

CHUBB®

Webinar

Macroeconomic Trends & The Insurance Market

How Latin America is set to navigate the
short- and long-term post COVID19

June 30, 2020

Agenda

10:00

Welcome

Paula Barifouse
RVP, Marketing &
Communications
Chubb Latin America



10:10

Macroeconomic Trends

Gustavo Loyola
Partner, Tendências
Consultoria Integrada



11:10

Q&A Session

Send questions via
chat (on your right)
to All Panelists

10:05

Opening Remarks

Marcos Gunn
Regional President
Chubb Latin America



10:40

The Insurance Market

Alessandra Ribeiro
Macroeconomics, Industry
Economics, and BI Dept

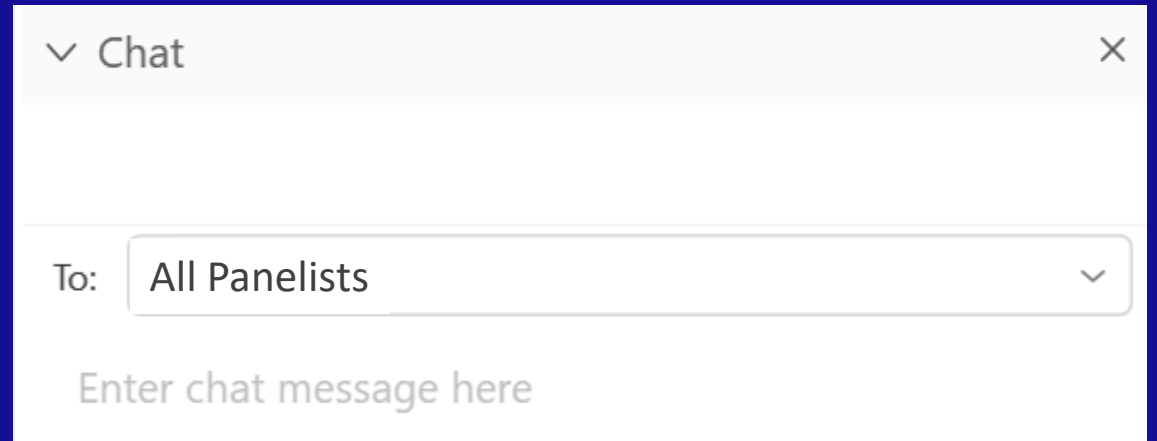


11:25

Closing Remarks

Marcos Gunn

To send your question, use the **chat space** on the right side of the screen. Please address it to **all panelists**.

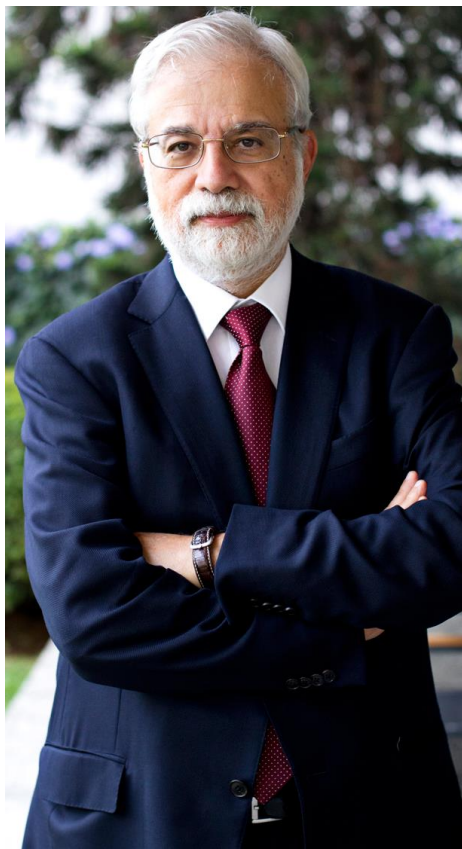
A screenshot of a chat interface. At the top, there is a header bar with a downward arrow and the text "Chat", and a close button (X) on the right. Below the header is a large empty space for messages. Underneath that is a "To:" label followed by a dropdown menu showing "All Panelists" with a downward arrow. At the bottom is a text input field with the placeholder text "Enter chat message here".

Chat

To: All Panelists

Enter chat message here

Our Guest Speakers



Gustavo Loyola

- Ph.D. in Economics, Getúlio Vargas Foundation School of Economics and Finance
- Former President of the Brazilian Central Bank (1992-1993 and 1995-1997)
- Member of executive boards of numerous companies
- In 2014, was named “Economist of the Year” by the Brazilian Association of Economists



Alessandra Ribeiro

- M.A. in Economics and Finance from FGV and B.A. in Economics from University of Campinas
- Former Market Analyst at BM&FBovespa and Head of International Economy and Financial Markets at Tendências
- Currently heads the Macroeconomics, Industry Economics, and Business Intelligence Department
- Co-authored the book “The Economy: How It Evolved and How It Works” with former Brazilian Finance Minister, Mailson da Nóbrega



Macroeconomic Trends & The Insurance Market

Opening Remarks

Marcos Gunn
Regional President, Chubb
Latin America

Chubb: All we do is insurance

Largest publicly traded P&C insurer

- Market capitalization of \$50.4B (Q1 2020)

Exceptional financial strength

- Managing risk conservatively in both underwriting and investing

Truly Global

- 54 countries & territories
- 658 offices
- 31,000 employees

Chubb Ltd, our parent company

- Listed on the NYSE (CB) & a component of the S&P 500 index

Core operating insurers rated

- AA" for financial strength by S&P, "A ++" by A.M. Best

Well balanced by product & customer



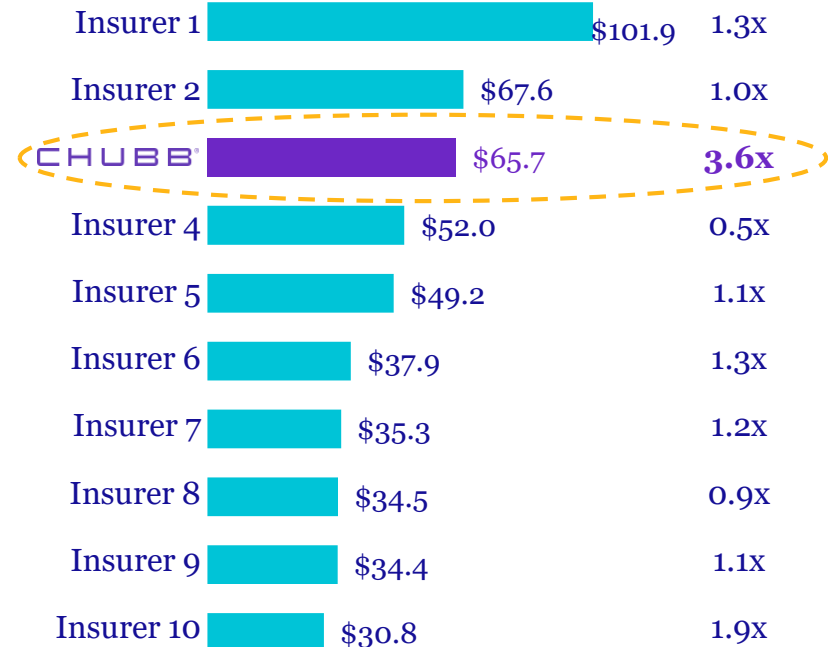
- A global leader in P&C coverage for industrial commercial & mid-market
- A leading commercial lines in the U.S.
- A leading financial lines writers globally
- The leading personal lines insurer for America's successful individuals and families and a large personal lines provider globally
- A global leader in personal accident and supplemental health insurance
- A P&C reinsurer
- An international life insurer in Asia

Market Capital

(\$ billion)

Multiline/P&C Global Insurers

10Y Growth



Average 1.4x

Average excl. Chubb 1.1x

Commercial Concentration:
P&C and Multiline

Underwriting: A passion for the art & science



**One of the
largest
portfolios in
the industry**

- More than 200 distinct commercial insurance and reinsurance products and services
- Specialty coverages for clients ranging from multinational corporations, middle market companies and small businesses to consumers



**Our
underwriters
have deep &
broad range
expertise**

- Both in industries and specialty coverage areas.
- Discipline defines our underwriting approach — we embrace risk as long as we fully understand it and can earn an acceptable return.
- Our 1Q'2020 P&C combined ratio was 89.1%. *Excluding catastrophe losses, the current accident year P&C combined ratio was 87.5%.*



**Renowned
claims service,
Industry-
leading risk
engineering
and deep
technical
knowledge and
talent**

- Expertise and scale to handle claims of all sizes and complexity
- Investment in technology and innovation to improve customers and distribution partners experience
- More than 400 risk engineers worldwide who help companies anticipate and minimize costly exposures
 - Extensive technical expertise and business acumen
 - Trusted guidance and customized risk management programs
 - Web-based platform and online library of risk management resources to help clients stay ahead of risk
- Loss prevention solutions from personal risk services consultants who have proven expertise in residential architectural, interior design, historic home preservation, security, fire protection & collections management

Chubb: A Leader in Latam

Our Regional Presence

- **\$2.6 billion** in Net Premiums Written (2019)
- **132** offices
- **+5,000** employees
- **+12,000** agents
- **+4,300** telemarketers
- **60** call centers

LATAM's #2
in General
Insurance

LATAM's #1 insurer
for P&C & Transports
(Cargo)

