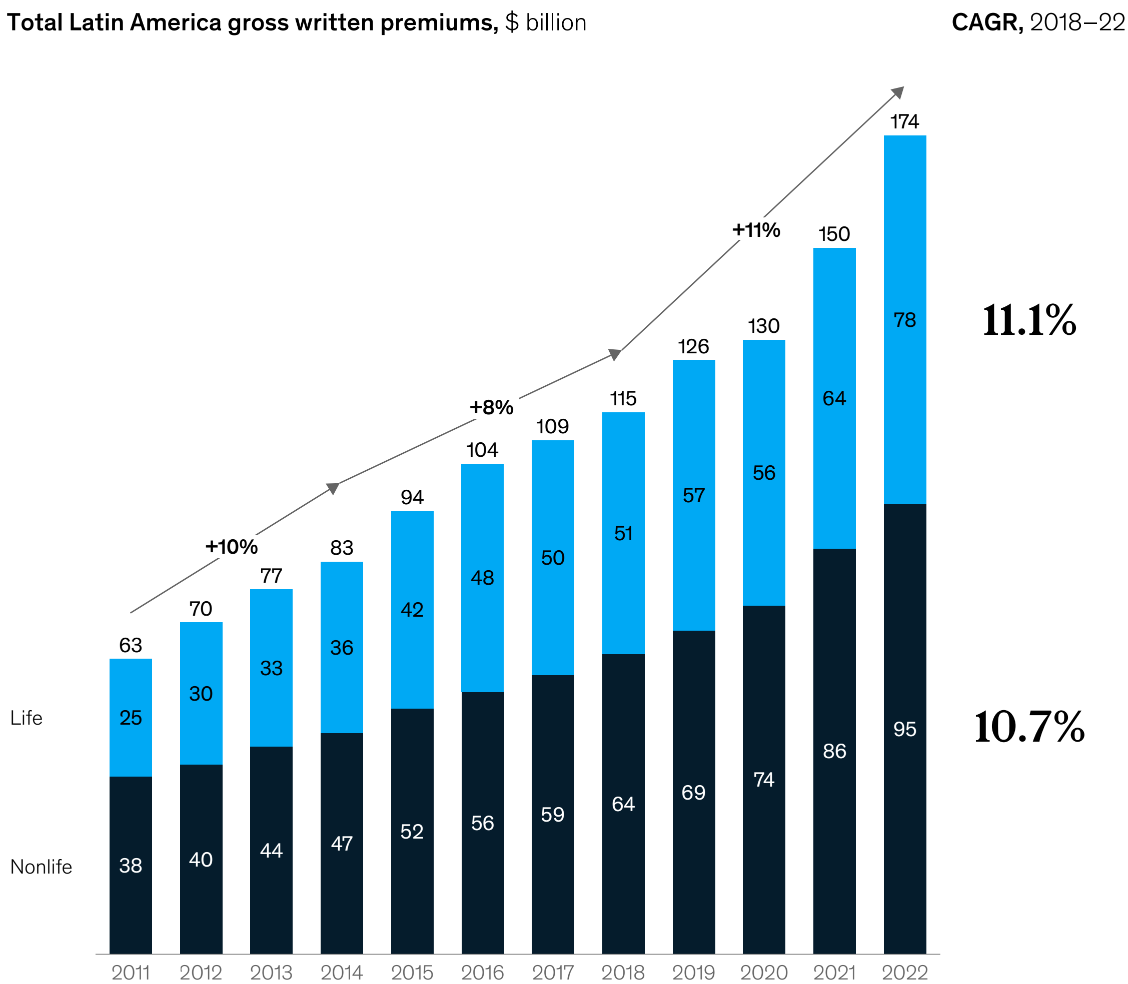
Any references to specific companies in the report are solely based on publicly available information.

Accelerated growth and strong financial performance

In 2022, the market reached gross written premiums (GWP) of $174 billion (Exhibit 1). From 2011 to 2022, the Latin American nonlife insurance segment more than doubled, and the life insurance segment more than tripled. Indeed, Latin America is home to the fastest-growing regional insurance market in the world—which is unsurprising given its low starting baseline compared with more mature markets such as Europe and the United States.

Exhibit 1

The Latin American insurance market is worth $174 billon, with strong growth in both the life and nonlife segments.



Note: Figures may not sum, because of rounding.

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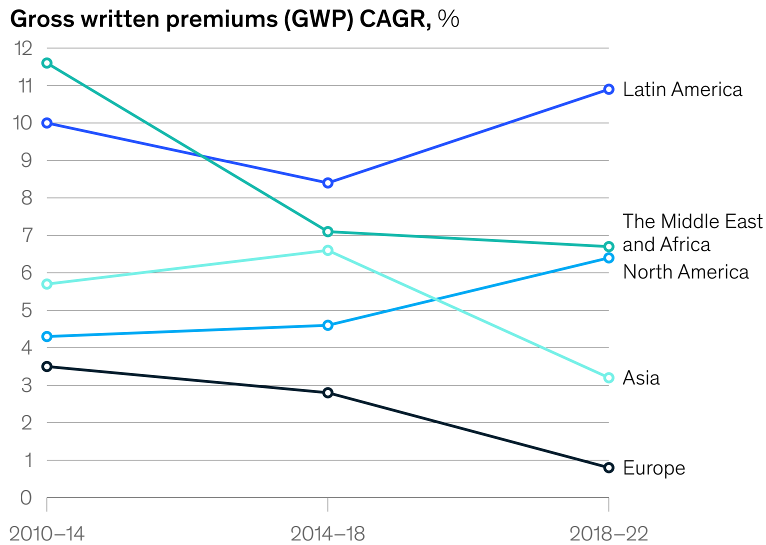
Over the past decade, Latin America has earned a reputation in the global industry for consistently high growth rates, with a multiyear CAGR of 10.9 percent from 2018 to 2022, up from the previous four-year CAGR of 8.4 percent (Exhibit 2). Meanwhile, North America, Asia, and Europe saw slower growth. Of course, Latin America's 2022 GWP of $174 billion—though a record for the region—is far lower than the 2022 GWP of those three developed regions ($2.8 trillion, $1.9 trillion, and $1.6 trillion, respectively). Indeed, Latin America's insurance market currently accounts for only 2 percent of global GWP. Still, the growth is notable and could point to ample untapped potential in the market.

Exhibit 2

Globally, Latin America is the fastest-growing region for insurance—though its current share of global premiums is low.



