WHITE PAPER:

GEOPOLITICAL & ECONOMIC IMPACT ASSESSMENT

HOW THE **LATIN AMERICAN INSURANCE MARKET** CAN PREPARE FOR DONALD TRUMP'S SECOND TERM

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INTRODUCTION

With **Donald Trump's** inauguration as the 47th President of the United States now official, his return to the White House introduces a pivotal shift in both U.S. domestic policies and global geopolitics.

The analysis presented in this white paper is an academic assessment of President Trump and his administration's current stance on trade, immigration, environmental regulation, and foreign relations. Regardless of preference or party, these positions have profound implications for the global economy, especially for Latin American nations.

For Latin American insurance markets specifically, the policy repercussions may be complex and far-reaching, necessitating significant adjustments in risk management, pricing, and regulatory frameworks.

We appreciate you reading, and hope you find the information contained herein useful.

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TARIFFS & TRADE UNCERTAINTY

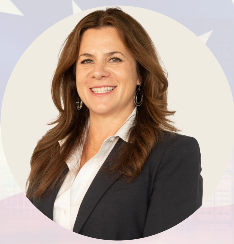
A key feature of Trump’s presidency is his firm stance on tariffs. The introduction of tariffs or the renegotiation of existing trade agreements creates considerable uncertainty for Latin American economies and their insurance markets. The risk landscape for industries across the region is poised for significant transformation, particularly for businesses that rely heavily on U.S. imports and exports.

While tariffs are intended to protect domestic industries, they may result in unintended consequences for Latin America. As the U.S. imposes tariffs on Chinese goods, for instance, Latin American exporters might find themselves caught between the need to meet U.S. demand while navigating the shifting dynamics of global trade. The imposition of these tariffs could also drive-up costs for raw materials, electronics, and other goods crucial for Latin American industries, increasing inflationary pressure and creating potential gaps in inventory and asset valuations.

For the insurance sector, these shifts highlight the need to reevaluate coverage structures. Companies may face business interruption risks, including contingent business interruptions and interdependency issues, due to the disruption of global supply chains.

These disruptions could necessitate policy and insured value updates that consider risks associated with trade delays, price volatility, and changes in production timelines. Additionally, businesses operating in multiple countries may need to reconsider their property and liability coverage to account for evolving risks driven by trade uncertainty.

FORENSIC INSIGHT



Danielle Gardiner, CPA, CFF
Chief Forensics Officer:
In any potential inflationary situation where cost of logistics are impacted by tariffs, we see a direct reduction in profitability for manufacturers and retailers. But if you're in the oil industry like PDVSA, PEMEX, or Occidental, this can be even harder in the summer when U.S. gasoline demand increases exponentially.

INFLATIONARY PRESSURES & VALUATION CONSIDERATIONS

The inflationary impact of tariffs is expected to ripple across industries. When tariffs increase the cost of goods imported from the U.S., Latin American businesses may experience a surge in operating costs. This can have direct implications on asset valuations, particularly for industries that rely on imported raw materials or finished products. Increases in material costs could be significant enough to require a reassessment of property values, inventory coverage, and gross margins.

Furthermore, inflationary pressures could lead to the need for insurers to adjust the way they underwrite risks. Policies may need to incorporate new costs in their valuations, such as higher tariffs, freight charges, and taxes, which could alter the total value of goods and assets covered under a policy. A failure to account for these changes in risk exposure could result in potential underinsurance, which could be catastrophic for businesses in the event of a loss.

SUPPLY CHAIN DISRUPTIONS & TRADE VOLUME FLUCTUATIONS

The direct impact of trade policy changes is likely to be felt through disruptions in supply chains. For Latin American countries that rely heavily on U.S. imports or exports, a slowdown in trade volume can have immediate consequences. Supply chain delays, either from tariff-related trade barriers or logistical bottlenecks, could prevent goods from reaching markets in time, increasing the risk of lost revenue, inventory shortages, and operational interruptions.

