



Quantifying Risk, Enabling Opportunity.

Sovereign Debt Crisis: Lessons from Argentinian Insurers Survival

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**“Within crisis, are the
seeds of opportunity.”**

Anonymous and famous

“It is very challenging to tell which opportunities are the good ones, and to take advantage of them in the midst of a crisis.”

Mine - and not famous

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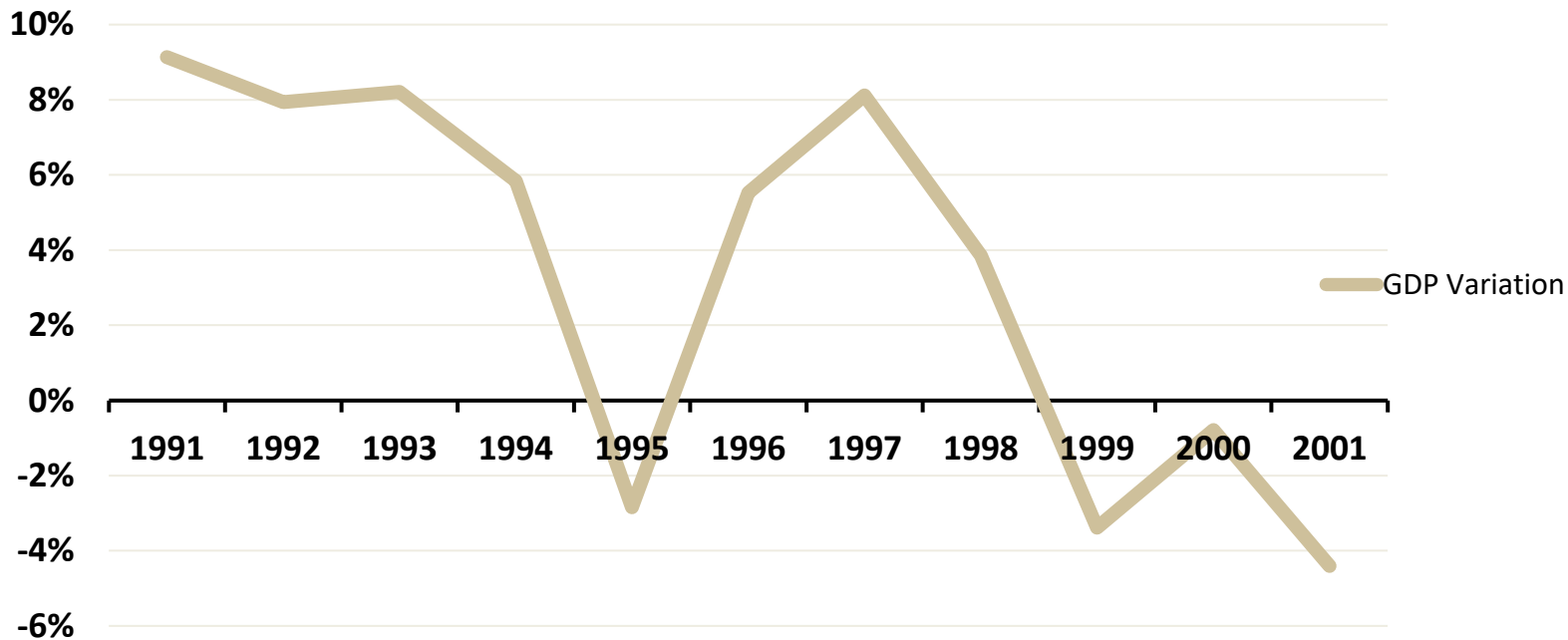
Thoughts

Economic environment – Argentina - 2001

- One of deepest economic crises in history
- Previous background
 - Conversion 1 Arg\$ = 1 US\$ since 1991 as a response to previous hyperinflation
 - Other structural reforms
 - High increase in GDP and in unemployment rate
 - Massive entry of international players in the insurance market
 - Development and growth of individual life and annuities markets
 - Contracts and bonds nominated in US dollars were allowed
 - Banks: coexistence of contracts in local currency and US dollars
 - Life insurance: most of contracts were nominated in US dollars
 - Investments: significant part in domestic bonds (issued either by government or by private sector)