	GWP, 2022, $ billion	Share of global GWP, 2022, %
Latin America	174	2
The Middle East and Africa	144	2
North America	2,845	43
Asia	1,864	28
Europe	1,577	24

Source: McKinsey Global Insurance Pools; McKinsey analysis

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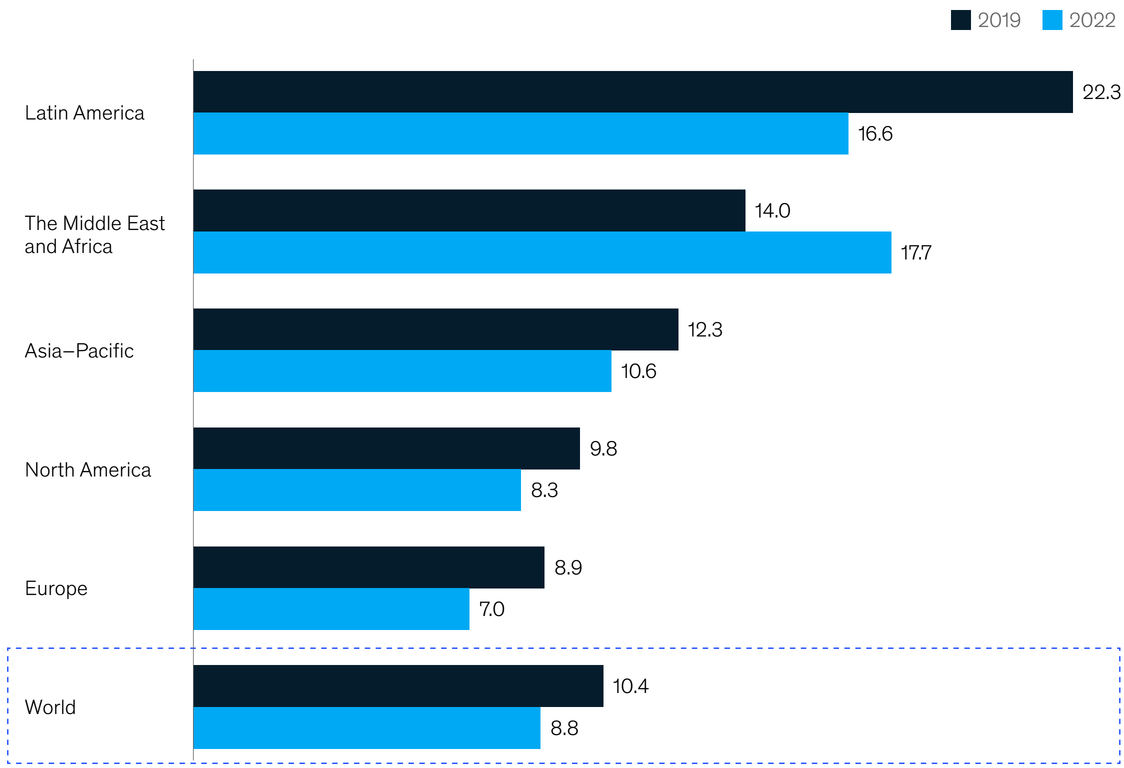
Over the past decade, Latin America has earned a reputation in the global industry for consistently high growth rates.

In addition to strong premium growth, Latin America is highly profitable, as measured by ROE, compared with the global average and all other major insurance markets—including North America and Europe (Exhibit 3). According to our analysis, ROE in Latin America was 22.3 percent in 2019 and 16.6 percent in 2022,[1] significantly surpassing the global numbers of 10.4 percent and 8.8 percent, respectively, for those years. Nevertheless, the nature of insurance players (local versus international) and the sophistication of regulatory frameworks can have implications on the results, particularly when it comes to currency fluctuations and solvency requirements.

Exhibit 3

Latin America is one of the most profitable markets for insurers globally.

ROE (profit/equity),[1] %



[1]Average ROE.
Source: McKinsey Global Insurance Pools; McKinsey analysis

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[1] These figures take into account returns in local currencies. Currency volatility affects ROE, especially for international players.

Unsurprisingly, the industry's profitability growth took a hit during the COVID-19 pandemic, but profitability itself remained healthy, even through 2021 (Exhibit 4). Indeed, Latin America's insurance sector exhibited remarkable resilience, but margins in 2022 remained below prepandemic levels.

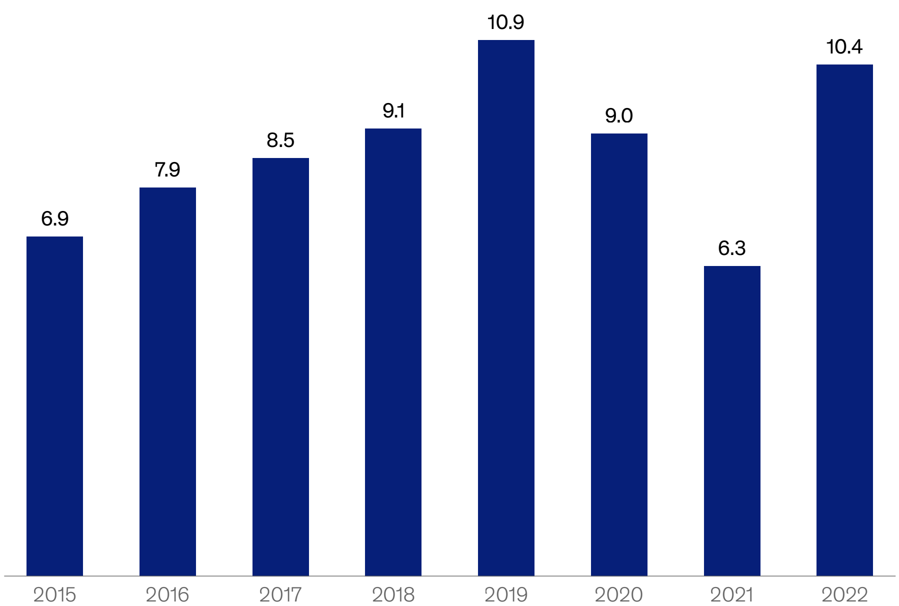
One reason for this restrained growth is the rise in claims payouts, which reached their highest levels in some segments during the pandemic, sparking a repricing of contracts. Inflation is a partial explanation for this increase: in Brazil, for instance, in 2022, medical inflation increased by 3.4 times the consumer price index, significantly influencing rising healthcare costs.

Latin America's profitability is mostly driven by investment income, which compensates for relatively thin (and sometimes negative) operating profits in the region. Given Latin America's long history of high interest rates—something other economies are experiencing now—many have benefited from consistently high returns on their investments outside of operations. Any increase in interest rate pressure, however, could put some insurers in a precarious position. If that happens, those insurers will need to enhance their efficiency—encompassing overall operational costs and expenses, as well as claims expenses and management—to maintain the profitability they enjoy today. For some investors in the region, higher risk and higher interest rates will foster an expectation of correspondingly high margins. In 2022, the yield on ten-year sovereign bonds was 9 percent in Latin America (considering a sample of countries), significantly higher than the 3 percent in North America.

Exhibit 4

Latin America's insurance industry generated more than $10 billion in profits in 2022, recovering after the hit from the pandemic.