LATAM's #1
Surety company

Among the
top 3 insurer for P&C
and Personal
Accident





Macroeconomic Trends & The Insurance Market

Macroeconomic Trends

Gustavo Loyola

Partner, Tendências

Consultoria Integrada



Macroeconomic Trends & The Insurance Market

The Insurance Market

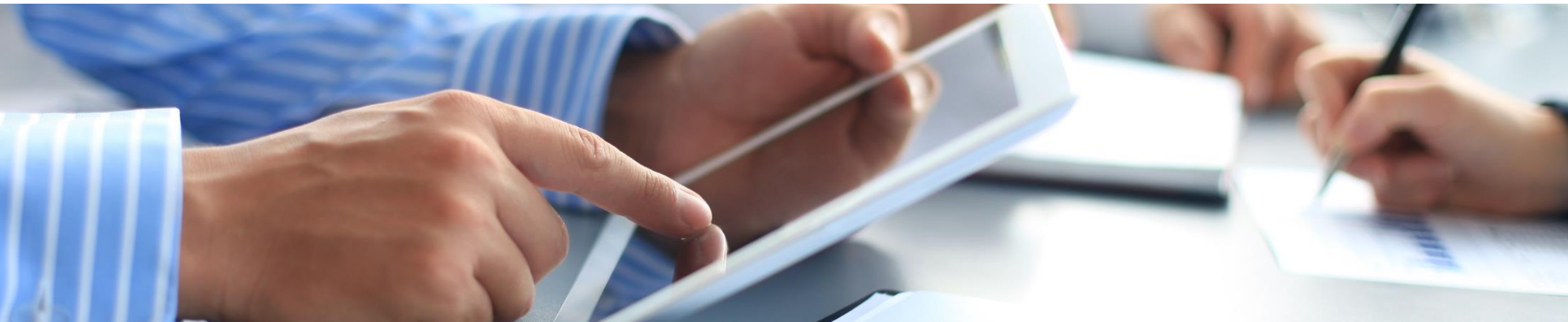
Alessandra Ribeiro

Macroeconomics, Industry
Economics, and Business
Intelligence Department



Prospects on Latin America and Brazil amid the covid-19

**June 2020 | Gustavo Loyola and
Alessandra Ribeiro**



1. International scenario

2. Brazilian scenario

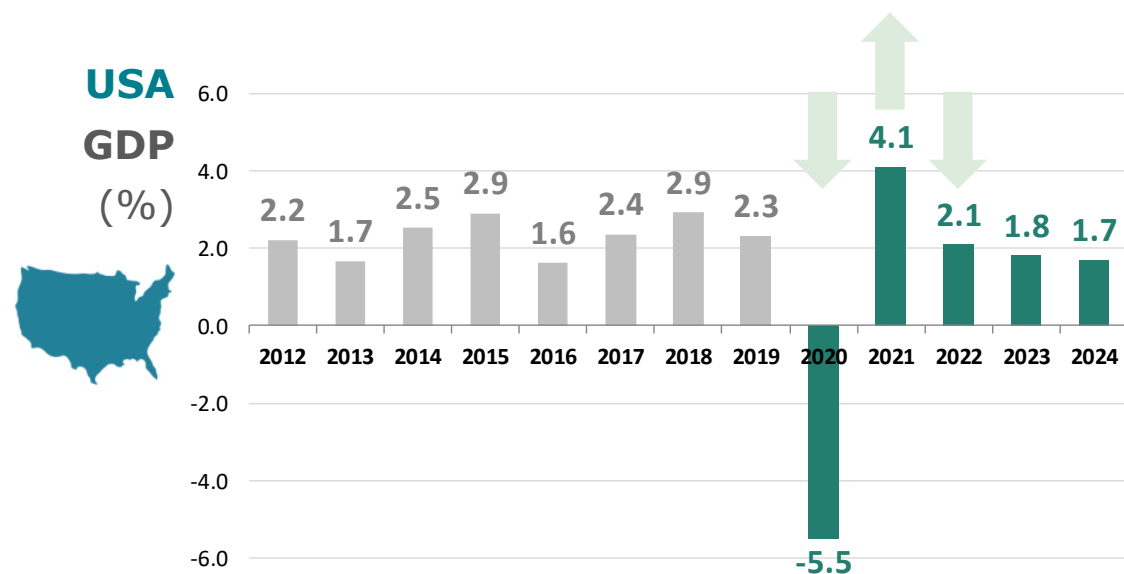
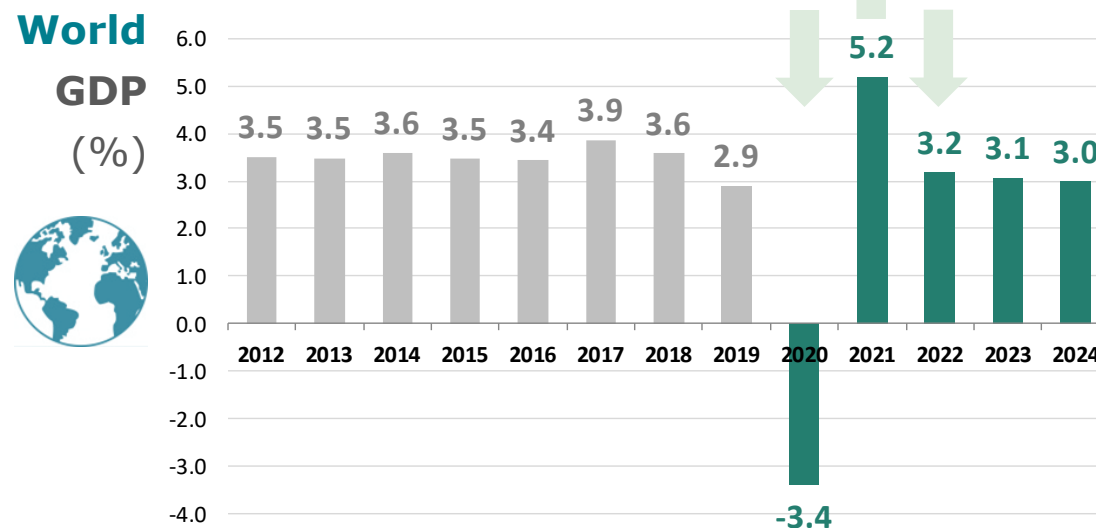
3. Conclusion

International

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Effects of covid-19 indicate
**pessimistic scenario for
global growth this year**

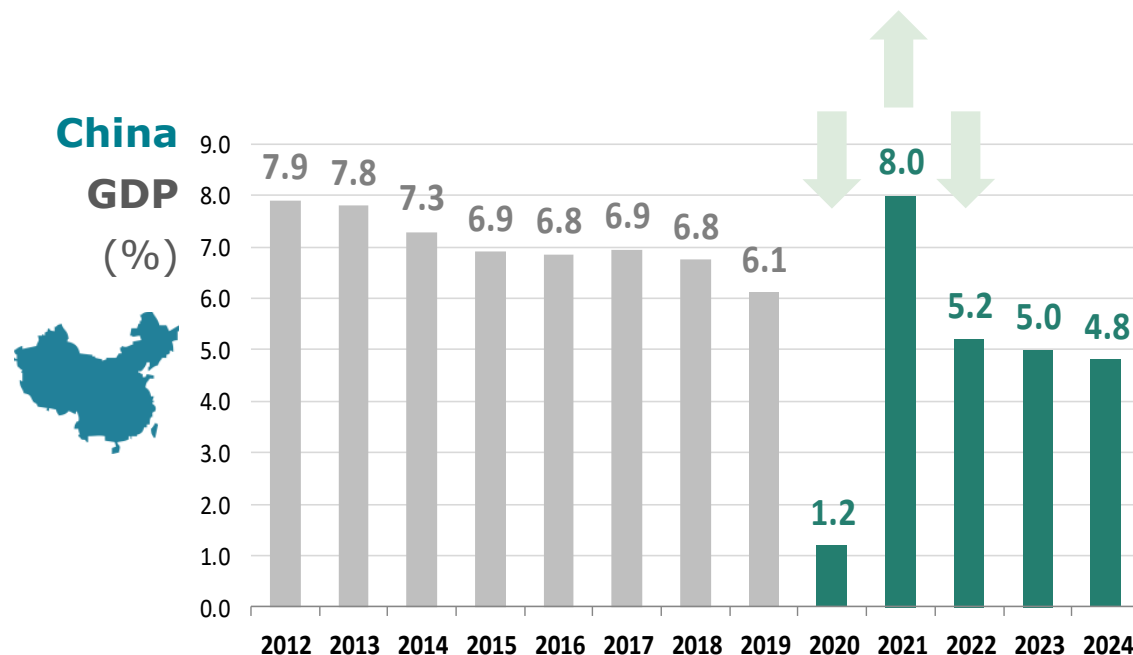
- Deep **deceleration** in 2020.
- **Geopolitical tensions** between the USA and China.
- In the following years, **recovery remains limited** by the more protectionist environment.



Despite signs of recovery, China is expected to **experience modest growth in 2020 and better performance in 2021**

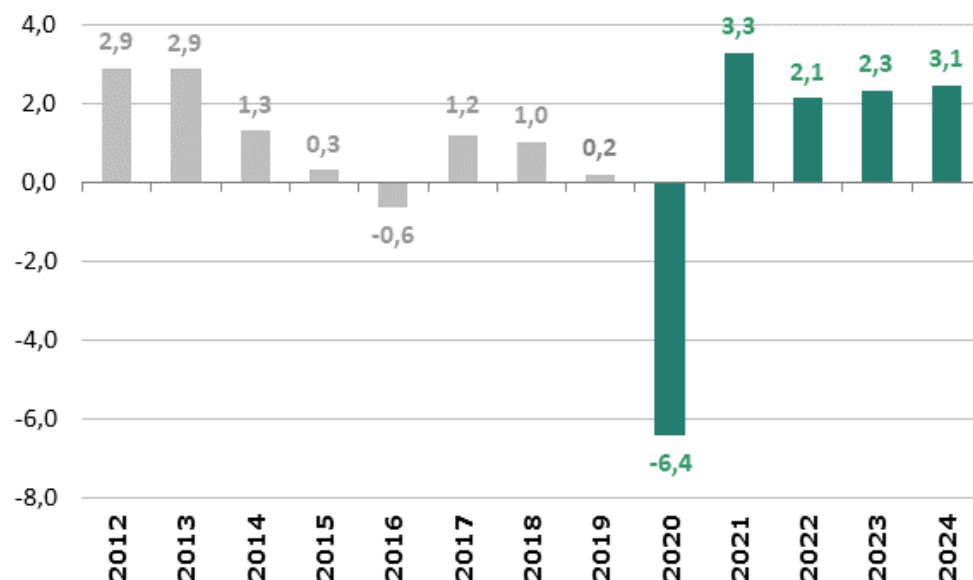
SHORT TERM GROWTH

- Recovery should start in 2Q20, but **recovery will be gradual** and with discrepancies between the main variables.
- Continuity of **stimuli and expansion of spending** (infrastructure).
- **Limiting factors:** disputes with US and changes in domestic consumption.




Latin America should be strongly impacted **by the performance of Brazil, Mexico, Argentina and Colombia.**

Latin
America
GDP
(%)



GPD 2020 2021

	Argentina	-9.5%	4.5%
	Mexico	-7.7%	1.3%
	Colombia	-5.0%	2.0%
	Ecuador	-8.7%	
	Chile	-6.1%	4.2%

1. International scenario

2. Brazilian scenario

3. Conclusion

The probability of the presidential mandate interruption **is around 40%**

There are two main paths to a possible political transition:

- 1) impeachment (crime of responsibility) and
- 2) judicial decision on presidential ticket. For now, the baseline scenario is an instable equilibrium among the different branches.

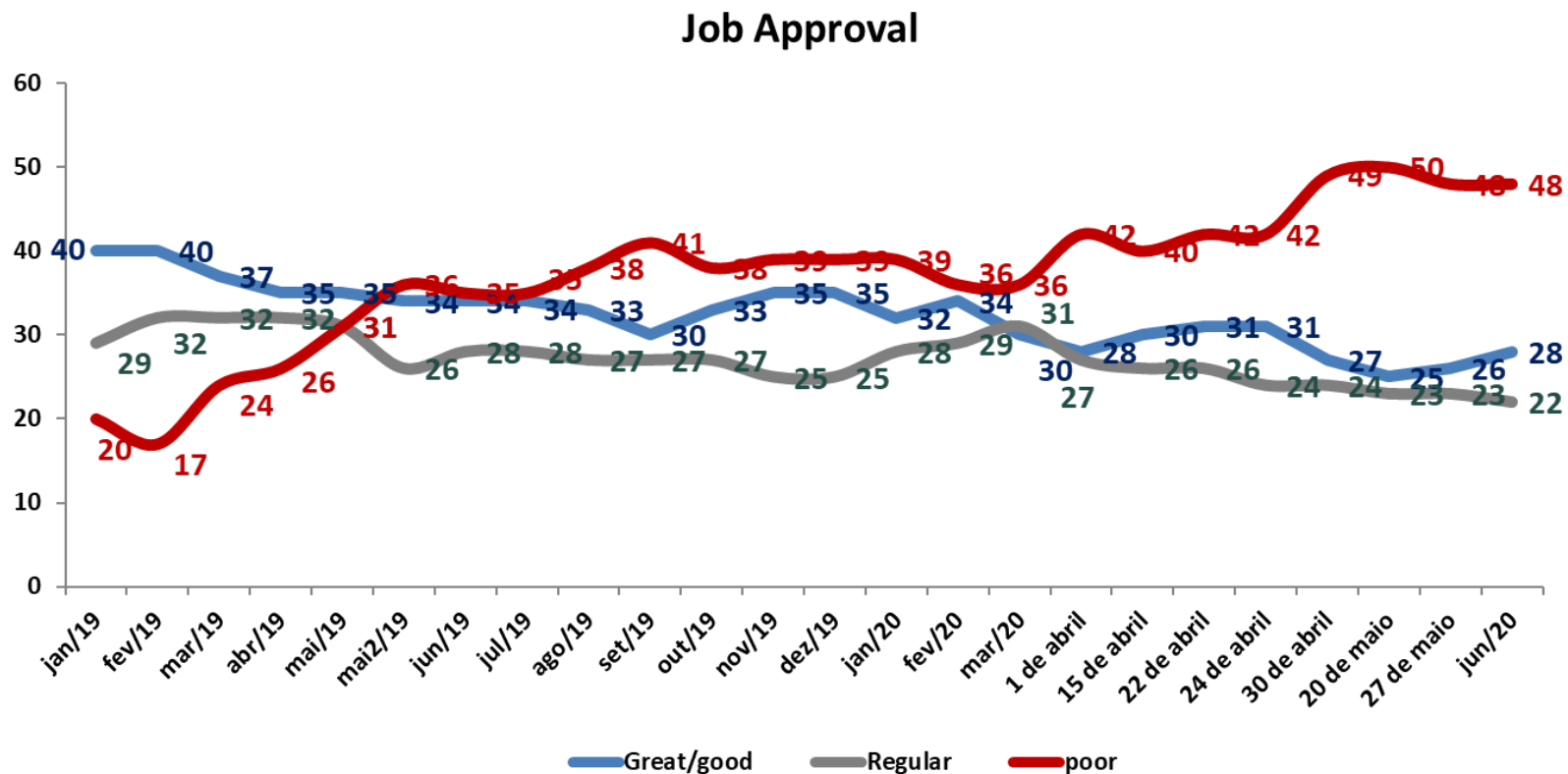
- Difficults of political mobilization during a healthy crisis with no regular movements
- Military organization
- Conservative movement