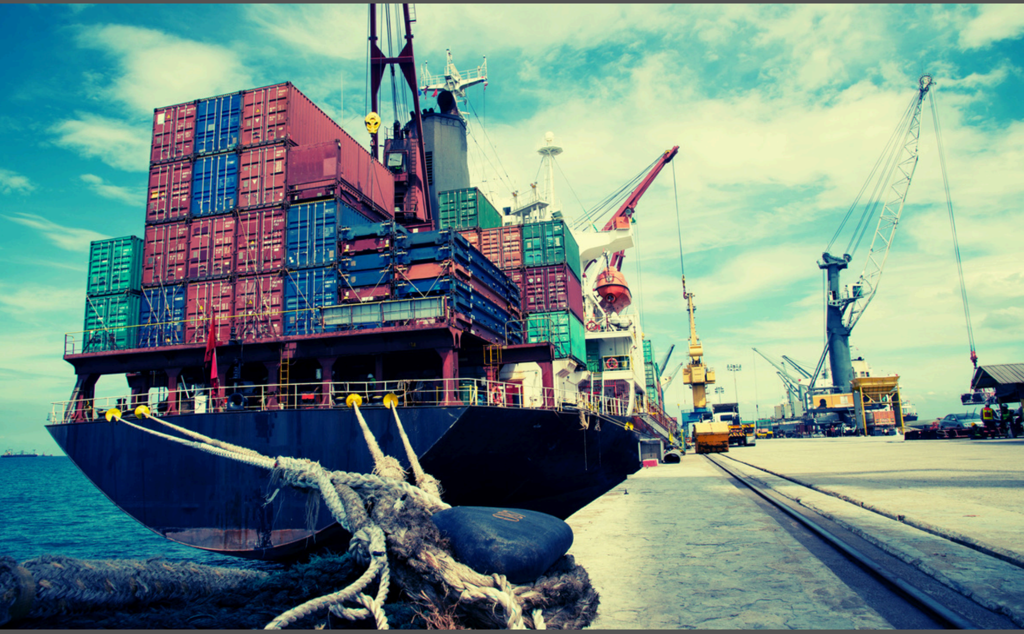
FOR INSTANCE, MEXICO, A SIGNIFICANT TRADE PARTNER WITH THE U.S., MAY EXPERIENCE SHIFTS IN TRADE PATTERNS THAT COMPLICATE LOGISTICS FOR ITS MANUFACTURING SECTORS.