Latin America after-tax profits, $ billion



Profits/gross written premiums, %	**7.3**	**7.5**	**7.8**	**7.9**	**8.7**	**6.9**	**4.2**	**6.0**

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One region, many different markets

Every Latin American insurance market included in our study has exhibited faster growth in premiums than in nominal GDP in recent years. Of course, the region comprises a diverse set of countries and insurance markets—some markedly more mature than others. Many of these differences can be explained by the factors that tend to define developed versus developing markets. For instance, the Latin American countries with the highest insurance penetration (Brazil and Chile) also exhibit both higher income and higher vehicle ownership per capita. Countries with higher populations of banked citizens also tend to see higher penetration rates. According to a 2022 survey of 4,000 consumers in Latin America,[2] there's a strong correlation between those who own financial products (such as a checking account) and those who own insurance products. For example, 64 percent of the insured respondents have a credit card, compared to 49 percent for the uninsured. In contrast, countries with a lower share of banked citizens often face challenges in reaching underserved populations with insurance services.

Countries also face differing—but rising—risks of natural disaster. Mexico, for example, is among the 30 countries most vulnerable to three or more types of natural hazards: more than 40 percent of Mexico's land area and 30 percent of its population are exposed to hurricanes, storms, floods, earthquakes, and volcanic eruptions.[3] This heightened risk underscores the pressing need for a more robust nonlife insurance presence to mitigate the financial effects of such calamities.

Every Latin American insurance market included in our study has exhibited faster growth in premiums than in nominal GDP in recent years.

[2] Survey by McKinsey and LIMRA of 1,000 consumers per country in Chile, Colombia, Mexico, and Peru, fielded online in March 2022.
[3] "Strengthening disaster risk management in Mexico," World Bank, September 4, 2013.

A persistent but diminishing protection gap

As a region, Latin America has an opportunity to make decisive headway on closing the insurance protection gap for citizens and companies alike. When comparing insurance coverage, Latin American citizens currently hold fewer policies compared with their counterparts in the United States (Exhibit 5). However, this situation highlights the immense room for growth and development in the region. For instance, insurance product density per capita in Latin America stands at $295, which is significantly lower than the $7,500 in the United States. By working to bridge insurance protection gaps, the industry can play a role in expanding access to financial products and catalyzing positive change in economic and financial stability.

Exhibit 5

There is a large protection gap in Latin America.

	Latin America	United States
Life expectancy at birth	75 years	79 years
Population with life insurance	< 15%	~50%
Insured auto fleet	< 25%	~70%
Hospital beds per 1,000 inhabitants	1.9	2.8
Insurance density, premiums per capita	$295	$7,500

Source: Economist Intelligence Unit; Insurance Information Institute; OECD; World Bank; McKinsey analysis

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To accomplish this, the industry will need to navigate many factors, from car ownership to health needs. To start, the region's average GDP per capita ($9,700, based on a sample of countries) is significantly lower than that of the United States ($75,300), and 64 percent of Latin American consumers have a bank account, compared with 95 percent of US consumers.[4] In Latin America, about half the workforce operates in the informal sector, lacking formal employment contracts, compared with less than 10 percent of North America's workforce. These disparities lead to a completely different insurance market, further complicated by structural barriers to accessing the financial protection provided by insurance products.

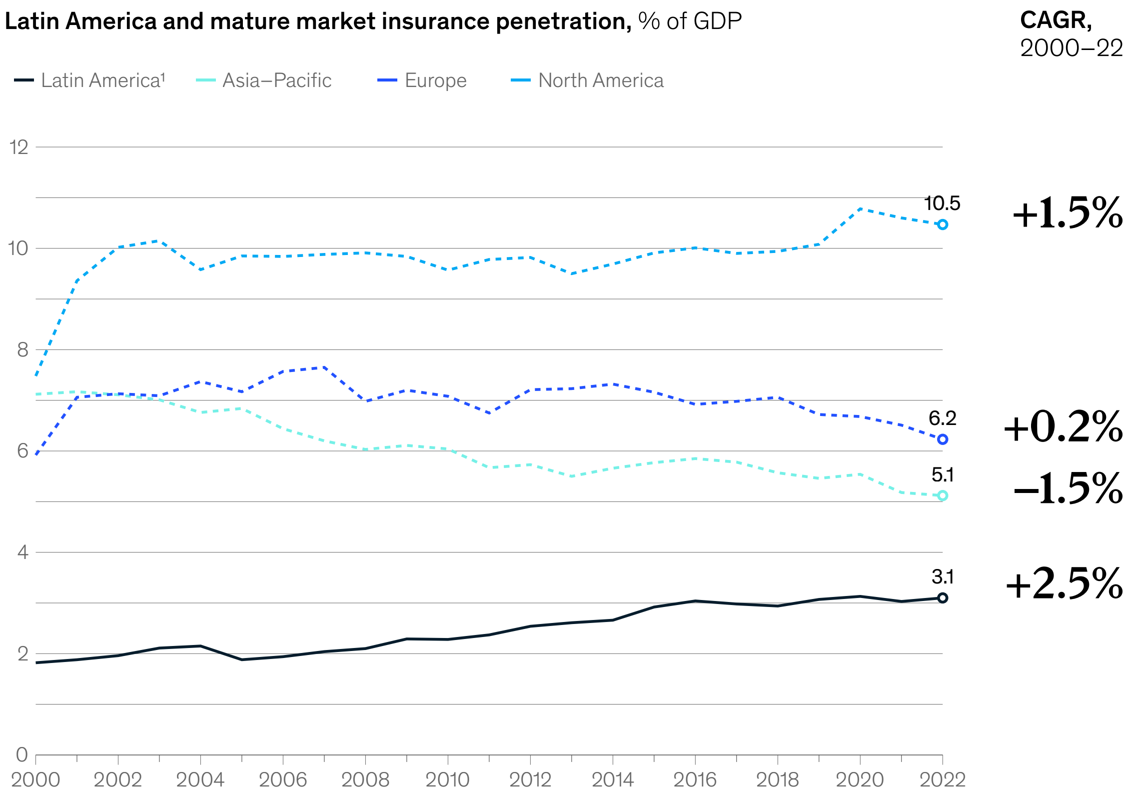
[4] Economist Intelligence Unit; World Bank; McKinsey analysis.

Latin America's insurance penetration gap with the rest of the world is narrowing (Exhibit 6). These gains can be attributed to the outsize growth in premiums compared with other markets; indeed, Latin America has room to run. If Latin America were to achieve the insurance penetration of Europe, the region could reach a market size of $350 billion—just more than double its value of $174 billion today.

Exhibit 6

Insurance penetration is growing faster in Latin America than in other regions, steadily closing the protection gap.

Latin America and mature market insurance penetration, % of GDP



[1]Includes Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Panama, and Peru.

