# TEXAS BUSINESS REVIEW

**Bureau of Business Research • College and Graduate School of Business •**
**The University of Texas at Austin**
**December 1999**


---

# The Internet, Insurance, and Latin America


*by*
*Tapen Sinha*
*Seguros Comercial America Chair Professor of Risk Management and Insurance*
*Instituto Tecnologico Autonomo de Mexico*


The increasingly rapid rate of change in technology has been accompanied by an increasingly rapid rate of consumer acceptance. It took radio 38 years to reach 50 million listeners. Television required 13 years to accumulate 50 million viewers. Within the relatively short span of five years, however, the Internet has claimed 50 million users.

The effects of this new technology on industry have been revolutionary. The main driver of the transition toward a more electronic future is, of course, cost reduction. The expense of information is dropping on two fronts simultaneously: the cost of storage and the cost of transmittal. As more and more people gain access to and use computers for transactions, these costs will continue to fall.

The dramatic changes to industry caused by the Internet have been in evidence for some time in developed nations, especially the United States, Canada, and, to a lesser extent, Europe. Consider, for example, the insurance industry. A great deal of information passes between customers and insurance companies. This sector uses the Internet to direct customers to local offices and agents, to collect customer opinions and distribute customer satisfaction surveys, and to create electronic forms. Price quotes, product and carrier detail, and applications—all this is easily accessible through a well-constructed Web site, which can typically ensure a greater degree of consistency and accuracy than that found in agent-customer relations. In assuming many of the bread-and-butter services of insurance agents, the Internet is transforming and, depending on the level of penetration of the Internet, even threatening some of the functions of the agent.

In the developing countries of Latin America, however, the story is very different. The revolutionary effects of Internet are much less in evidence in these countries for the simple reason that most Latin Americans do not even have phone lines, much less access to computers. (See table with Latin American and U.S. data, below.) Most insurance agents, however, do have such access. At the end of 1998, for example, more than 90 percent (in value) of life insurance policies in Central America were sold through agents with telephones. In addition, 64 percent of these agents had computers as well. In such a setting, insurance agents can use the Internet to strengthen their positions, as well as to become multi-company rather than exclusive agents, which will enhance their profitability.

In developing nations, as in the developed world, cost reduction is the incentive accelerating the transition toward technology. In 1998, for instance, one of the largest insurance companies in Nicaragua put all of its forms on the Internet at a cost of approximately U.S.$6,000. The expense of downloading, storing, and printing the forms was estimated to be $16,000. The previous year, the company had spent more than $50,000 to make the forms available to their agents. The company thus reduced their total costs by more than 50 percent by using the Internet. This represents not only a cost reduction, but a boost in efficiency, ensuring that agents have access to all the correct forms in a country where the mail system is not reliable.

The Internet has changed forever the way industries market their products. Consumers are bombarded with choices and with information about those choices. In developing countries, however, the penetration of the telephone is so low, it is hard to imagine how the Internet will affect direct marketing. In fact, given the asymmetry in the information between buyers and sellers, it could be a long time before there is any change in the way products and services, such as insurance, are marketed in Latin America. Sellers are in a much better position than buyers, and unless there is a steep rise in competition among sellers in these developing nations, the buyers will be at a disadvantage for the foreseeable future.

### Availability of Communication Facilities in Latin America and the United States

| **Country** | **# of telephone main lines** (per 1,000) | **# of personal computers** (per 1,000) | **# of Internet hosts** (per 10,000) |
|---|---|---|---|
| Argentina | 191 | 39.2 | 18.28 |
| Bolivia | 69 | -- | 0.78 |
| Brazil | 107 | 26.3 | 12.88 |
| Chile | 180 | 54.1 | 20.18 |
| Colombia | 148 | 33.4 | 3.93 |
| Costa Rica | 169 | -- | 9.2 |
| Ecuador | 75 | 13 | 1.26 |
| El Salvador | 56 | -- | 1.33 |
| Guatemala | 41 | 3 | 0.83 |
| Honduras | 37 | -- | 0.16 |
| Mexico | 96 | 37.3 | 11.64 |
| Nicaragua | 29 | -- | 1.47 |
| Panama | 134 | -- | 2.66 |
| Paraguay | 68 | -- | 2.18 |
| Peru | 68 | 12.3 | 1.91 |
| Uruguay | 232 | 21.9 | 46.61 |
| Venezuela | 116 | 36.6 | 3.37 |
| **United States** | **644** | **406.7** | **1,131.52** |

Note: Telephone and personal computer data as of 1997; Internet host da as of January 1999.

**Source**: World Bank, World Development Report, 1999.

Go to: Top |TBR Home Page| BBR Home Page | UT GSB Home Page

December 6, 1999
*Comments to: sallyf@mail.utexas.edu*