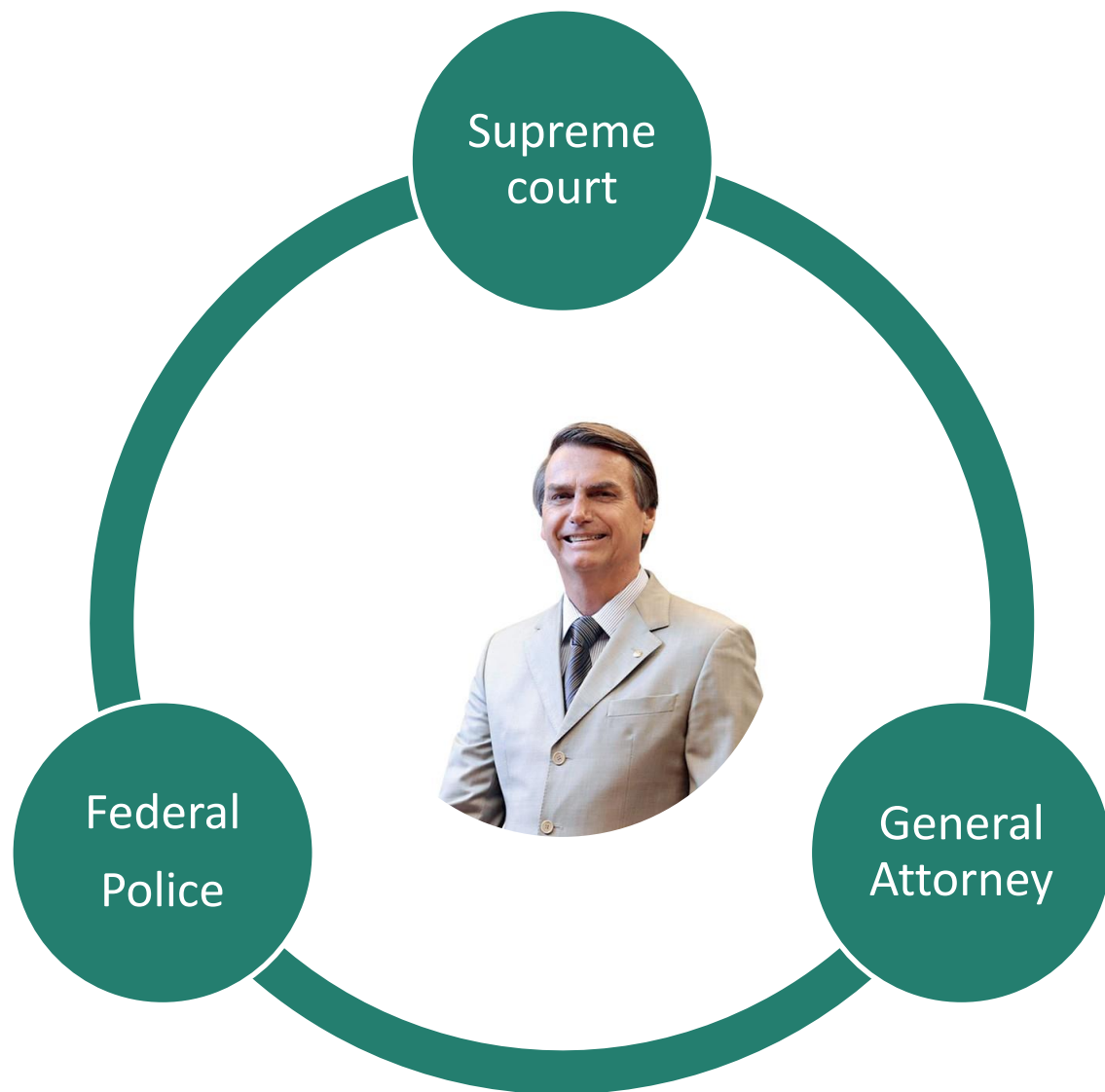
- Pandemic effects
- Lost of credibility
- Checks and balances (political and judicial)

Political capital of president Bolsonaro **affected by the pandemic.**

Job Approval

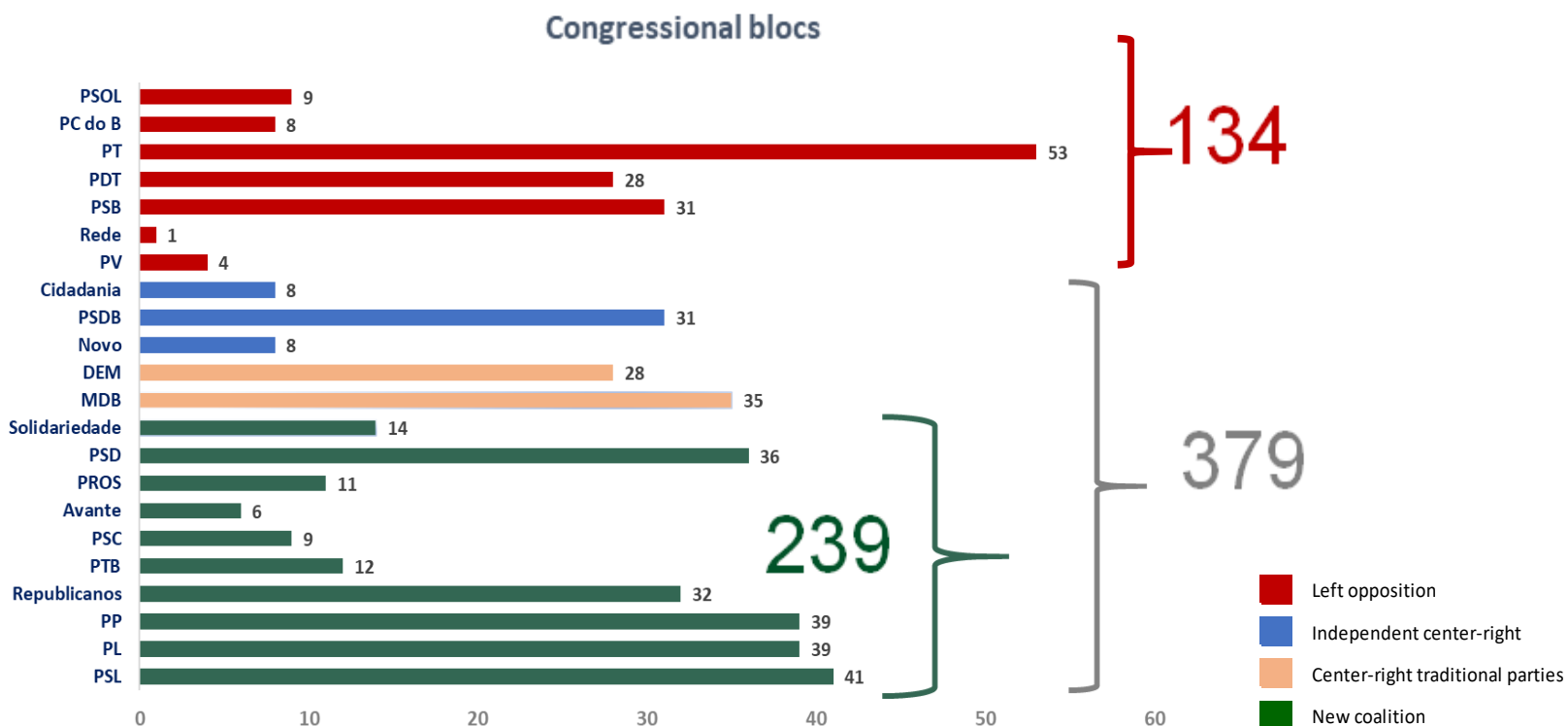
- **Increase in rejection** and slight drop in his support.
- In the pessimistic scenario, his political capital could drop to around 20%.
- **Political polarization** will remain as a baseline scenario.





Judicial Factor

- The **main source of risk** for the government comes from the judiciary.
- **There are investigations around the president and his allies**, with emphasis on the accusation of intervention in the work of the Federal Police and financing of political movements of a non-democratic nature.
- The **issue of corruption around the family nucleus** fuels insecurity of the presidential term.



Source: www.camara.gov.br. Prepared by Tendências.

Coalition Factor

- The president seeks to **build a legislative coalition** to sustain the mandate.
- The eventual election of a **name allied to the president is a necessary condition for the baseline scenario**, marked by the forwarding of measures to control spending after the emergency effects of the pandemic.



Fiscal Risk

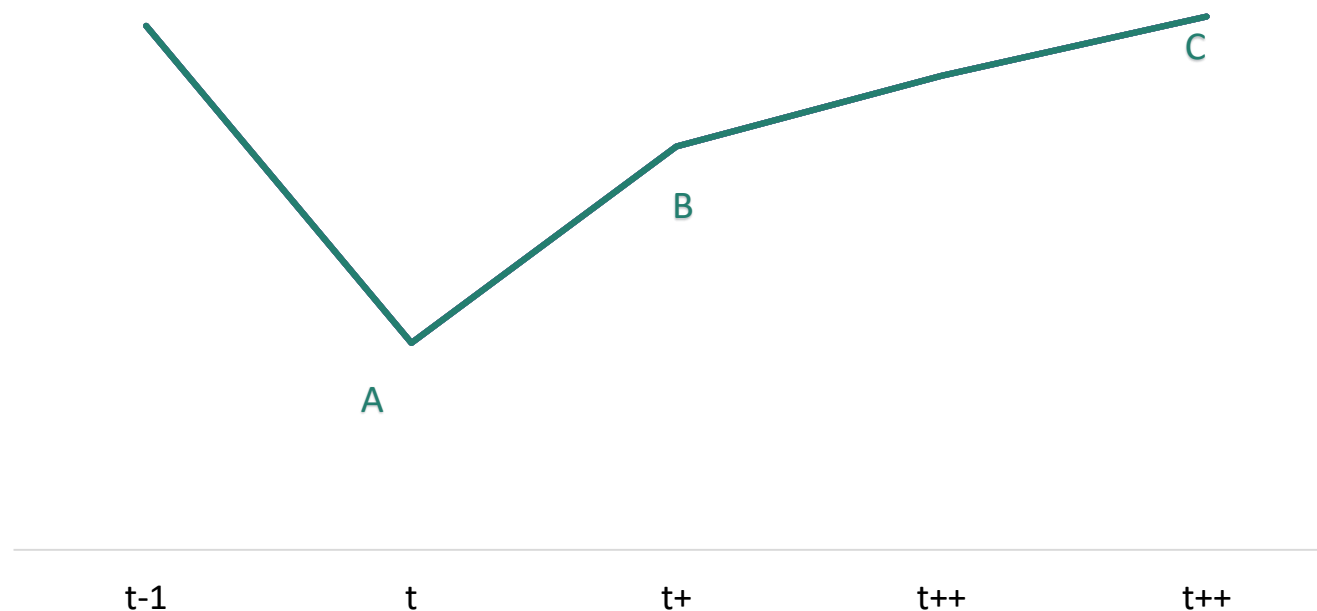
- The **link between the political scenario and the economy appears in the fiscal policy.**
- More risk for the presidential term means less control of the economic policy.
- **The fiscal risk appears in possible changes in the fiscal policy pillars in 2021 (ceiling on public spending).**