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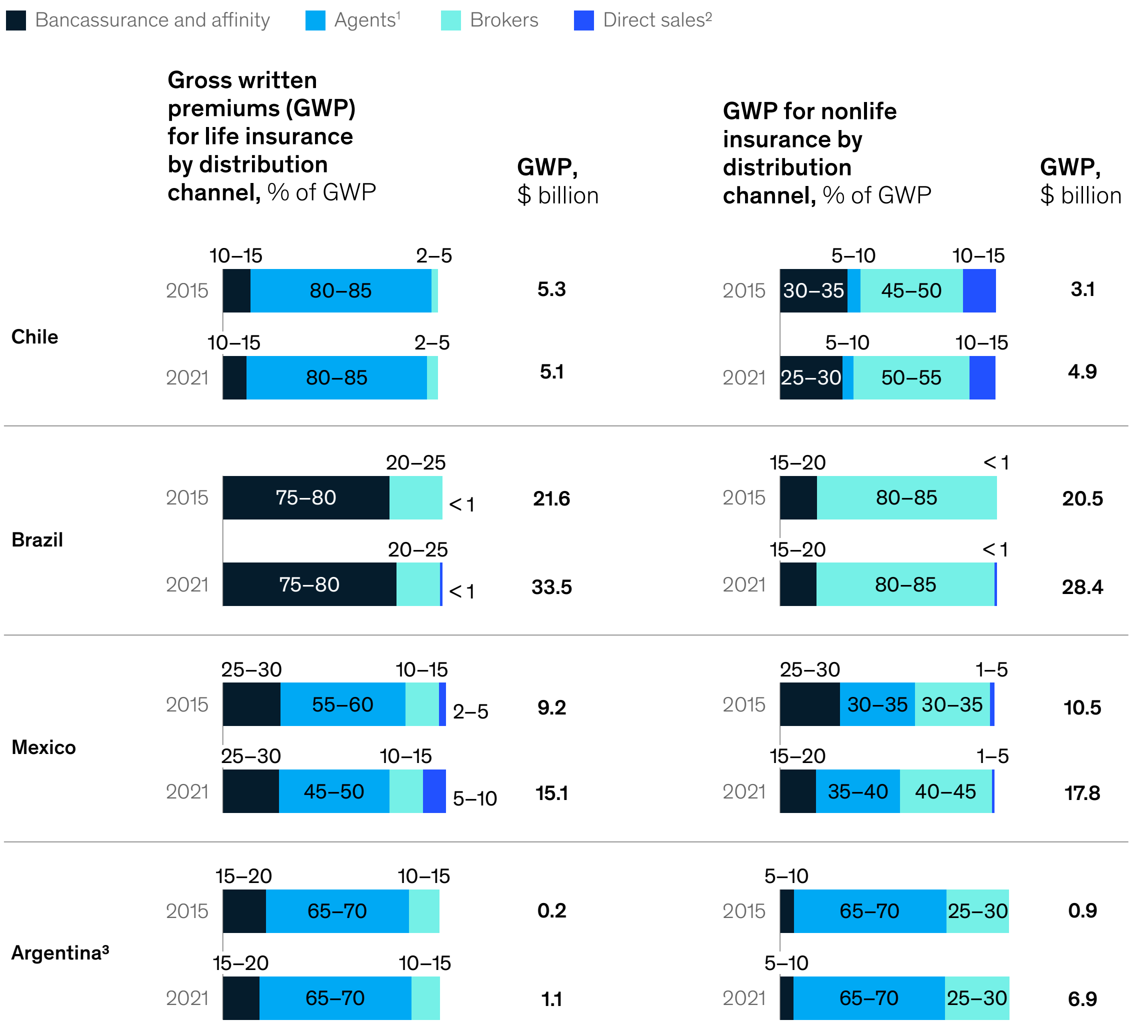
This growth will, crucially, require insurance products to reach beyond the relatively small pool of affluent individual customers and corporations they have traditionally served to reach new segments. For example, auto insurance penetration in Brazil has been stagnant at around 25 percent for the past decade, highlighting an ample opportunity to enter untapped markets. This stagnation also points to the importance of breaking the efficiency barriers that have limited the industry's growth in Latin America and finding innovative ways to engage with new customer segments. By doing so, the insurance industry can not only increase its penetration but also ensure that a larger portion of the population has access to essential coverage and protection.

Stable multichannel distribution

Brokers and agents are the dominant distribution channels in Latin America. In the nonlife insurance segment, they represent 50 to 95 percent of GWP, depending on the country (Exhibit 7). Brokers continue to be highly relevant in the industry by adapting to client needs and fulfilling the demand for advisory services, considering the limited financial education in the region. In Brazil, productivity per broker has increased and improved, with even more agents joining the workforce after the pandemic. Insurance companies in Latin America now play a crucial role in helping brokers further adapt to digital tools and meet new customer expectations.

Exhibit 7

Distribution in Latin America is multichannel, with few shifts in recent years.



[1]Dependent and independent agents.
[2]Includes digital channels, call centers, and branches, among others.
[3]Occupational-risk insurance is included in life category.

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Meanwhile, direct and digital channels are gaining relevance, led by auto insurance in the region's largest economies. Overall, digital still accounts for a small portion of the distribution mix. According to a 2022 survey by McKinsey and LIMRA, while Latin American consumers appreciate digital interaction—67 percent begin their life insurance search online—most policies are not purchased through digital channels.[5] When it comes to the purchasing decision, consumers value the security, trust, and convenience of working with someone in person, which is unsurprising given the general public's lower awareness of the benefits of protection products and the evolving market structure of these growing economies. The share of digital distribution may be set to grow, however, as consumers increasingly demand higher levels of personalization through hybrid journeys.

Bancassurance also plays an important role in the region, particularly in life insurance distribution. There is a strong correlation between leaders in life insurance and those in banking because they often belong to the same conglomerate. This relationship provides them with advantages by way of vertical integration or access to main distribution channels. Still, many leading banks in Latin America have yet to fully unlock the potential of the bancassurance opportunity. European banks generate insurance distribution revenues that are twice as high as those of Latin American banks (as contributions to pretax result). The bancassurance channel also remains more concentrated in life and pension products, highlighting the untapped opportunity for nonlife insurers to reach banks' customer bases. It is crucial for banks to recognize the insurance business as a vital income source, particularly during times when core credit operations carry higher risks and banks seek alternative means to increase fee-based revenues.

When it comes to the purchasing decision, consumers value the security, trust, and convenience of working with someone in person.

[5] Survey by McKinsey and LIMRA of 1,000 consumers per country in Chile, Colombia, Mexico, and Peru, fielded online in March 2022.