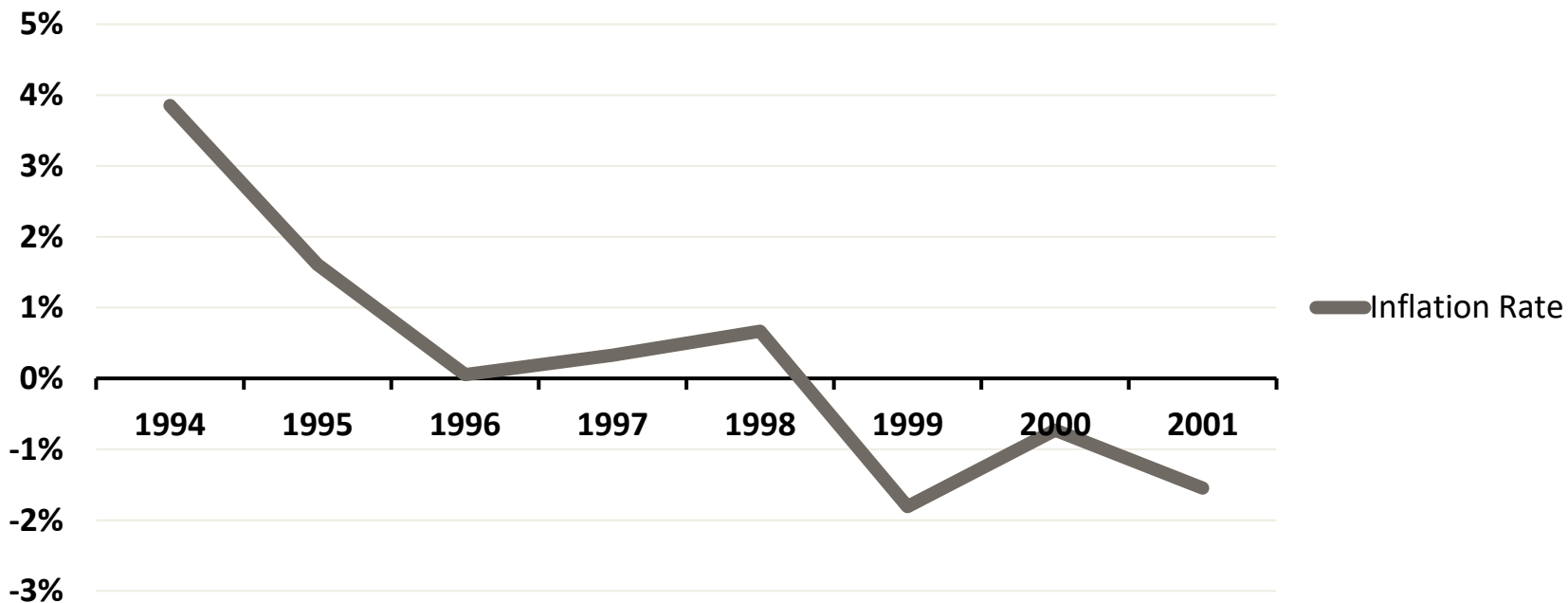
Economic environment prior to crisis

GDP variation per year



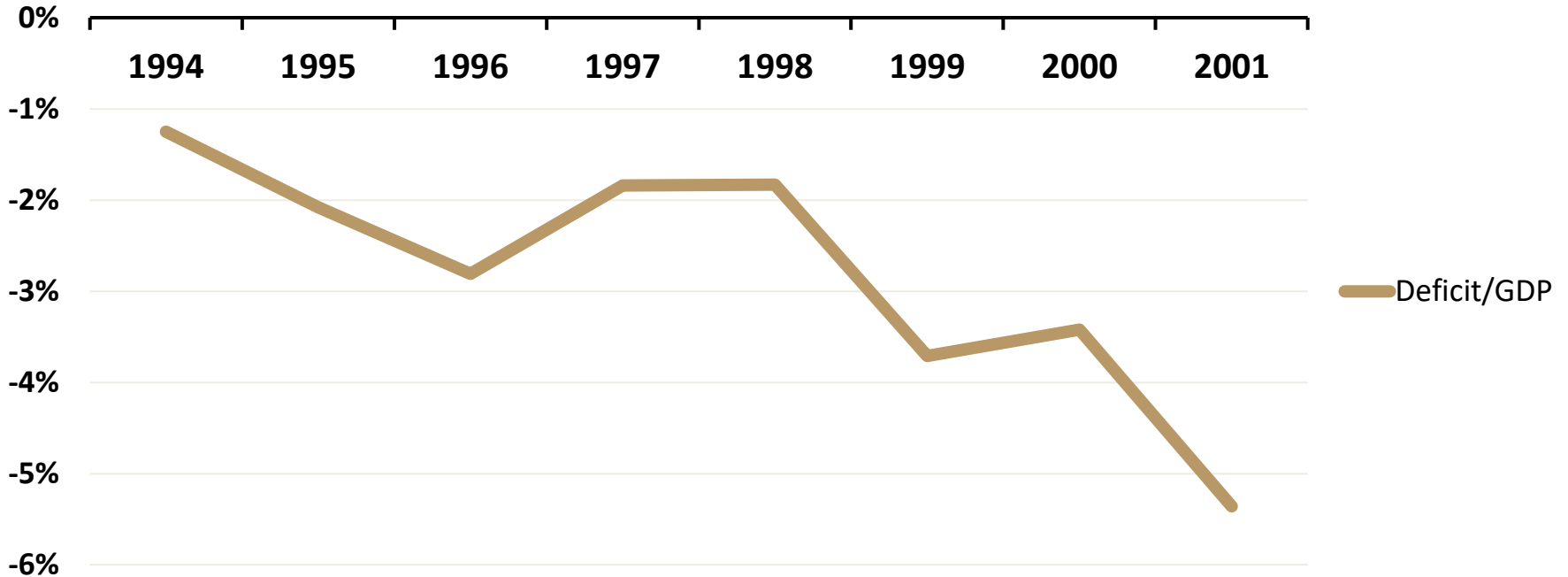
Economic environment prior to crisis

Inflation Rate



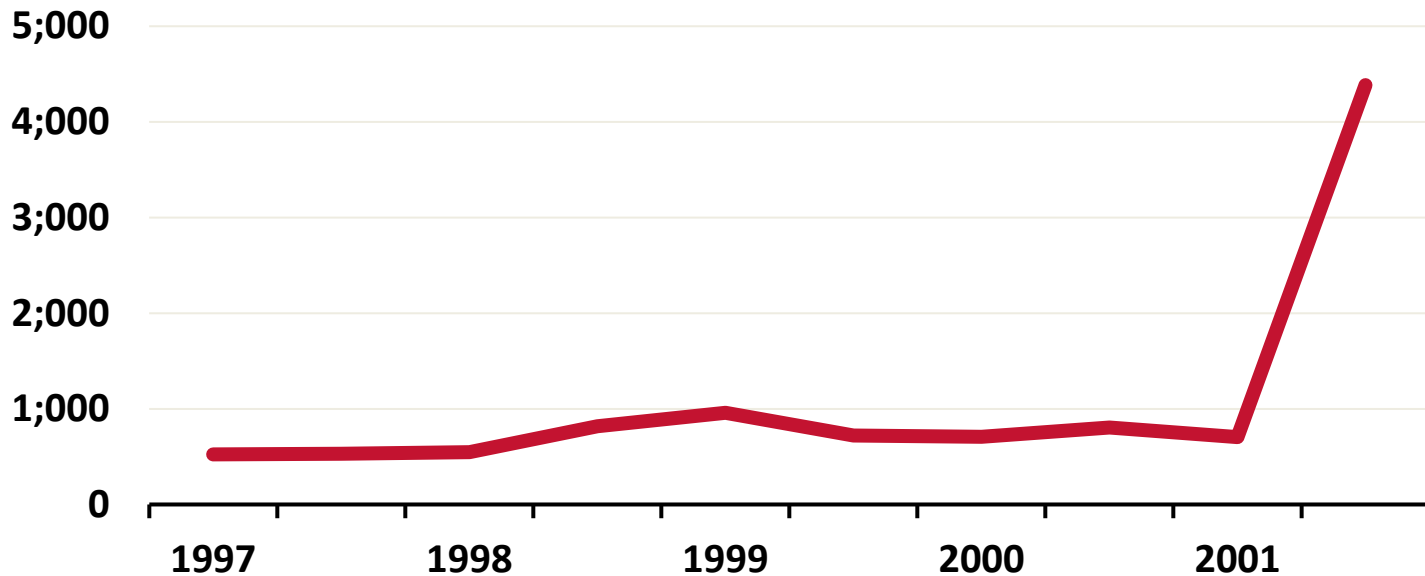
Economic environment prior to crisis

Fiscal deficit index



Economic environment prior to crisis

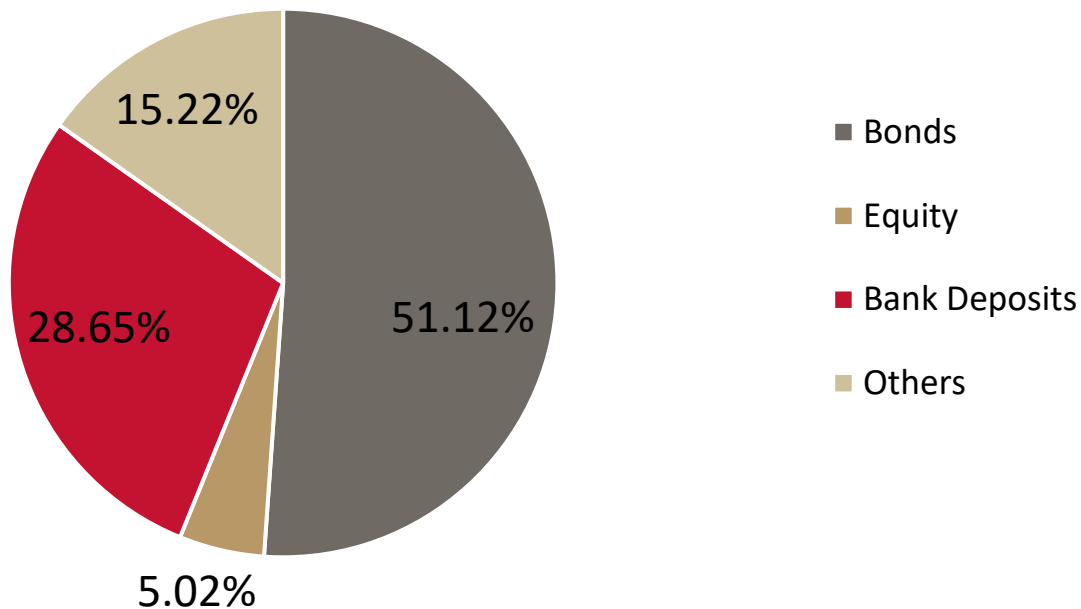
Country risk index



Source: JP Morgan

Economic environment prior to crisis

Asset composition – life insurance companies - 2001



2001 CRISIS

- 2000 and 2001 – expectation to solve problems
- December 2001: financial crisis led to significant overall economic crisis.
- D+D plan: Default + Devaluation
- Generalized deficit of capital of banking and life insurance industries under international accounting standards

Regulatory response to the crisis

Banking Sector

“PESIFICATION”

Compulsory conversion of obligations in US dollars to Pesos (local currency) at a specified exchange rate lower than market exchange rate

Effect of PESIFICATION