Recovery Format

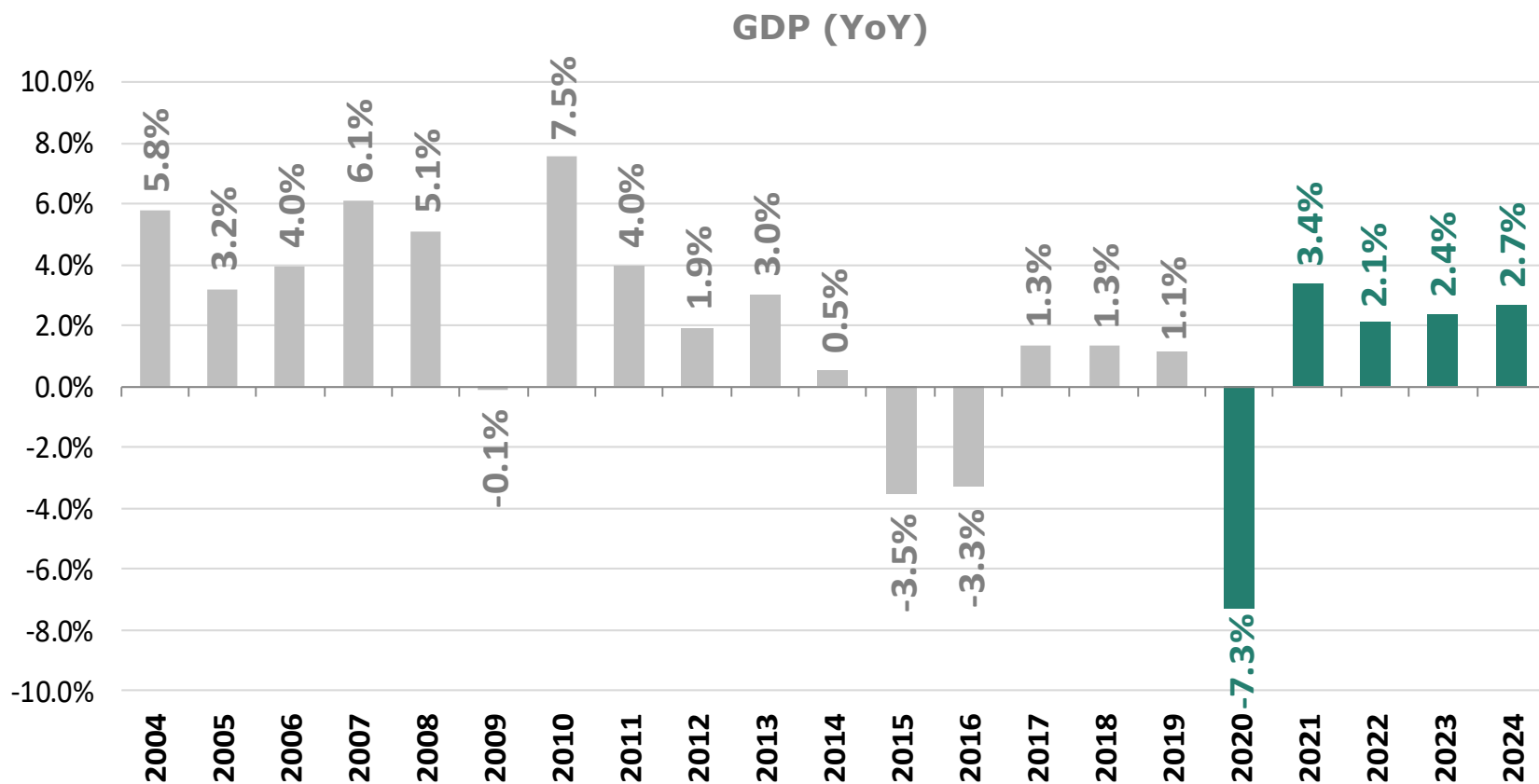
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Permanent effects of the pandemic and an environment of greater institutional-political tension **should shape the recovery format**

THEORETICAL MODEL OF RESUMPTION



In view of the more challenging scenario and gravity of the covid-19, **projections migrate to the pessimistic field**



QUARTERLY PERFORMANCE

- Worst moment should be in the 2nd quarter.
- Recovery will be more evident from the 4th Quarter on.
- Subsequent growth will be very gradual.




GDP






Consumption and investments
should suffer more this year

SHORT TERM FACTORS

- High level of economic **uncertainty**.
- Low growth of the main **partner countries**.
- Worsening of the **financial conditions** of families and small companies.

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		2017	2018	2019	2020
	GDP	1.3%	1.3%	1.1%	-7.3%
	Agricultural	14.2%	1.4%	1.3%	1.7%
	Industry	-0.5%	0.5%	0.5%	-8.5%
	Services	0.8%	1.5%	1.2%	-6.6%

		2017	2018	2019	2020
	GDP	1.3%	1.3%	1.1%	-7.3%
	Household	2.0%	2.1%	1.8%	-6.4%
	Government	-0.7%	0.4%	-0.4%	2.8%
	GFCF	-2.6%	3.9%	2.2%	-12.7%
	Exports	4.9%	4.0%	-2.5%	-4.1%
	Imports	6.7%	8.3%	1.1%	-10.9%

Very affected in the short term, the labor market should have a **strong increase in the number of unemployed**

Real income should show two different moments in 2020:

- 1. Intense retraction** in the coming months, with double-digit loss estimates.
- 2. Followed by a slow reaction**, from the normalization of the level of activity and business.

 Occupation	2018	2019	2020	2021
EAP/WAP	62.5%	62.7%	61.8%	62.8%
Occupation (growth %)	1.4%	2.0%	-3.5%	1.2%
Unemployment rate (%)	12.3%	11.9%	14.5%	15.8%

 Income	2018	2019	2020	2021
Real income (growth %)	1.5%	0.4%	-2.4%	0.9%
Real wage mass (growth %)	3.0%	2.5%	-6.0%	2.0%

Labor Market

Recovery of employment level will be
very gradual

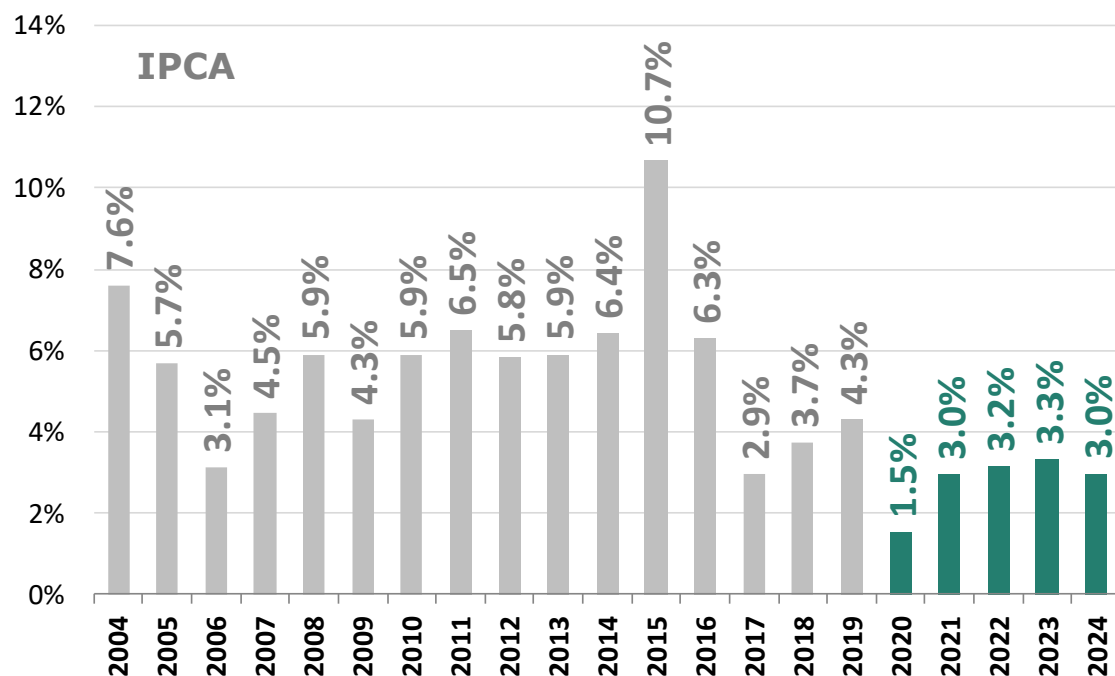







National Index of Price to the Ample Consumer (IPCA)

27

Loss of pace in line with weakened economic activity

- Weak economic activity leads to **reduced inflation for 2020 and 2021.**
- The pandemic's effect is disinflationary,** influencing *commodities* and prices sensitive to trade and services.



					
(%)	IPCA	Market	Administered	Services	Industrialized
2012	5.8%	6.6%	3.7%	8.7%	1.8%
2013	5.9%	7.3%	1.5%	8.7%	5.2%
2014	6.4%	6.7%	5.3%	8.3%	4.3%
2015	10.7%	8.5%	18.1%	8.1%	6.2%
2016	6.3%	6.6%	5.5%	6.5%	4.8%
2017	2.9%	1.3%	8.0%	4.5%	1.0%
2018	3.7%	2.9%	6.2%	3.3%	1.1%
2019	4.3%	3.9%	5.5%	3.5%	1.7%
2020	1.5%	1.7%	1.1%	1.7%	-0.1%

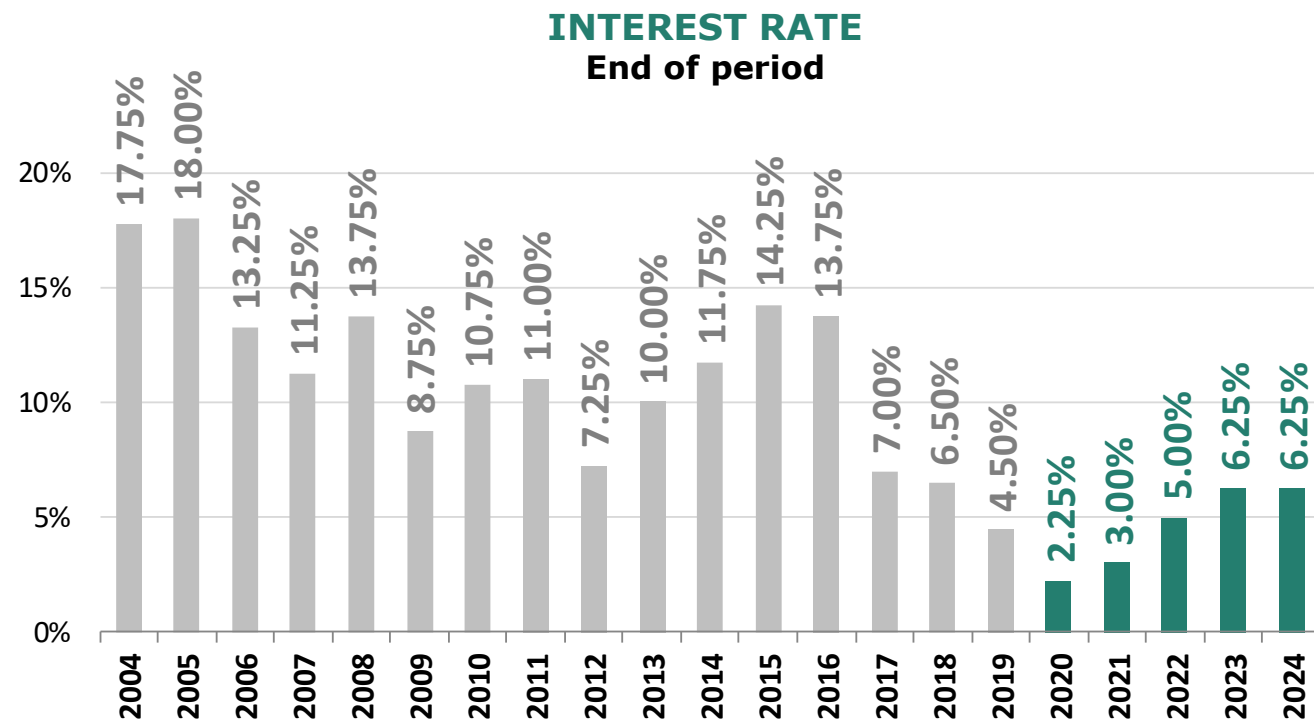
Interest Rate

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Expectation is for the

Selic to be maintained at the current level

- The main channels of transmission of the pandemic on prices are **disinflationary**.
- A further drop would occur if the scenario shows a further worsening with a drop in inflation projections for 2021.
- Selic is expected to rise again **only at the end of 2021**. Risk is for longer maintenance.