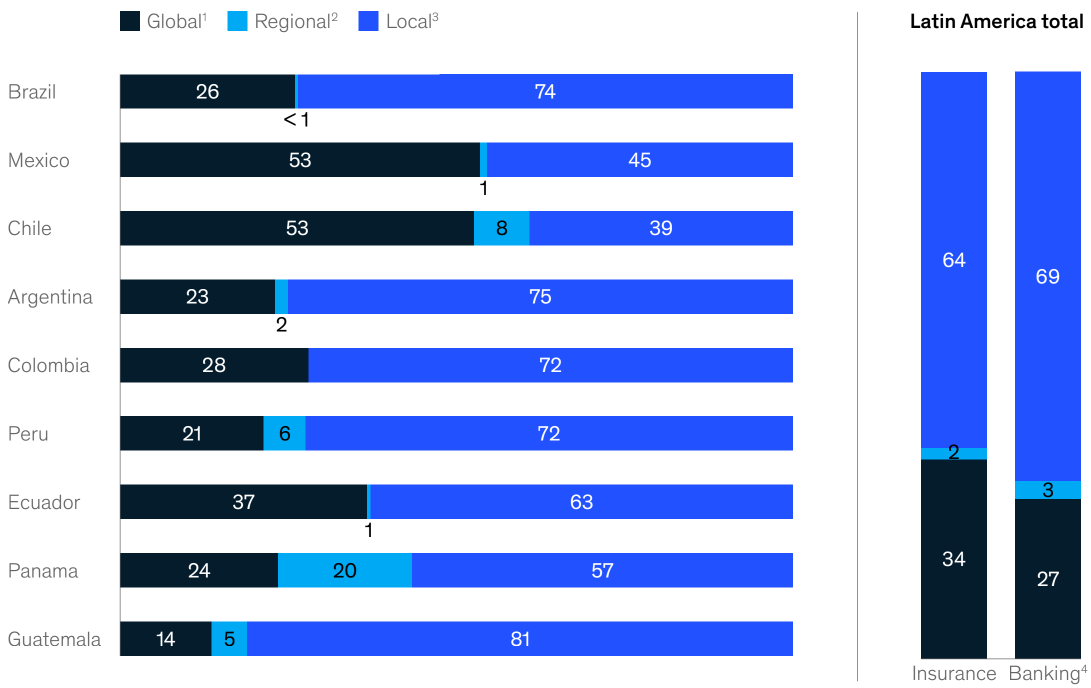
Local leadership and new players

Local players are currently leading the insurance markets in Latin America, particularly in life insurance (Exhibit 8). Overall, global players hold just 23 percent of the health insurance market and 28 percent of the life insurance market, with a stronger hold of the nonlife market at 45 percent. The competition within each of these groups—local insurer versus local insurer and global versus global—is fierce.

Exhibit 8

Local players represent 64 percent of the total insurance market in Latin America.

Gross written premiums (GWP) by insurer archetype, 2022, % of country's GWP



Note: Figures may not sum to 100%, because of rounding. There are ~350 insurers in our sample of countries (vs ~300 banks), while ~5% have a regional play (vs ~10% in banking).
[1]Global: international players operating in the region.
[2]Regional: Latin America players present in other countries within the region.
[3]Local: Latin America players present in one country or in their own country. In each country, the top individual player is local.
[4]Considers not GWP but a bank's total assets.

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Local players also tend to have higher ROE compared with international players. International players typically measure ROE from their Latin American operations in the currency local to their headquarters, and fluctuations in foreign exchange typically mean returns from those operations are lower. However, there are successful examples in which Latin American divisions of international players have been granted significant autonomy by their headquarters, enabling them to operate as if they were local.

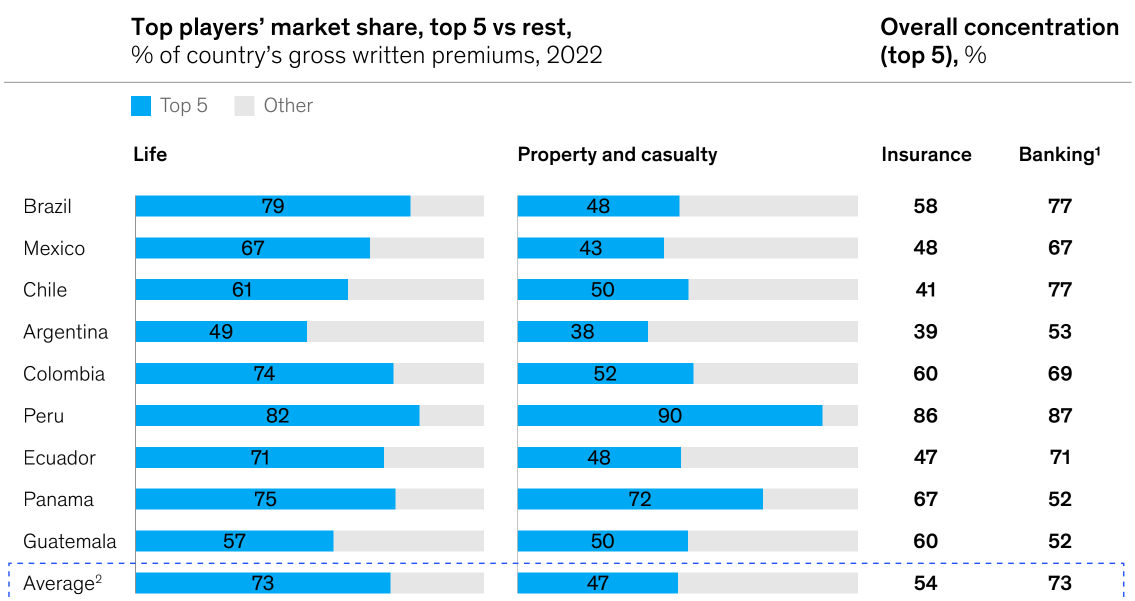
Global players have demonstrated a stronger presence in the nonlife insurance market, taking advantage of their international network—a distinct asset for brokers. Additionally, these global players can capitalize on their established risk-retention and underwriting expertise from other markets. The industry has seen a significant influx of local start-ups, backed by investors, that account for most market entries. Low entry barriers and pro-market regulations have fostered competition and facilitated a series of M&A deals and joint ventures, including divestitures that leave the door open for other international players to swoop in and establish a more dominant presence in the region.

Brazil's regulatory body created a sandbox (a controlled environment to experiment with ideas) that allows new players to test and enter the market with fewer requirements, with the goal of fostering innovation and attracting new players. As a result, one participating company developed protection for electronic gadgets, such as smartphones; another launched intermittent protection for vehicle belongings; and another created accident insurance protection for the informally employed population, including delivery app drivers. These examples showcase the emergence of more innovation in even the most traditional of industries—and where penetration has abundant opportunity to grow and align with those of other regions.

Meanwhile, large local insurers have staked their claim in life insurance (Exhibit 9). Across markets, the top five insurers by market share claimed an average of 73 percent of countries' GWP. In contrast, the top five local P&C insurers claimed an average of 47 percent.