Regulatory response to the crisis

Banking Sector

RESULTS:

- Justice declared Pesification was illegal but only for those who made a judicial claim
- Temporary accounting special rules to help banks file suitable financial statements
- In the long run government compensated banks

- BUT: GAINED TIME

- Overall, banks remained in the market and in the long run became solid and profitable again

Regulatory response to the crisis

Life Insurance Sector

“RESTRUCTURING PLANS”

Regulator allowed companies to initiate negotiations with policyholders
If no consensus was reached, Pesification would apply

Regulatory response to the crisis

Life Insurance Sector

Restructuring menu – some examples:

- Pesification of individual account balance and premiums
- Full recognition of individual account balance in us dollars after 10+ years
- Pesification in the long term at a better conversion rate
- Immediate withdrawal at better than minimum conversion rates

Alternatives in line with restructuring alternatives in bonds offered by government

Regulatory response to the crisis

Life Insurance Sector

RESULTS DEPENDED ON THE PRODUCT

Regulatory response to the crisis

Life Insurance Sector

RESULTS – INDIVIDUAL LIFE

- Significant acceptance of Pesification of Face Amount, premiums and individual account balances
- Immediate reduction in collection of premiums
- In the long run, significant reduction in sales

Regulatory response to the crisis

Life Insurance Sector

RESULTS – ANNUITIES PRODUCTS IN ACCUMULATION PERIOD

Characteristic: total flexibility in premium determination

- Significant acceptance of any restructuring alternatives – probably the most popular was the 10 year option to return to full amount in us dollars
- Significant reduction in sales and premiums of individual products for years
- Permanence of corporate clients to keep employee benefits

Regulatory response to the crisis

Life Insurance Sector

RESULTS – ANNUITIES PRODUCTS IN ANNUITIZATION PERIOD

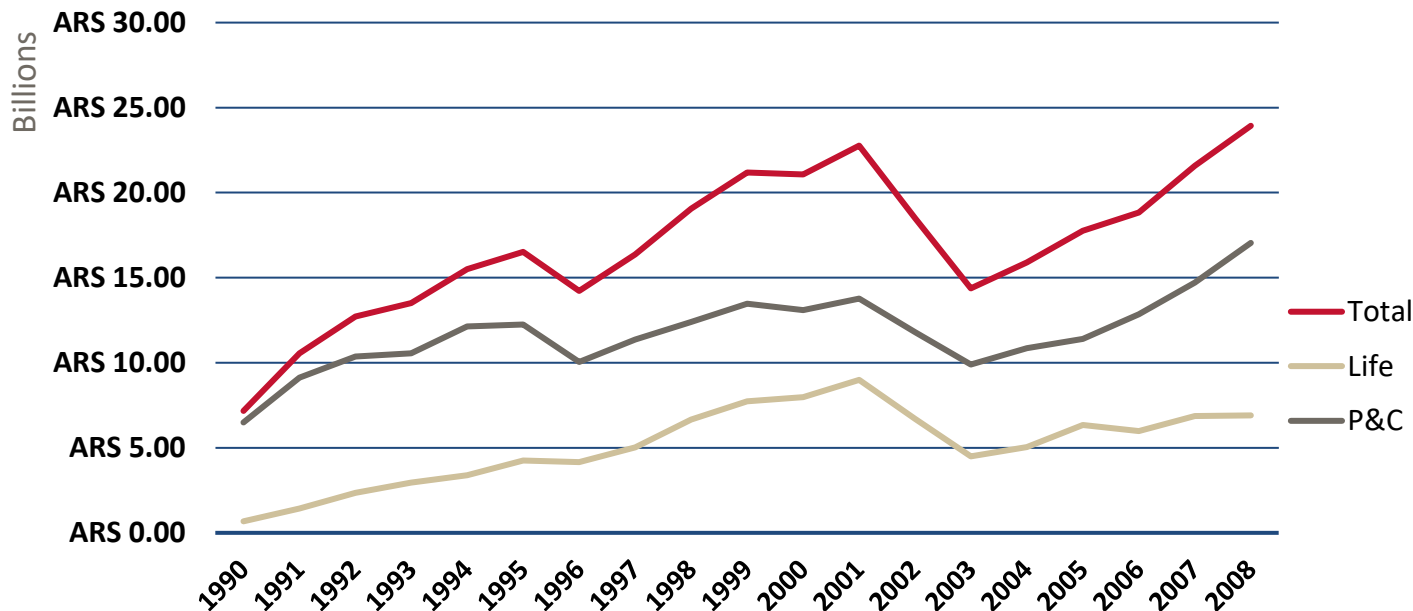
Characteristics:

Part of compulsory social security system
Compulsorily pesified with no restructuring menu

- Those who litigated won the lawsuit.
- Continuous leakage of new litigation claims
- Reserves based on projection of litigations
- Continuation of sales due to compulsory market allowed companies to create a healthy new portfolio higher than the unhealthy old portfolio in the long term

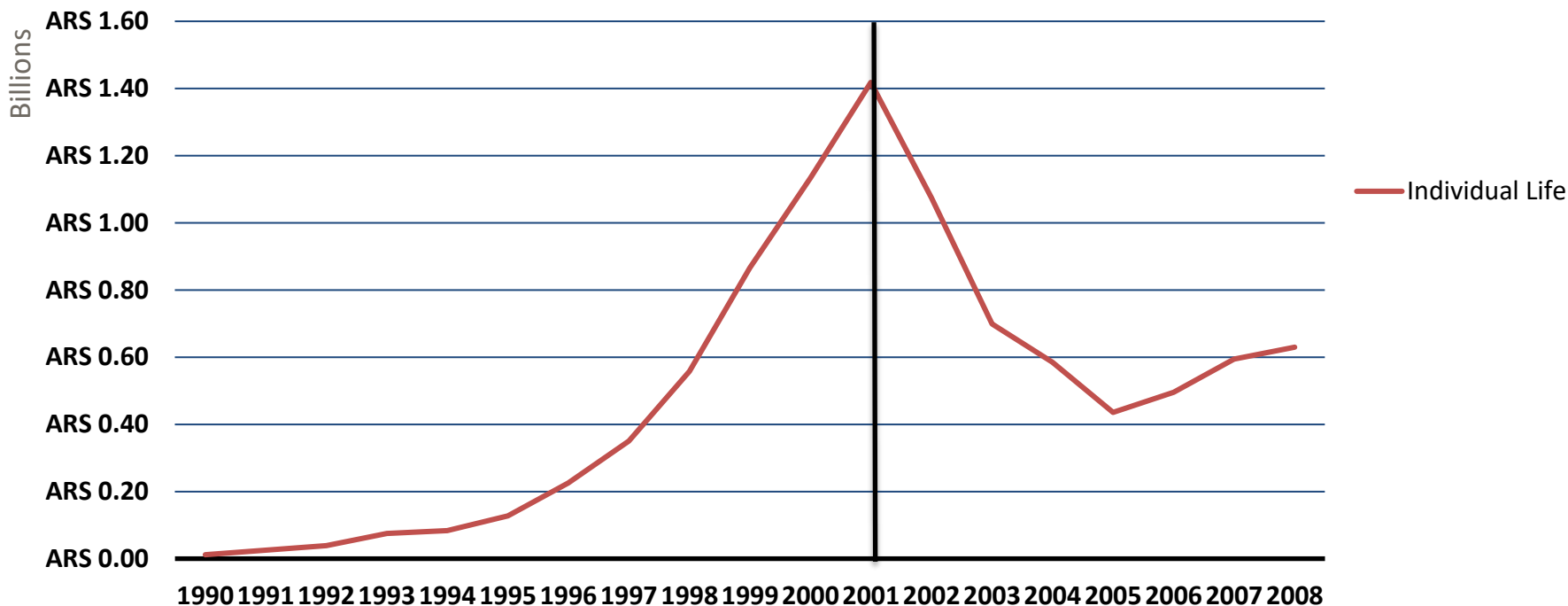
Economic environment prior to crisis

Insurance premium evolution



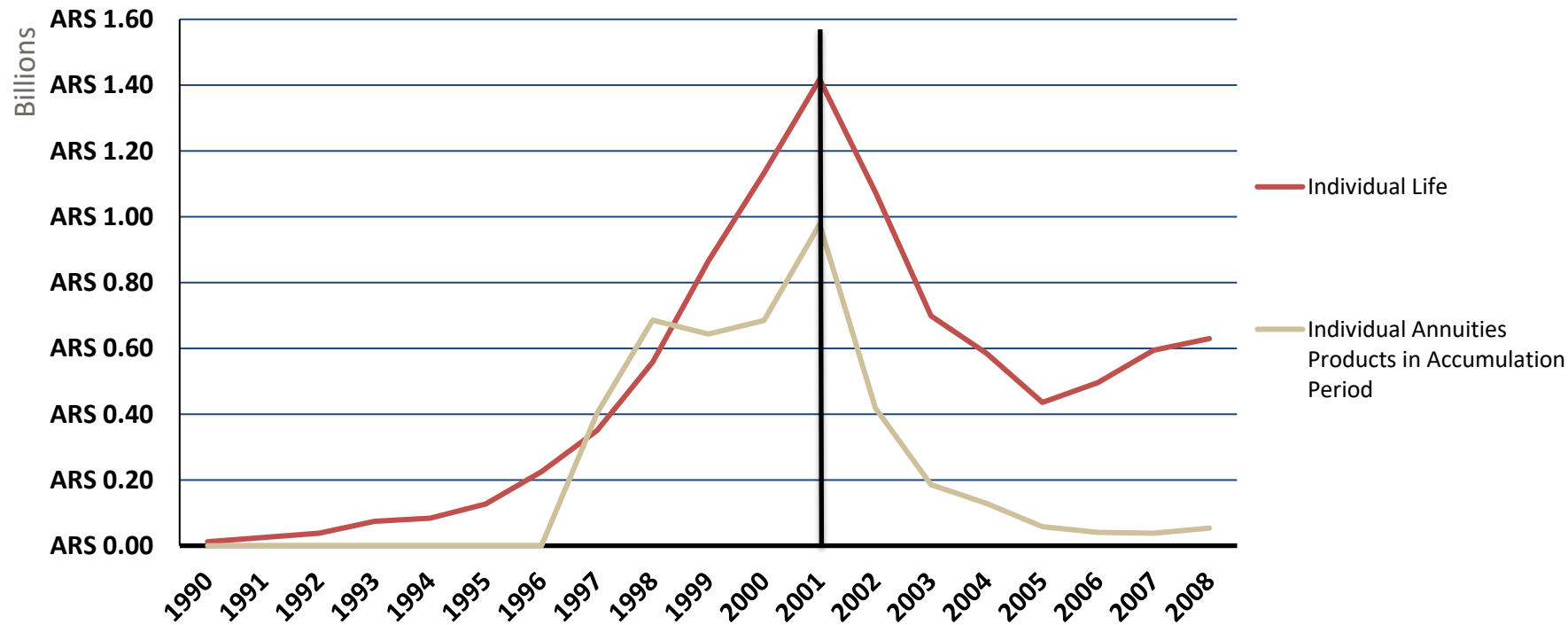
Amount stated in uniform currency at June 2008