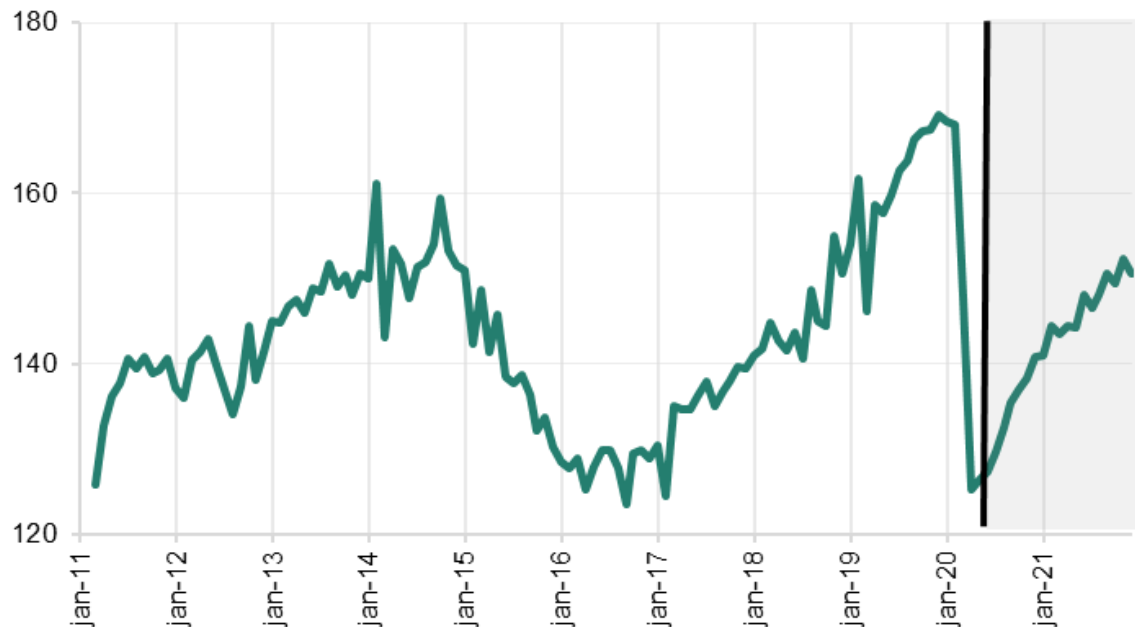


Credit to individuals

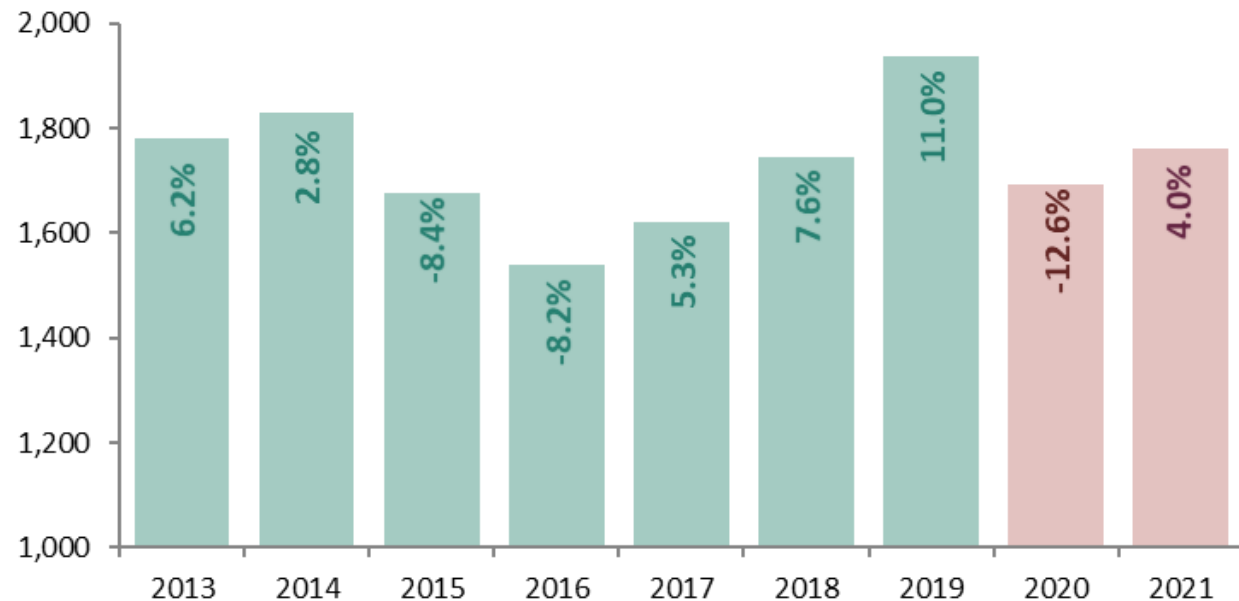
Concessions fell 8.7% in the last two months in the annual variation.

For the coming months, the volume of credit should continue to be reduced, with weaker demand (with a retraction in real income) and limited credit supply (with greater selectivity of banks). In addition, bank interest rates are expected to rise throughout the year, accompanying the increase in credit risk and restricting the demand for financing.

Non-earmarked credit | Seasonally adjusted (R\$ billion)



Non-earmarked credit
Annual series



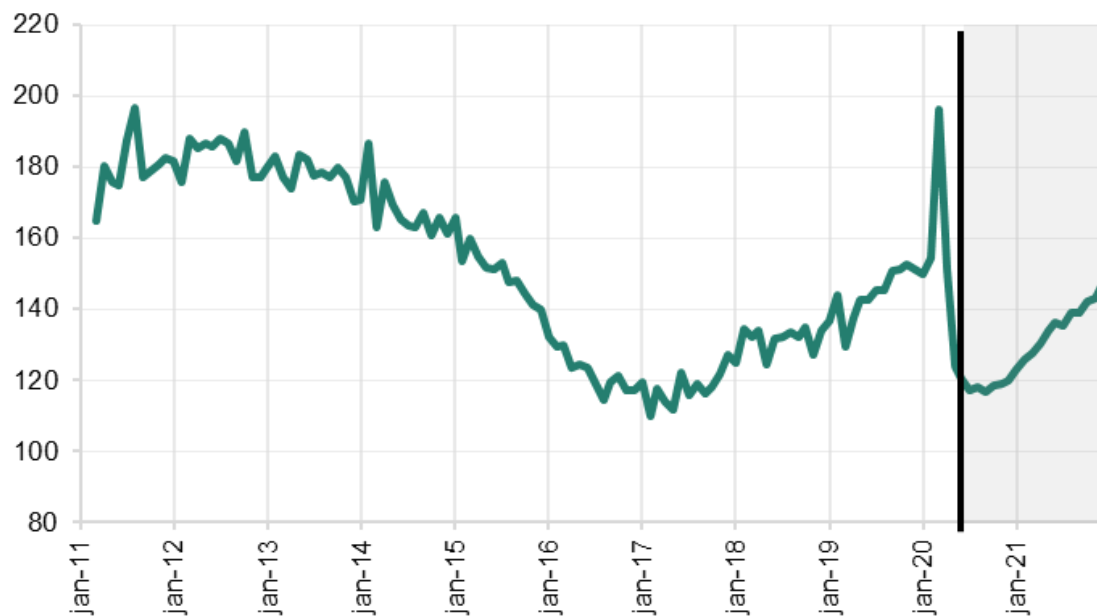
Credit to companies

30

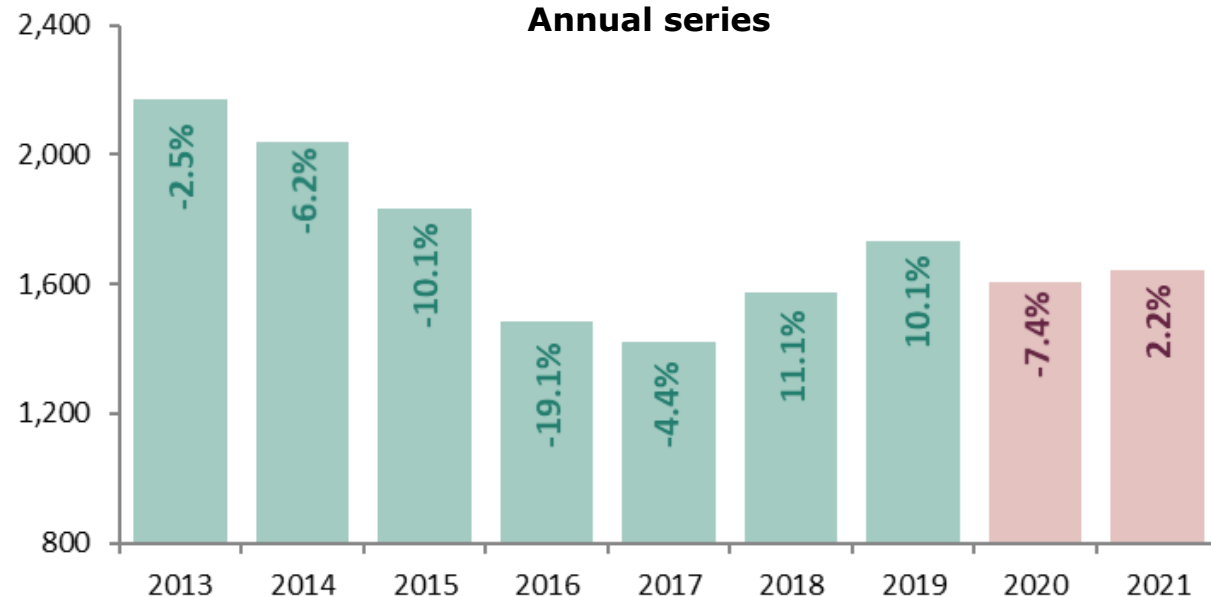
Growth in concessions in March and April reflects demand for working capital, especially from large companies.

Despite the recent growth, the expectation is for the deceleration throughout the year, following the negative financial situation of the companies, with a strong retraction in the demand for goods and services, and the worsening of credit conditions.