Exhibit 9

Top local players' market share is more concentrated in life insurance than in property and casualty.



[1]Top 5 players; for banks considering % of assets in 2021.
[2]Weighted average, using gross written premiums for insurance and assets for banking.

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Progress toward being an innovation powerhouse

The insurance industry in Latin America has traditionally been viewed as stagnant when it comes to innovation. However, a noticeable shift is under way, and the region is witnessing a dynamic unfolding of new ecosystems and digital technologies in the insurance landscape, led in part by disrupters of the insurance industry, such as retailers.

On one front, traditional insurers—particularly the leaders in the region—are proactively transforming themselves by investing in new-product development, embracing digitalization, and diversifying beyond their core offerings. Some players are even developing new ecosystems and products to address emerging coverage-related risks and customer needs. For example, one Latin American insurer developed a comprehensive offering centered on mobility, including services such as auto financing, car repair, toll payments, and even a credit card that customers can use to pay for their fuel. Such an ecosystem offering is currently rare but on the rise in Latin America.

On another front, the growing insurtech market in Latin America comprises more than 460 companies. Typically, these firms are not directly competing with incumbent insurers but rather collaborating with them to enhance distribution and services. This partnership approach fosters a mutually beneficial environment for both parties.

Despite this dynamic atmosphere, insurers in Latin America still have ground to cover. The insurance industry might be heading toward the same disruption that upset the banking sector in recent decades: retailers and technology companies converged with a multitude of fintech, mobile, peer-to-peer, and other solutions that fundamentally challenged banks' business models. Successful banks leveled up, investing heavily in digital transformation, making mobile banking ubiquitous, and orchestrating or participating in ecosystems of financial services, from insurance to loans to credit cards. Likewise, insurers need to be prepared and agile in their responses.

In the coming years, streamlining operations and automation will be a strategic priority for most Latin American insurers.

Afflicted with inefficiencies

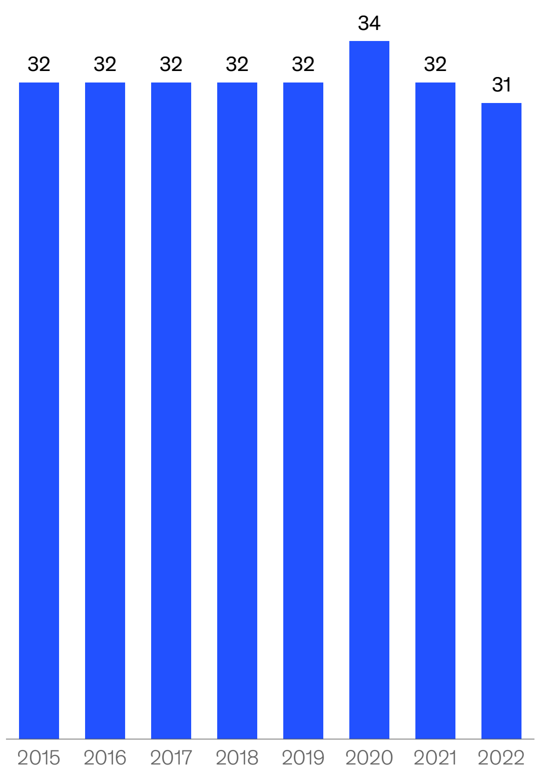
The insurance business in Latin America relies heavily on investment income, making operational efficiency a top opportunity for the industry to improve margins. However, successfully launching an efficiency agenda has become a significant challenge for insurers in the region. A clear example of this challenge is evident in the average expenses (including commissions and administrative costs) of European carriers, which are approximately half the level of those seen for most Latin American insurers (Exhibit 10). The spread between individual countries is large, from 46 percent in Colombia to as low as 20 percent in Chile. Scale plays a crucial role in this dispersion, given that larger insurers with diversified product offerings tend to exhibit stronger performance. Still, all markets fall behind the European insurance industry by an average of 17 percentage points.

To truly catch up with the rest of the world, the Latin American insurance market will need to realize efficiencies in line with its global peers. In the coming years, streamlining operations and automation will be a strategic priority for most Latin American insurers.

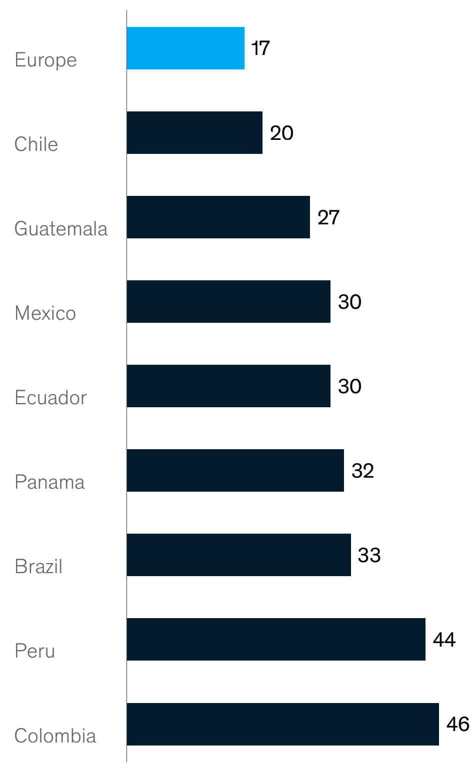
Exhibit 10

Efficiency is a challenge for Latin American insurers.

Evolution of costs across Latin America,[1]
% net premium earned



Breakdown by Latin American country vs Europe, 2022, % net premium earned



Note: n = 95. Top 95 companies represent 70% of Latin America's gross written premiums in 2022. Sample excludes insurance companies in Argentina.
[1]Costs include acquisition and administrative expenses.

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Growth, new risks, and underserved populations: Strategic imperatives for insurers in Latin America

The industry is becoming increasingly attractive, not only to traditional insurers but also to other players (such as retailers) expanding their reach into the sector. This expansion provides consumers with a wider array of insurance options, each with its own unique value proposition. In addition, a significant protection gap exists, particularly in underserved segments such as lower income brackets and small and medium-size enterprises (SMEs). Rapidly advancing technology is driving the transformation of the industry, leading to new business models that are automated and more efficient, and that offer a broader range of services.

To secure the potential, leaders of Latin American insurers and other stakeholders might hone their strategic thinking by focusing on six imperatives: expand and rethink the product portfolio; personalize and digitalize customer interactions; aim for operational excellence; enhance distributor experiences; engage with ecosystems and develop new business models; and close the inequality gap and promote economic development. While many of these priorities are relevant to the sector beyond Latin America, customizing them to target the region's foremost challenges may be key to unlocking their full potential.