Evolution of premiums – Life insurance



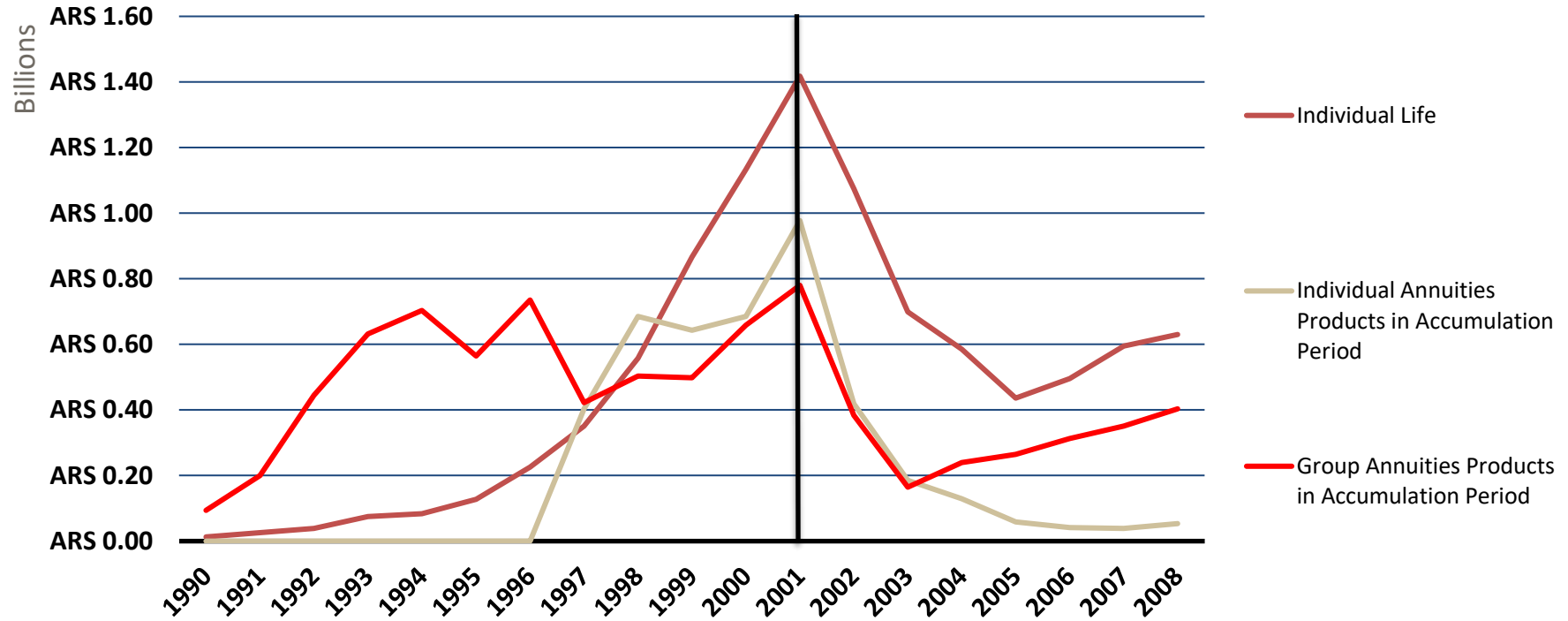
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Evolution of premiums – Life insurance



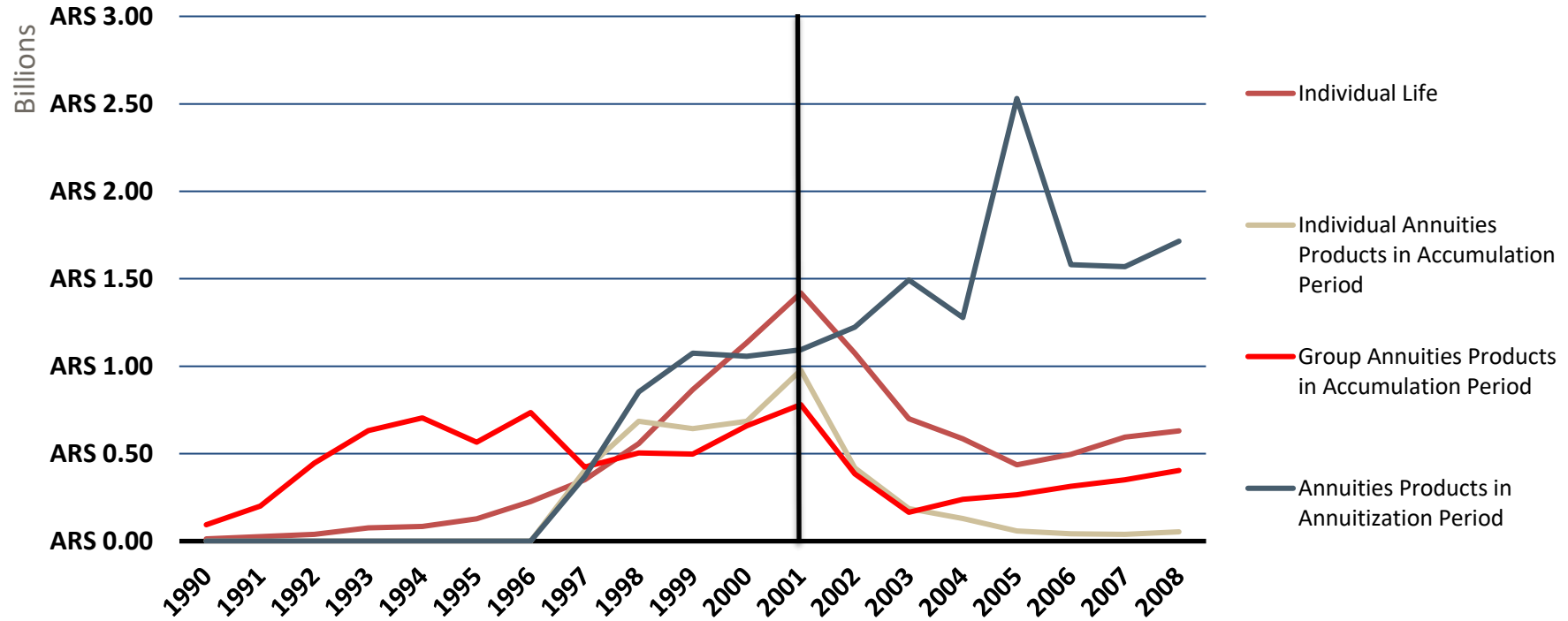
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Evolution of premiums – Life insurance