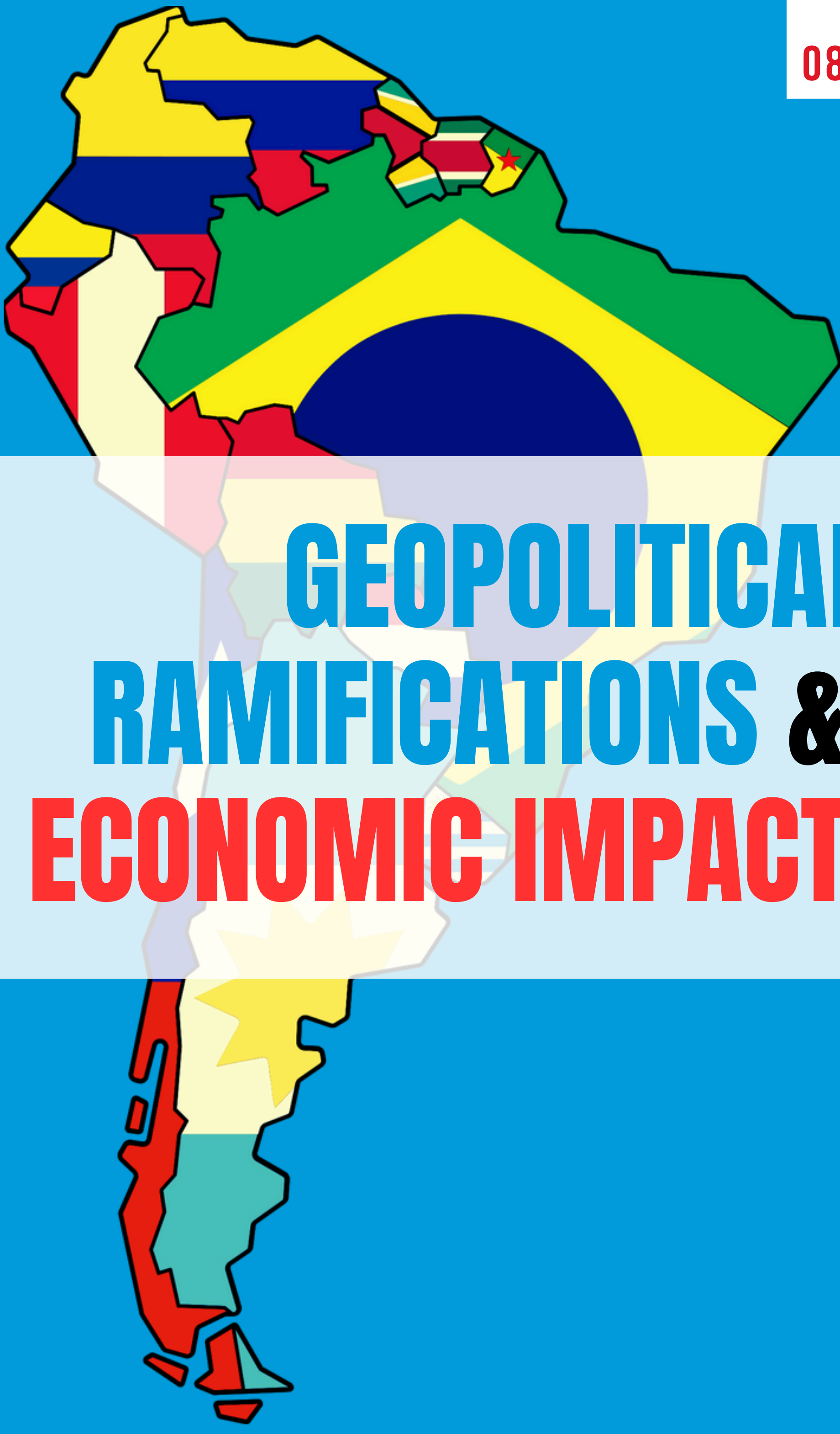
FORENSIC INSIGHT

Danielle Gardiner:
When NAFTA went into effect during the Clinton administration, the investment in "over-the-border" manufacturing facilities was unprecedented. If these tariffs stay, we will see a supply chain disruption and a shift to the Americas for tariff avoidance that will drive down the cost of logistics.

Brazilian exporters could also find their goods subject to tariff impositions, resulting in higher costs for both U.S. businesses and Latin American exporters.

The uncertainty around these disruptions is expected to drive insurers to adopt more flexible and dynamic risk models that consider not only traditional supply chain risks but also the broader geopolitical and economic influences that may shape future trade.





GEOPOLITICAL RAMIFICATIONS & ECONOMIC IMPACT

TRUMP'S HARDLINE IMMIGRATION POLICIES, INCLUDING PROPOSALS FOR BORDER RESTRICTIONS AND THE DEPORTATION OF UNDOCUMENTED IMMIGRANTS, MAY HAVE FAR-REACHING CONSEQUENCES FOR LATIN AMERICAN COUNTRIES. FOR NATIONS LIKE MEXICO, GUATEMALA, AND EL SALVADOR, WHICH HEAVILY RELY ON REMITTANCES FROM IMMIGRANTS WORKING IN THE U.S., THESE POLICIES COULD DRASTICALLY REDUCE FINANCIAL FLOWS INTO THESE ECONOMIES.

A sharp decline in remittances could have cascading effects on household consumption patterns, poverty alleviation efforts, and overall economic stability. The contraction of the informal economy, often reliant on migrant remittances, could further deepen poverty levels, exacerbating the economic slowdown in the region. This economic contraction could affect the insurance market by reducing disposable income and limiting the capacity of businesses and individuals to purchase or maintain coverage. Additionally, the economic downturn could result in rising credit risks, as businesses may struggle to repay loans due to lower revenues.