Imperative 1: Expand and rethink the product portfolio

The penetration gap (as a percentage of GDP) is uneven across markets, ranging from 1.4 percent in Guatemala to 4.4 percent in Chile. Current products and solutions on the market mainly cater to a limited portion of consumers—typically those in the highest income brackets and large corporations. In Brazil, for example, just 25 percent of the population has private health insurance, a figure that has remained unchanged for more than five years. There is even more of a gap in Mexico, where 49 percent of the upper middle class doesn't have health insurance.

To start, the insurance sector must make efforts to develop new business models that address underserved markets. The challenge lies in expanding the addressable market and extending coverage to new segments and risks. Fortunately, industry leaders are already starting to solve these challenges with notable success. For instance, one prominent digital bank in Brazil reached out to low- and middle-income consumers by offering a simple and personalized life insurance product. This product was seamlessly integrated into the bank's app experience, resulting in a rapid acquisition of more than one million policies in around 18 months.

The expansion of the product portfolio will also involve banking products, which can serve as an introduction to financial concepts and protection for many individuals and communities. Yape, a digital wallet developed in Peru and launched in 2017, reported reaching 12.0 million users as of 2023, including more than 2.6 million people who previously did not have a bank account.

To begin rethinking the product portfolio, insurance companies may first gather information to understand the real needs of these underserved segments. They could then adapt their core products or develop new ones that align with the needs and financial situations of potential customers and distribute them where customers are: on smartphones. A Latin American street-parking app incorporated a feature that allows consumers to purchase insurance protection that covers belongings left in their parked cars. This insurance option is specifically designed for the short duration that the car remains parked on the street, and it comes at a low cost.

Secondly, they may consider offering new products to address new risks. Cyber insurance gained significant momentum during the pandemic among Latin American businesses. In some markets, such as Brazil, it has become one of the fastest-growing insurance lines (103 percent CAGR since 2019). And this expansion is not limited to benefiting incumbents; newcomers such as insurtechs are contributing as well by developing new operating models and innovating in product conception. Embedded insurance is also spreading further throughout the region, with certain companies specifically focusing on the B2B2C model.

Imperative 2: Personalize and digitalize customer interactions

To many individuals in Latin America and around the world, insurance remains a lower priority when compared with other spending categories despite the importance of financial protection. Furthermore, insurers have finite chances to reach individual customers to shape their journeys—when they're going through a life change, for example, or are otherwise in need of a new product or type of financial protection. Even existing clients tend to interact with insurers only a handful of times a year.

This puts significant pressure on insurers to deliver the best possible experience, especially during potentially challenging times for their clients. A 2022 customer experience study conducted in Peru, encompassing 20 industries, found that insurance ranked at the bottom in terms of overall satisfaction.[6] Although this does not imply that the experience is universally poor (some insurers in every country offer a distinctive customer experience), the gap compared with other industries is notable and points to the opportunity to impress customers through a seamless customer journey that is easily embedded into their other activities.

Loyalty programs, cutting-edge digital tools for brokers and agents, and personalized services based on customer data can all contribute to building stronger customer relationships. Indeed, as data are increasingly available, companies are developing advanced-analytics capabilities to leverage those data to better understand their customers. Insurers can capitalize on this moment, particularly in countries such as Brazil with its Open Insurance agenda, which grants access to a broader range of consumer data. This, in turn, enables customized offerings and improved pricing strategies.

Insurers in Latin America have also been making significant strides in streamlining customer services for claims support; some have already transitioned most of their health insurance claims to digital channels, resulting in increased customer satisfaction and reduced operational costs. In addition, the pandemic accelerated the adoption of digital claims inspection. Many insurers in the region have implemented digital tools that allow customers to initiate auto claims by submitting photos, which enables faster processing.

[6] "Ranking CX Index presents the categories and companies with the best customer experience in Peru," Centrum PUCP, June 28, 2022.

Imperative 3: Aim for operational excellence

Latin American insurers enjoy a considerable advantage in ROE compared to other regions. Nevertheless, they are forfeiting substantial opportunities due to inefficiencies in their operations. Expense ratios in some Latin American countries can double those in most mature markets. Instead of relying on financial results for profitability, insurers in the region can focus on getting ahead of competitors—and catching up with global peers—by decreasing operational costs. Streamlining main processes and implementing automation are crucial steps to improving efficiency.

Specifically, insurers in Latin America need to focus on developing best-in-class underwriting and policy-administration processes. This involves automating the underwriting process to ensure simplicity and customization for the application journey. Digitalization efforts are under way across the region, but many insurers have not fully realized the benefits, partly because they are operating on legacy core systems. Creating an administration platform that allows self-service and streamlined policy administration is essential because it simplifies the handling of cancellations and changes in contract data.

In addition, insurers could establish industry-leading data strategies that enable better claim decisions. For example, an insurer in Latin America established a set of rules that divert 30 percent of total claims through a fast-track process to accelerate claim payment. It is also important to optimize current processes and strengthen the fundamentals of claims management by recruiting and training skilled and educated talent with a focus on building capabilities in claims handling.

Imperative 4: Enhance distributor experiences

Insurers have made substantial investments in providing better tools and support to their distributors, empowering them to conduct business more effectively. Respondents to a 2020 McKinsey survey of 500 brokers in Brazil noted that establishing initial customer relationships remotely and receiving high-quality leads were among the most significant challenges they faced. Insurers have responded by assisting brokers in developing their own digital channels and enhancing quotation systems. They are also providing digital tools to their sales forces and agents and training them to maximize their output.

Training brokers and agents is crucial to enhancing their understanding of a company's products and services, so they can best represent insurers when interacting with customers. In addition, brokers often work with multiple insurance companies, which means they play a role in assisting customers in selecting the right insurer. Ultimately, improving the broker experience translates to a higher likelihood of converting sales.

It's worth noting that insurtechs are emerging in the region with plug-and-play offerings that connect traditional insurers with distribution channels. For example, a small grocery store in the countryside can offer insurance products to its customers with low implementation costs and high effectiveness.

Imperative 5: Engage with ecosystems and develop new business models

The insurance industry has traditionally been resistant to disruption. The rising adoption of an ecosystem approach by other sectors, such as banking, is putting pressure on insurers to evolve or become irrelevant. Latin America's untapped market presents opportunities for insurers to embrace innovation and develop new business models. Currently, there are few integrated networks available to address the range of a customer's financial-protection needs. Ecosystems in other regions provide an example of that integration by collecting the products and services a customer may need into one easily accessible platform.[7] Insurers, insurtechs, and adjacent players such as banks and pharmacies are building entirely new business models based on an ecosystem approach that prioritizes partnership over competition.

Many global insurance companies are also embarking on journeys to develop diverse ecosystems across different verticals, increasing points of contact and establishing a stronger presence in their customers' lives. They are achieving this by restructuring their business models from protection-oriented to prevention-focused and service-driven approaches. For example, an insurance player in the Latin America region developed a wellness platform that offers clients access to appointments with nutritionists, psychologists, physical trainers, and other support in their day-to-day activities and well-being.