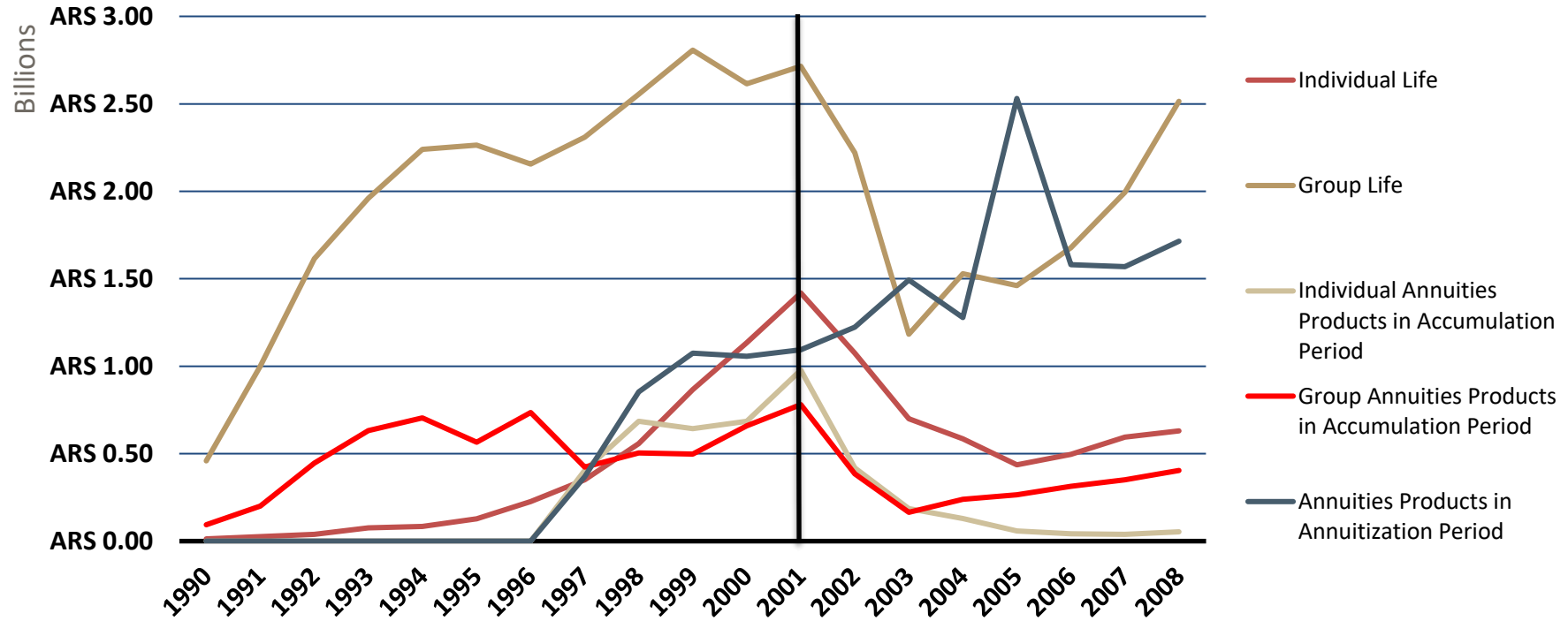
Amount stated in uniform currency at June 2008

Evolution of premiums – Life insurance



Amount stated in uniform currency at June 2008

Evolution of premiums – Life insurance



Amount stated in uniform currency at June 2008

Regulatory response to the crisis

Pension Fund Administrators

SPECIAL BOND OFFER

Government issued new bonds matching long duration of pension plans

Reaction of the life insurance sector (2001 crisis)

- Active coordination in response to regulators
- Acquisitions and consequent mergers – no significant bankruptcy
- Increase of presence of local players
- Focus on risk products
- Product design of saving products prepared for financial volatility
 - Low level of guarantees
 - Excess interest rate as % of return on investments
 - Fluctuation funds for excess interest

Another regulatory response to financial crisis

2019 experience

Scenario:

- Expectation of national debt renegotiation
- Significant decrease of market value of bonds

Regulatory response:

- Allowed valuation of assets at a combination of market value and amortized cost for 1 to 2 years
- No dividend distribution if this alternative is chosen

Final thoughts

- POWER OF COORDINATION
- SYSTEMIC RISK VS OWN RISK
- VALUE OF LEGAL CERTAINTY

Thank you

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