Non-earmarked credit | Seasonally adjusted (R\$ million)



**Non-earmarked credit
Annual series**



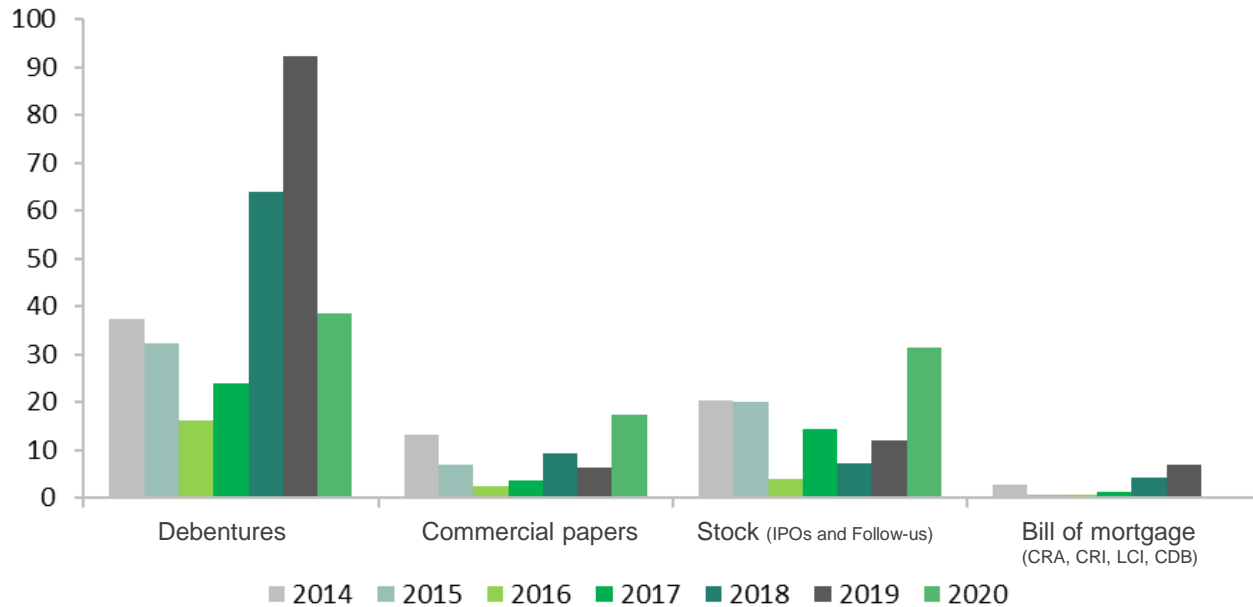
Business Financing

31

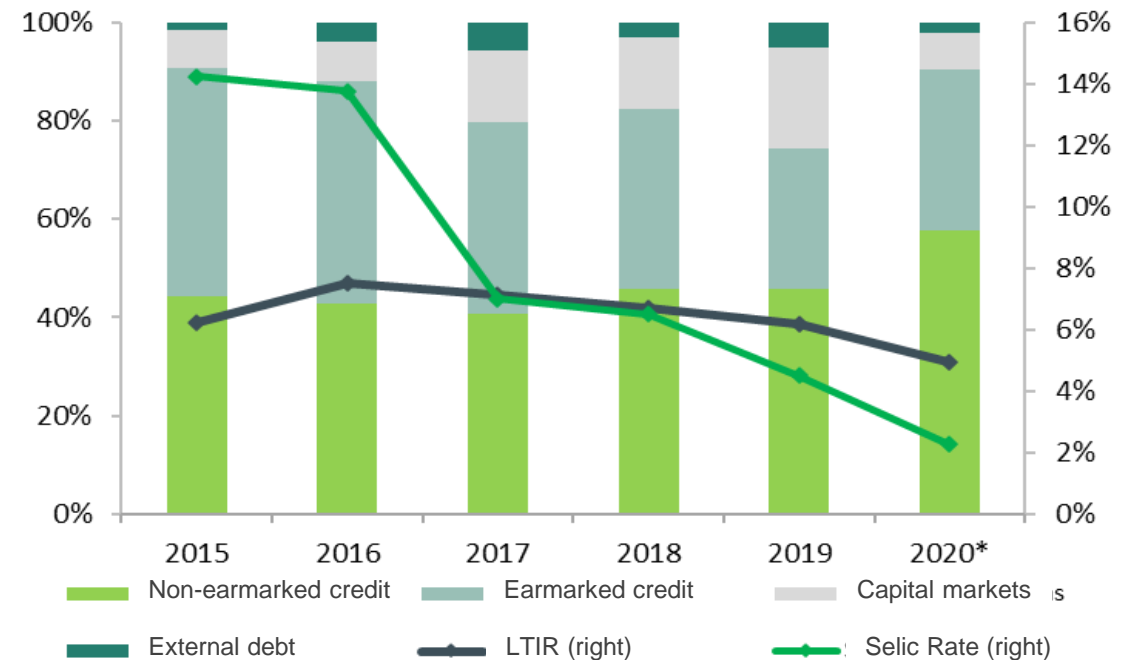
Issuance in the capital markets total R\$ 125.5 billion from January to May, a reduction of 17% (YoY)

Among the categories, working capital shows an increase in the share of debentures, reinforcing the search cash maintenance.

Capital markets | Products (R\$ billion)
Accumulated until May

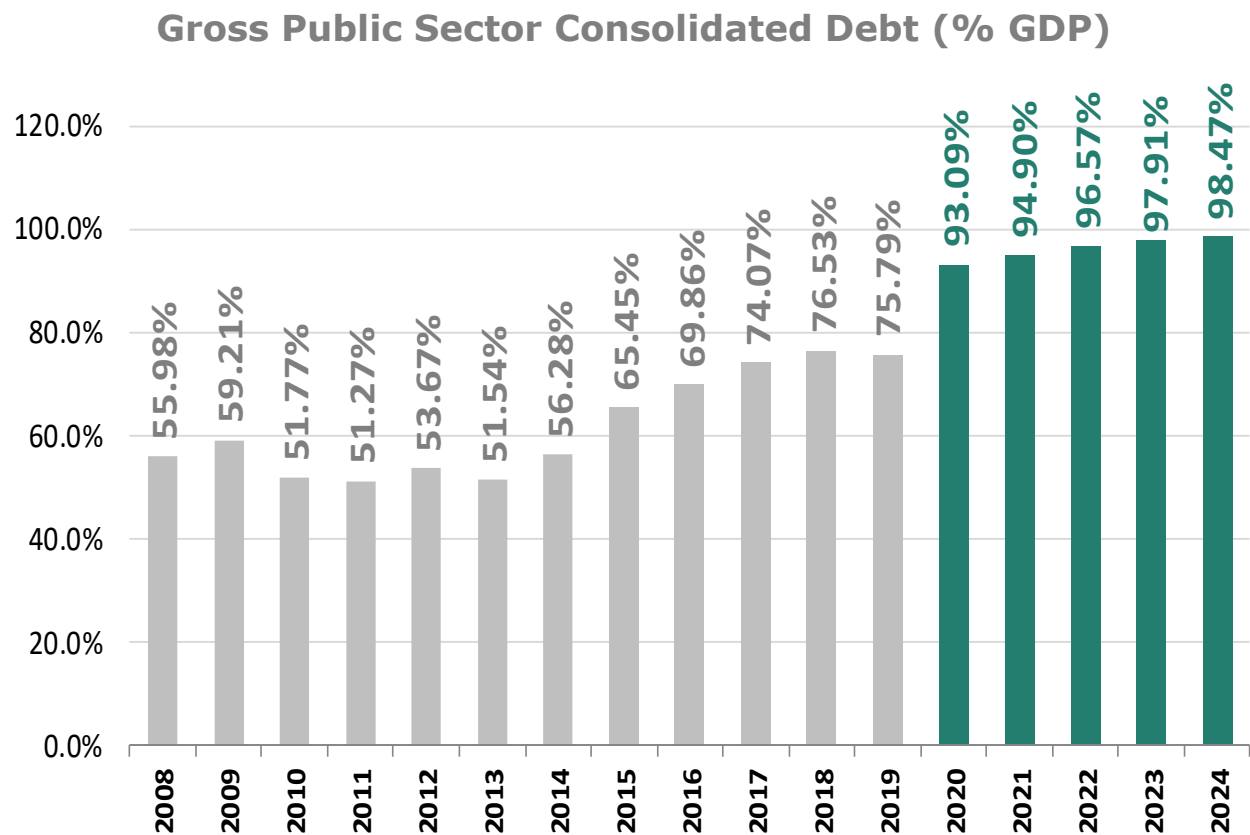


Broad credit
Financing type participation (%)



Source: Brazilian Association of Financial and Capital Market Entities (ANBIMA), Central Bank of Brazil and Brazilian Development Bank. *The year 2020 refers to the result up to April for credit and the projection for Selic Rate and Long Term Interest Rate.

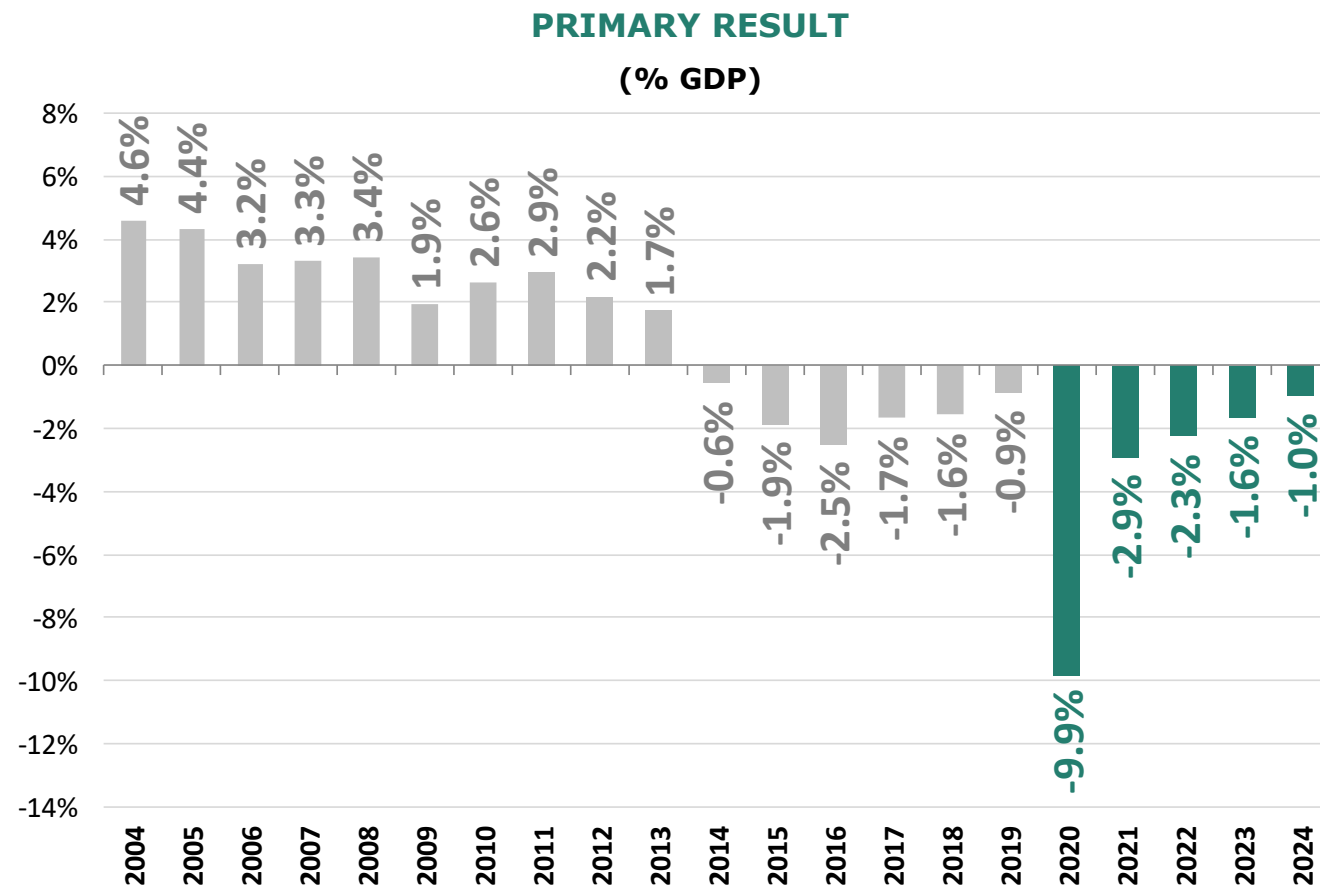
The sharp deterioration in the primary and nominal deficits is leading to a **considerable acceleration of the debt / GDP ratio**



- Given the extension of the **difficult public health situation**, government spending would also be affected with some degree of contagion in the budget in 2021.
- The preservation of the ceiling amendment** remains the main target of economic policy, acting as an instrument for fiscal risk control.

