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Mandated Car Insurance in Uruguay Will Spur Growth and Competition

Extracted from "Moody's Weekly Credit Outlook", dated September 7, 2009.

On August 19, Uruguay mandated a minimum level of auto insurance coverage for all cars on the road. Roughly 40% of the vehicles in the country currently lack the minimum-required protection mandated by the new law.

Although the new mandated coverage will increase premiums for property-casualty insurers in Uruguay, it will take time to assess whether the credit implication of the new legislation is positive or negative, and which companies are particularly affected. In other Latin American countries, mandatory automobile coverage has not been a positive development, as the desire to provide the coverage created intense competition and under-pricing among insurers striving to capture market share in the new line of business. The impact of the recent Uruguay government's initiative will need to be carefully monitored and will become an important factor influencing the credit profile of insurers venturing into this new segment.

Inevitably, there will be difficulties in implementing the law, including perhaps even public resistance against the mandated coverage in the short term. Insurers are not required to offer the policies and companies aggressively entering this new segment may find their profitability withering based on evidence of similar trends in other regional markets like Argentina and Bolivia. Typically, the introduction of a new mandated coverage results in meaningful pricing risk because of uncertainty with respect to the levels of claims, losses and disputes. In contrast, the claims ratio for non-mandated automobile insurance in Uruguay has been relatively stable, fluctuating within a range of 45% in 2007 to 49% during Q1 2009.

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This new mandated coverage – created by law No. 18.412 – limits the maximum benefit to 150,000 indexed units (or around US$13,000) for the death or complete disability of drivers and passenger. The Uruguayan automobile segment (with US$160 million of gross premiums in 2008) represents 30% of the nation's total insurance market, which is relatively small compared to other Latin American countries. According to the insurance regulatory body, the largest companies operating in this segment are the following: Banco de Seguros del Estado (a state-owned insurer) with a 43% market share, Porto Seguro with 19%, RSA Seguros (Uruguay) with 12%, and Mapfre with 9%.

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