In the broader geopolitical context, Trump's policies toward Latin America may generate instability, especially in countries with large migrant populations or those engaged in trade with the U.S. This instability could heighten currency volatility, as Latin American currencies may fluctuate in response to changes in trade dynamics or political uncertainty. Insurers may need to consider exchange rate risks when underwriting policies in countries with vulnerable economies, potentially expanding their risk assessment models to include currency devaluation and inflationary projections.

FORENSIC INSIGHT

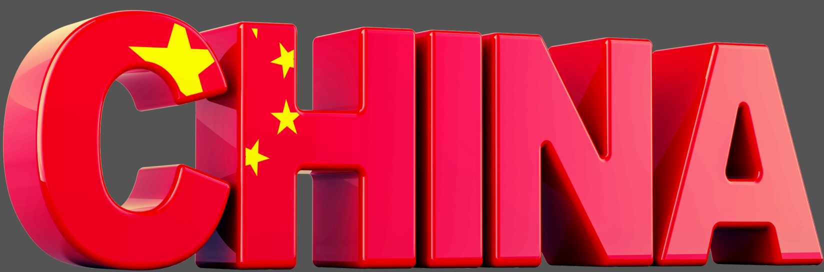
Joseph Scarlato, MBA, CFE
EVP, Global Technical Lead:
"One of the concerns I have is the ramp up in Latin American manufacturing facilities. Due to other socio and geopolitical issues, they have been operating at a reduced capacity for years. When these facilities are ramped up to offset the tariffs from China to meet new demand, maintenance history and spare parts inventory becomes a significant concern in the case of a business interruption."

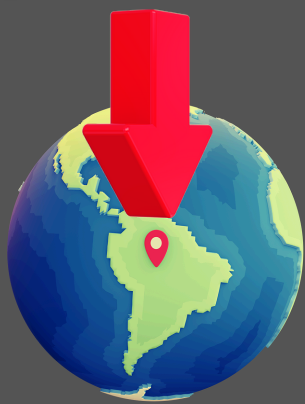
TENSIONS WITH CHINA & POTENTIAL SHIFTS IN TRADE PATTERNS

Trump's ongoing trade war with China could create a realignment in global trade flows, potentially benefiting certain Latin American economies. As the U.S. imposes tariffs on Chinese goods, Latin American countries may find new opportunities for trade diversification. For example, countries like Brazil, Argentina, and Chile, with their significant agricultural exports, could gain a competitive advantage as China looks to secure alternative suppliers of goods such as soybeans, meat, and copper.

THIS SCENARIO COULD MITIGATE SOME OF THE NEGATIVE IMPACTS OF U.S. TARIFFS ON TRADE WITH LATIN AMERICA, AS TRADE DIVERSIONS MAY HELP OFFSET POTENTIAL LOSSES. HOWEVER, THE COMPLEXITY OF THESE TRADE SHIFTS MEANS THAT INSURERS WILL HAVE TO EVALUATE RISKS RELATED TO NEW TRADE ROUTES, FLUCTUATIONS IN COMMODITY PRICES, AND POLITICAL TENSIONS IN LATIN AMERICA'S KEY TRADING PARTNERS.

In nations like Venezuela, Cuba, and Nicaragua, which maintain close ties with China, the U.S. administration's foreign policy could heighten diplomatic tensions. These countries may face sanctions, trade restrictions, etc., further complicating the geopolitical landscape. Insurers operating in these countries will need to navigate heightened political risks, including the potential for expropriation, nationalization, and regulatory changes, which could dramatically alter the risk exposure for businesses.





FORENSIC INSIGHT

Joseph Scarlato:
"Being in the U.S., I certainly welcome the strengthening of the dollar. However, currency fluctuations can have a severe impact on mining operations, especially in Chile and Peru where there is a significant reliance on the copper industry."

CONCLUSION

The geopolitical and economic ramifications of Donald Trump's 2nd presidential term are set to create significant disruption for Latin American insurance markets. Tariffs, trade uncertainties, and geopolitical tensions will require a paradigm shift in how insurers assess risk and underwrite policies. While certain regions may benefit from trade diversions or economic shifts, the overall landscape appears fraught with volatility. To navigate this complex environment, insurers must embrace more nuanced and dynamic risk management strategies that factor in geopolitical, economic, and social factors that could impact both local and global markets.

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