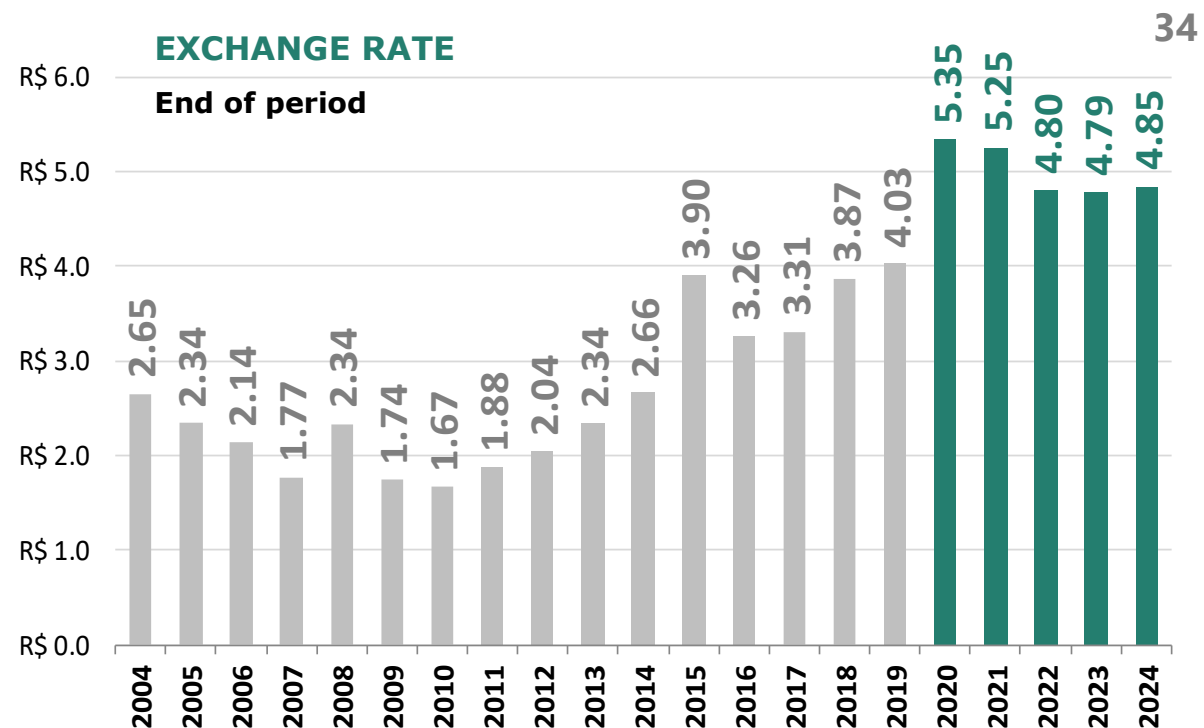
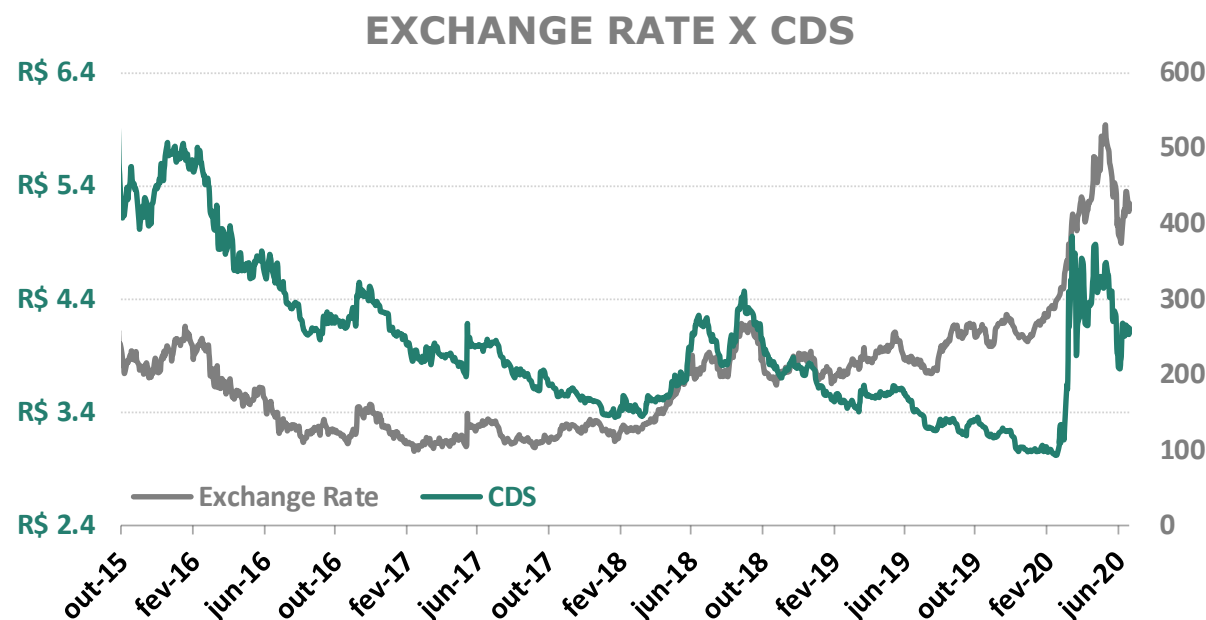
Fall in revenues and increase in spending are behind the **worst picture for fiscal results this years**

- With Legislative Decree 6/2020, **fiscal targets are no longer a constraint this year** (the fiscal target in Budget Guidelines Law 2020 is - R\$ 118.9 billion or 1.6% of GDP).
- Primary result** of the Public Sector is expected to reach **-9.9% of GDP or -R\$ 679.2 billion in 2020**.
- Premise of structural reforms approval to reduce mandatory spending growth, such as **Emergency Constitutional Amendment Proposal is in the baseline scenario**.



Exchange Rate

- Overcoming the pandemic is expected to **reverse the atypical global rise in the dollar**, allowing a certain **accommodation of the BRL / USD exchange rate**.
- In real terms, exchange rates show a significant **depreciation**, which reinforces the expectation of a certain accommodation throughout the second semester, although limited by domestic risks.



- Local problems **should limit the recovery of the BRL, by preventing a further decline in risk premiums.**
- Central Bank's actions are important, but only **mitigate the global trajectory.**

Which sectors are the least affected?

Paper and cellulose

- Convergence of **global stocks** to levels close to the historical average.
- Increase in **Asian demand** for *tissue* paper, in line with the higher consumption of hygienic products (such as masks).
- **Devalued exchange rate** benefits Brazilian production.

Food

- Increase in the production of **meat products** (with emphasis on poultry and swine).
- Significant increase in **sugar production** (devaluation of the dollar and reduction in ethanol consumption).

Oil and Gas

- **Ramp-up of oil platforms** inaugurated throughout 2019.
- **Two new platforms** are expected to start operating in 2020 (P-70 and the new Peregrino field unit).

Sectors 🇧🇷 Brazil	Weights 2019	Annual Rates (%)	
		2020*	2021*
Mining and Oil	11.8%	1.0%	8.0%
Manufacturing Industries	88.3%	-13.8%	6.8%
Food products	19.5%	-3.4%	1.7%
Food	15.3%	1.1%	-0.9%
Beverage	3.7%	-21.8%	15.4%
Smoke	0.5%	-8.9%	2.9%
Textiles, leather and clothing	5.2%	-31.9%	19.5%
Textile	1.4%	-16.4%	10.3%
Leather and skins	1.6%	-44.8%	29.8%
Clothing	2.1%	-32.5%	20.6%
Wood, paper and cellulose	5.4%	-4.2%	5.7%
Wood	1.1%	-15.7%	6.9%
Paper and cellulose	3.6%	4.1%	2.3%
Printing and recording	0.7%	-30.5%	30.8%
Chemicals	23.8%	-3.2%	3.6%
Petroleum products and biofuels	10.9%	-1.3%	3.2%
Pharmaceutical	2.2%	-2.2%	4.8%
Perfumery, soaps and cleaning	1.5%	2.4%	1.8%
Other chemicals	5.6%	-3.7%	2.8%
Rubber and plastic products	3.4%	-11.3%	6.9%

Which sectors are most affected?

Auto-vehicles

- Impact of the crisis on the **labor and credit markets** (production remains limited by the low volumes sold).
- Poor performance of important partners economies, such as **Argentina**.

Beverages

- Expected drop for the Food & beverages Service sector (with the **closure of bars and restaurants**).
- Household purchasing power** has deteriorated considerably.

Clothing

- Negative impacts of the crisis on **households' purchasing power**.
- Restrictions on the **functioning of retail trade** during a public calamity.

Sectors 🇧🇷 Brazil	Weights 2019	Annual Rates (%)	
		2020*	2021*
Non-metallic minerals	3.4%	-14.6%	9.4%
Basic metals	5.2%	-16.5%	7.3%
Machinery and equipment	12.0%	-16.2%	8.7%
<i>Metal products (excl. machin.&equip.)</i>	3.1%	-15.0%	8.6%
<i>Machines and equipment</i>	4.5%	-15.5%	8.3%
<i>Electrical machinery and equipment</i>	2.3%	-16.3%	9.5%
<i>Computer equip., electronic and optical prod.</i>	2.1%	-19.4%	9.0%
Transportation vehicles	10.3%	-45.6%	34.8%
<i>Auto-vehicles</i>	9.3%	-47.4%	38.0%
<i>Other transport equipment</i>	1.0%	-29.2%	13.5%
Others	3.5%	-14.3%	14.8%
<i>Furniture</i>	1.1%	-25.4%	21.3%
<i>Others</i>	1.1%	-18.4%	9.5%
<i>Maintenance, repair & installat. of mach.</i>	1.2%	-0.5%	14.2%
Total industry	100%	-12.0%	7.0%

Sectorial Recovery Timeline | The 10 Largest Industrial Sectors

37

Mining and Oil

(weight: 11.8%)

Maturation of major investments in mining by Vale.

Paper and cellulose

(weight: 3.6%)

Greater Asian demand and expansion of production capacity in Brazil.

Petroleum products and biofuels

(weight: 10.9%)

Production recovery after great industrial idleness.

Food

(weight: 15.3%)

Lower sugar production and low household purchasing power.

Other chemicals

(weight: 5.6%)

High external competition and absence of large investments.



VERY FAST
recovery



FAST
recovery

Sectorial Recovery timeline | The 10 Largest Industrial Sectors

38

Machinery and equipment

(weight: 12.0%)

High idle capacity, low competitiveness and maintenance of uncertainties.

Non-metallic minerals

(weight: 3.4%)

Gradual recovery of the real estate market and investments in infrastructure.

SLOW
recovery



Rubber and plastic products

(weight: 3.4%)

Expansion of China's production capacity and weakening global demand.

Auto-vehicles

(weight: 9.3%)

Higher exports and investments, amid the gradual recovery of domestic demand.