Another priority is to create new revenue streams. By developing integrated digital platforms that facilitate the provision of third-party goods and services unrelated to insurance, insurers can accelerate customer engagement on a larger scale. Strategic partnerships with larger players in the market can also yield additional benefits and opportunities for growth.

Insurance companies can play a key role in fighting the financial inequality that plagues Latin America.

[7] For more on ecosystems, see "Ecosystems and platforms: How insurers can turn vision into reality," McKinsey, March 12, 2020.

Imperative 6: Close the inequality gap and promote economic development

Insurance companies can play a key role in fighting the financial inequality that plagues Latin America, including limited individual purchasing power, a higher share of underbanked citizens, high rates of informal work, and the typical need to cover health expenses out of pocket. By addressing the specific challenges faced by the region, insurance carriers can bring about positive social and economic impacts while also benefiting their own bottom line:

— *Market expansion.* By offering affordable and tailored microinsurance products, insurance carriers can access a vast untapped market, expanding their customer base and increasing revenue.

— *Risk diversification.* Including underserved (often low-income) individuals in insurers' customer portfolios spreads the overall risk because financial shocks may affect diverse income levels and demographics of the population differently.

— *Enhanced customer loyalty.* Satisfied policyholders are more likely to renew their policies and recommend the services to others, contributing to long-term customer retention and organic growth.

— *Reduced claims and costs.* By promoting preventive measures and risk mitigation strategies among policyholders, insurance carriers can potentially reduce the frequency and severity of claims.

Mandatory insurance in the region is relatively limited compared with other markets, leaving many individuals, as well as businesses of all sizes, at risk, which can have a significant impact on local economies. For instance, some small Latin American towns rely heavily on a single economic industry, such as agribusiness, making them highly dependent on the performance of the agricultural sector. In a year in which a portion of the harvest is adversely affected by climate conditions such as El Niño or La Niña, uninsured farmers who typically spend their earnings in their regional economies, including those of bigger cities, are unable to spend as much on purchases. This, in turn, leads to reduced income for that municipality, affecting local businesses such as supermarkets, pharmacies, restaurants, and bars—as well as causing additional government expenditure on relief.

Two insurance models (social insurance and microinsurance) could be crucial in the effort to close the inequality gap.

Social insurance. Social insurance, developed in partnership between the private and public sectors, can create subsidized products that cover economic risks. Its primary objective is to provide social security and to mitigate financial burdens during vulnerable times, such as natural catastrophe or illness.

The fundamental idea behind social insurance is that contributions from a large pool of participants create a safety net that can be accessed by those facing hardships or specific challenges. Participants pay regular contributions or premiums into the social insurance system, and when they are affected by a covered risk or event, they become eligible to receive benefits or compensation from the pool of funds.

Examples of social-insurance programs include government-sponsored initiatives such as Social Security and Medicare in the United States, the National Health Service (NHS) in the United Kingdom, and various social security programs in different countries tailored to address specific needs and risks faced by their populations.

A compelling example of social insurance in action is the Lulama project in South Africa. This initiative aims to establish a sustainable network of community-based pharmacies in underserved areas by providing working capital to independent pharmacies. To minimize the risk for lenders and investors, the United States Agency for International Development (USAID) purchased insurance against the possibility of pharmacies defaulting. This insurance coverage unlocked a substantial $6.5 million credit from a commodity wholesaler, improving the independent pharmacies' access to quality-assured, affordable commodities.[8] These pharmacies (borrowers) are identified by USAID as financially viable but in need of up-front capital to scale and maximize their impact. USAID, the donor, also pays insurance premiums to the insurer, and the insurance covers repayment to the lender in case of pharmacy defaults.

Through the effective application of social insurance, partnerships between governments and the private sector can foster greater financial support for critical social impact projects, leading to positive changes and sustainable development in underserved communities.

Microinsurance. Microinsurance is specifically designed to cater to the needs of low-income individuals or populations in developing countries. It provides coverage for small risks—such as health emergencies, crop failures, natural disasters, or funeral expenses—at affordable premiums, making insurance products accessible to those who would otherwise be excluded from traditional insurance markets because of their limited financial resources. Microinsurance products are also typically simple and easy to understand, making them more accessible to individuals with varying levels of financial literacy.

As an example, Bima, a microinsurance company operating in emerging markets in Africa and Asia, offers subscriptions starting at $1 per month to cater to the 93 percent of the company's customers who live on less than $10 per day. The company uses data analytics and AI to personalize customers' experiences, and it works with underwriters to customize products to the various needs of its customers. By 2020, the company had reached 35 million customers across two countries in Africa and 41 million customers across eight countries in Asia. Most of these customers had never had access to insurance before.

Microinsurance can play a crucial role in promoting financial inclusion in Latin America. By providing insurance coverage for risks that low-income individuals face, it can offer a safety net, protecting them from unexpected financial setbacks and keeping them from the cycle of poverty that can result from even a minor financial challenge. And in a region prone to natural disasters such as earthquakes, hurricanes, and floods, microinsurance can contribute to disaster resilience by offering coverage for property and asset losses, enabling affected individuals and communities to recover more swiftly.

However, it's worth noting that the success of microinsurance in Latin America relies on addressing several challenges, such as ensuring the sustainability of microinsurance providers, creating awareness about the benefits of insurance, and adapting products to suit local contexts and needs. Additionally, supportive regulatory frameworks and partnerships with governments, nongovernmental organizations, and private-sector actors can significantly contribute to the successful implementation and impact of microinsurance in the region.

[8] Andrea Bare, "How USAID is capitalizing on new trends in development finance by attracting impact investors," NextBillion, October 31, 2017.

The Latin American insurance industry is an ever-evolving domain that holds significant promise for both regional and global players. The insights garnered from this study illuminate the paramount importance of adopting a forward-thinking perspective. As the most rapidly expanding insurance market worldwide, Latin America presents an intriguing blend of opportunities and challenges that necessitate a strategic shift from conventional approaches toward new thinking around innovation and operational efficiencies.

Central to the findings is the remarkable growth trajectory that the Latin American insurance sector has embarked upon. The region's growth is emblematic of its undertapped potential and underscores the urgency for insurers to adapt and innovate. Six imperatives stand as pillars to fortify the performance of the Latin American insurance sector. From bolstering operational efficiency to bridging the penetration gap, these imperatives serve as a strategic road map for insurers seeking to thrive in this burgeoning market.

Insurers that recognize the intricacies and idiosyncrasies of the regional landscape are well positioned to capitalize on the expanding growth opportunities by aligning their strategies with the imperatives that will enable a significant step forward in the region. Insurers that do so can proactively embrace change, ensuring a robust and sustainable trajectory in the face of evolving industry dynamics.

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