



Life insurance in Colombia

Victoria Bejarano
MAPFRE RE Colombia

“It is up to the insurance sector, and especially life insurance companies, to accept their responsibilities not only with respect to their clients, but also with respect to the equities market. This will allow life insurance to become what it in fact should be -a long-term development factor within the domestic economy- through the appropriate investment of its resources and reserves in order to facilitate the good performance of the country’s economic indicators.”

As is the case in the majority of developing countries, in Colombia the greatest part of the insurance portfolio covers property damage and only a lower proportion covers personal insurance lines. This situation is in contrast to the world-wide trend where personal insurance lines and insurance related to social security greatly surpass property damage insurance: on a world-wide basis personal insurance accounts for 70% and property insurance for 30%, the opposite of this country. It is however foreseen that this state of affairs will change within the next 15 years, when there will be a greater proportion within the insurance portfolio of personal insurance lines as opposed to property insurance. This forecast is principally based on the effect which the Social Security Act of 1993 will have on the insurance sector. This Act will bring with it new possibilities for growth in the areas of professional hazards, pensions and compulsory health plans for the general population.

Life insurance internationally greatly exceeds the simple cover which has traditionally been given in Colombia whereby, if the person dies during the term of the policy, his beneficiaries receive a compensation, but if on the contrary the policyholder survives he receives no benefit, and in fact insurability conditions become increasingly burdensome with the passing of time. These types of insurance have traditionally been known as “temporary”.

The most widely sold life insurance products in developed countries combine an element of risk coverage with an element

of saving, this fact contributes to the development and promotion of the investment market in general and the equities market in particular. As the products are based on medium and long-term policies life insurers become highly important institutional investors and the driving force behind social development. In addition to this, the insurance culture which exists in these countries allows people access to these types of products at an early age and guarantees that they will continue to receive the most advantageous insurance rates as the insurability conditions may not be changed during the period in which the policy is in force, and therefore the cost of insurance remains constant.

These products, which combine risk coverage with saving, and which are defined as “mixed”, imply that the insurer assumes that two types of risk -that of the death and that of the survival of the insured- and that the policyholder may for his part concentrate his insurance and savings needs within a single company and with a single payment, with a view to building capital or obtaining a better retirement pension. Until now these types of products have not been distributed in Colombia.

In Colombia the law allows insurers to design and distribute products which are alternative or complementary to pensions, pension insurance and complementary plans, and to manage pension liabilities in accordance with that laid down in Decree 2150 of 1987.

At a later date, Act 100 of 1993 ratified the faculty which insurers have to alternate pension



funds in their range of plans whose aim is the accumulation of resources in order to obtain an old-age pension. It is the responsibility of the regulatory body for banking to approve each plan on an individual basis, and of insurers to design the plans within the limits imposed by law.

There is still much to be done in Colombia with respect to the design and development of alternative or complementary pension plans. Act 100 of 1999, with its new approach to the area of Social Security, allowed insurers to enter and compete within a market which until that time had been considered as belonging exclusively to the financial sector. It is up to the insurance sector, and especially life insurance companies, to accept their responsibilities not only with respect to their clients, but also with respect to the equities market. This will allow life insurance to become what it in fact should be -a long-term development factor within the domestic economy- through the appropriate investment of its resources and reserves in order to facilitate the good performance of the country's economic indicators.

At the present time insurance plans designed to build up capital or a pension enjoy important fiscal benefits. Employees may write-off up to 30% of payments made from their taxable income, and the accumulated sums -whose minimum term should be five years- may be withdrawn with neither the capital nor the

accrued interest being subject to taxation. Until now these advantages had only been used for voluntary pension funds; but there are already insurers, which offer these types of plans which take advantage of not only the benefits which have been described,

“In summary, that this immediacy should be replaced by a true savings culture which will help to develop the equities market, and in turn provide impetus to economic growth. This will allow Colombia to join the ranks of fully developed nations within a reasonable period of time, bringing with it a higher standard of life for Colombians.”

but also additional benefits such as cover in case of death during the term of the policy, the possibility of obtaining loans or advances on the accrued sums and, being an insurer by nature, easy designation and claims handling for beneficiaries in the case of death.

The difficult economic situation which has been characteristic of recent times has obliged companies to be proactive and creative, to design tailor-made products of benefit to the various sectors of the population. From this position, life insur-

ance as a complement to pensions covers the needs for saving and risk coverage in a single product. This makes it more accessible to that large number of people who today, due to economic difficulties, have had to forgo the purchase of life insurance -the aim of which is to protect their loved ones if they are no longer there- or who have seen their savings capacity markedly decreased. A good alternative might be to combine cover against death and the accrual of capital in a single product.

In order for these types of schemes to be successful it is essential that longer term planning is carried out in Colombia, that the policyholder-saver becomes aware that the most suitable product is not one with a term of one year -whose renewal will be more expensive both in economic terms and with regard to insurability conditions- and that the financial markets should design products which are truly medium and long-term so that the insurance companies can invest their resources for similar terms as their obligations to their policyholders. In summary, that this immediacy that characterises the people of Colombia should be replaced by a true savings culture which will help to develop the equities market, and in turn provide impetus to economic growth. This will allow Colombia to join the ranks of fully developed nations within a reasonable period of time, bringing with it a higher standard of life for Colombians. ■