VERY SLOW
recovery



Textiles, leather and clothing

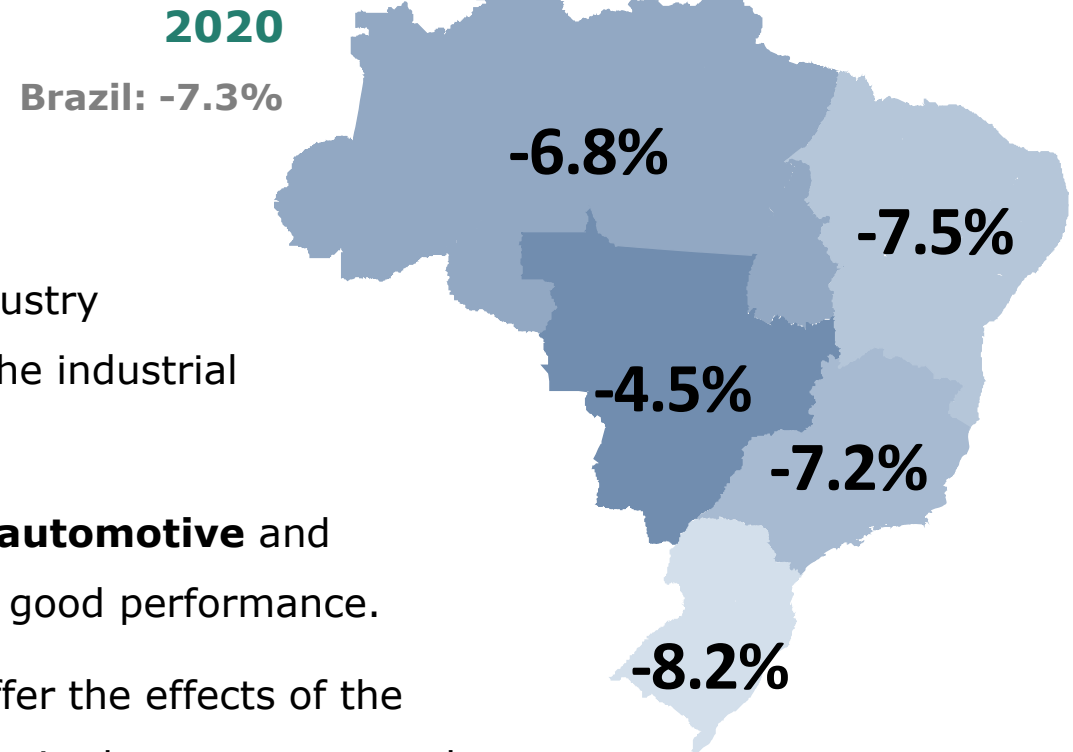
(weight: 5.2%)

External competition and weak domestic demand.

Perspectives by Region | 2020

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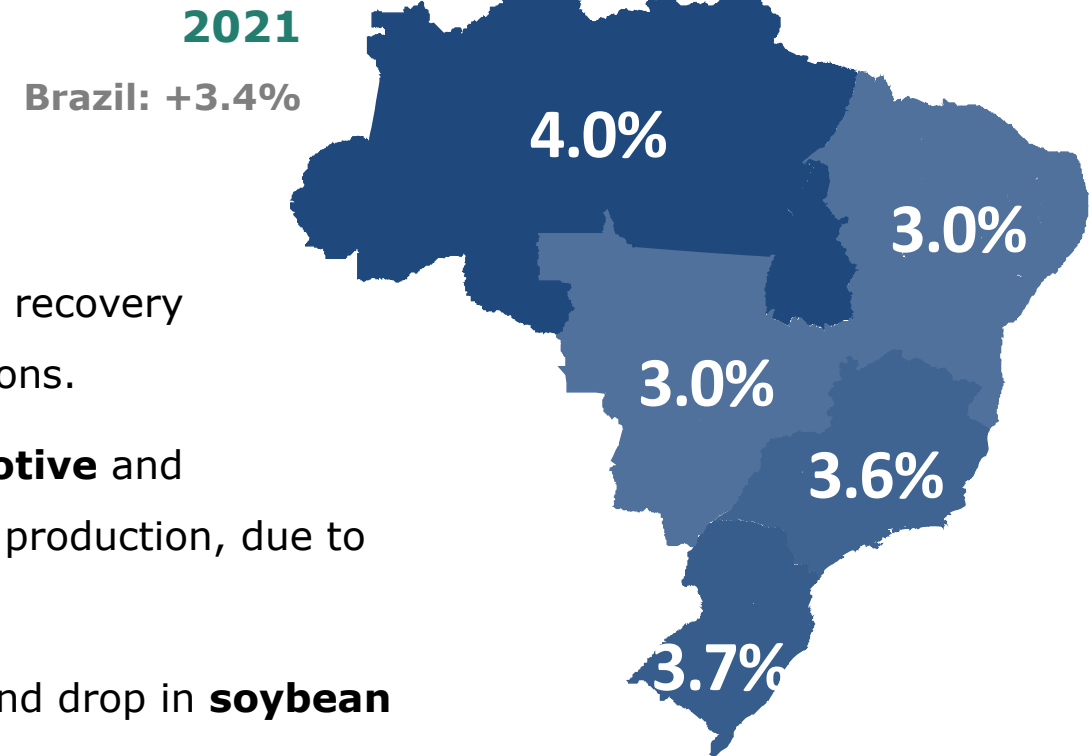
- **Central-West:** good evolution of agricultural production (especially **soy**) and less intense drop in the food products sector (increase in **meat** and **sugar** production).
- **North:** positive evolution of the **extractive** and **metallurgy** industry (return of the Albras operation), in contrast to the retraction of the industrial sectors of the **Manaus Free Zone**.
- **Southeast:** negative impact in the pro-cyclical sectors, such as **automotive** and **metallurgy**, and in the mining segment. **Oil production** shows good performance.
- **Northeast:** with a high degree of informality, the Region will suffer the effects of the **stoppage of services**. Expectation of lower industrial production in the **transport** and **metallurgy** sectors.
- **South:** **crop failure** in Rio Grande do Sul, due to adverse weather conditions. Negative impact on the southern industrial park, of segments sensitive to economic dynamics (**machinery and equipment**, and **vehicles**).



Perspectives by Region | 2021

40

- **North:** strong recovery of the **extractive** industry, with maturation of Vale's **iron ore** extraction investments.
- **South:** recovery of activities sensitive to economic dynamics (**machinery and equipment**, and **vehicles**), coupled with the recovery of **soybean** production, after a year of adverse weather conditions.
- **Southeast:** resumption of pro-cyclical sectors, such as **automotive** and **metallurgy**. Lower **sugar production** and drop in agricultural production, due to the **negative biennial effect of coffee**.
- **Central-West:** more modest performance in the **food** sector and drop in **soybean** production, the region's main agricultural product.
- **Northeast:** heavily dependent on public investment and government transfers, the Region will suffer from the slow recovery of the **food** and **refining** sectors.



Civil Construction GDP

Recovery of construction activity is interrupted in 2020

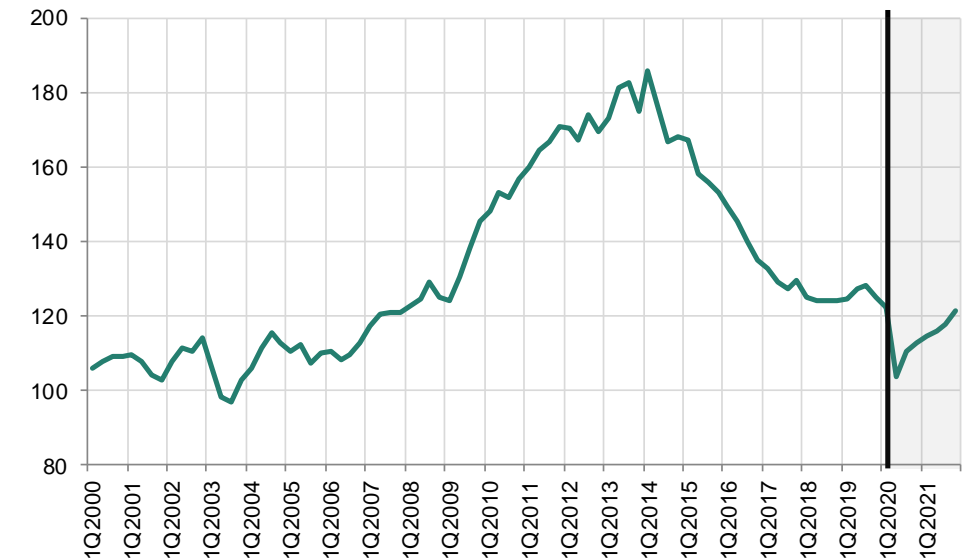
- **Sector activity suffers a sharp drop**, reflecting the effects of the paralysis of economic activity.
- The sector should show a **gradual recovery from 2nd semester of 2020 on**, favored by the context of low interest rates.

SCENARIO RISKS

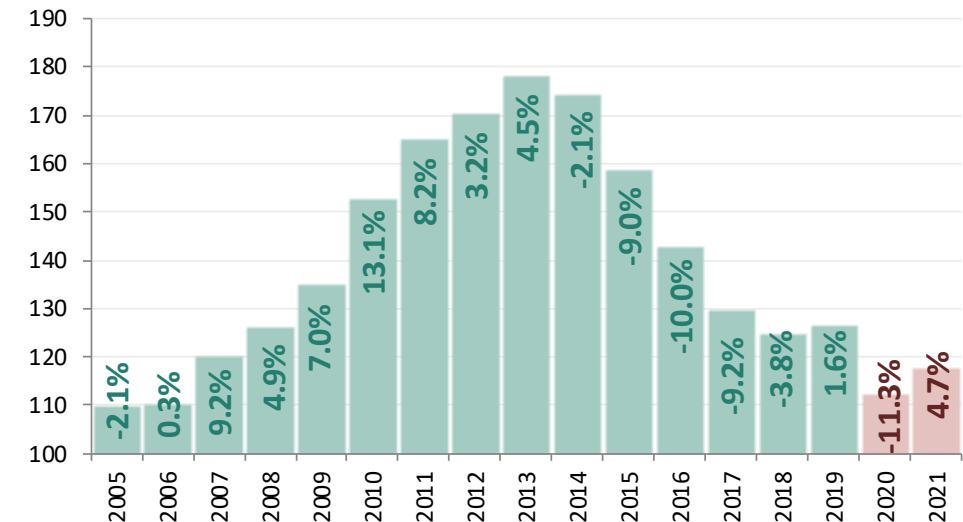
- 1. Institutional tensions** as a barrier to the progress of the structural reform agenda.
- 2. Fiscal risk could trigger an increase in the risk perception**

CIVIL CONSTRUCTION GDP - SEASONALLY ADJUSTED

41



CIVIL CONSTRUCTION GDP - ANNUAL VARIATION



1. International scenario

2. Brazilian scenario

3. Conclusion



Global GDP shows significant drop in 2020

Recovery in 2021 is based on the hypothesis of **containing the pandemic in the coming months.**



Latin America should face a substantial contraction this year and the recovery trend should be very

moderate: Fragile initial condition, permanent effects of the pandemic, smaller stimuli compared to developed economies

The Brazilian economy should recover its pre-pandemic GDP level in 2023

1st moment

Economy impacted by the **virus containment measures**, with partial stoppage of several segments of the economic activity.

2nd moment

More permanent effects, especially on unemployment and financial health of agents, persist in post-isolation. Higher uncertainty given the political-institutional situation

TOP 5
BANCO
CENTRAL



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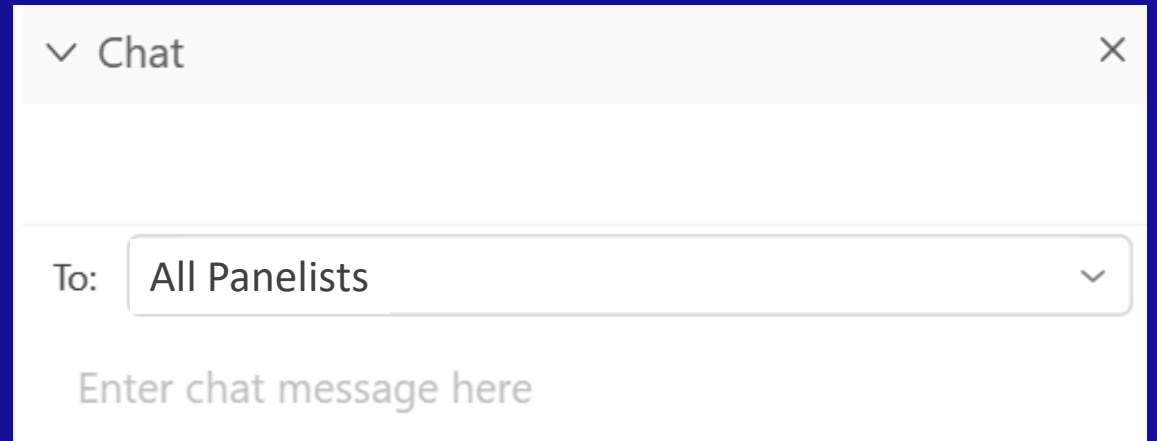
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Closing Remarks

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