GUARANTEE INSURANCE SYSTEMS

LESSONS FROM KOREA FOR LATIN AMERICA AND THE CARIBBEAN

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CONTENT

EXECUTIVE SUMMARY

The main objective of this analysis is to explore the pivotal role of guarantee insurance in the economy. Based on the experience of the Guarantee Insurance System (GIS) in promoting economic development in Korea, this study examines the possibilities of applying lessons learned from the Korean GIS to develop guarantee insurance markets across Latin America and the Caribbean (LAC). The research objectives focus on two major topics.

First, we analyze the historical development and current state of Korea's GIS and compare it with GIS in the LAC region. We seek to identify key aspects, success cases, and challenges in order to gain insights into the potential adaptability and improvement of LAC.

Second, we explore how GIS can contribute to achieving the Sustainable Development Goals (SDGs). In particular, we look at how multilateral development banks (MDBs) can facilitate the establishment and advancement of guarantee insurance systems. The ultimate goal is to propose strategies to support GIS growth in the LAC region, in alignment with the Sustainable Development Goals.

Guarantee insurance is a widely used financial instrument that reduces the credit risk inherent in any economic activity. By providing credit enhancement to individuals and corporations, GIS improves liquidity by replacing the need for collateral, including security deposits, which might otherwise be required to guarantee insurance bonds.

GIS can support economic growth and the SDGs by enhancing access to credit and procurement opportunities (SDG 8) to small and medium enterprises (SMEs), facilitating infrastructure development through performance bonds that reduce investor risk (SDG 9), and promoting financial inclusion by replacing traditional collateral requirements (SDG 10).

The Korean case shows that developing a GIS market requires: (i) unified legal frameworks regarding guarantee insurance as distinct financial instruments, (ii) centralized institutional coordination through anchor entities, such as Seoul Guarantee Insurance (SGI), and (iii) comprehensive data infrastructure based on possible risk assessment and enforcement.

In LAC, GIS markets remain underdeveloped due to fragmented regulatory environments, limited coordination between public guarantee funds and private insurers, weak data-sharing mechanisms, and insufficient product diversity beyond traditional surety bonds.

Korea's GIS framework, compared with the situation in LAC, illustrates that a successful development of GIS depends on concurrent policy intervention at legislative, institutional, and operational levels.

MDBs can be pivotal in this regard by providing technical assistance to countries in legal reforms, offering financial support through risk-sharing instruments, transferring lessons from successful cases, for example, Korea's SGI, and financing pilot projects for underserved sectors.

This analysis aims to offer useful insights to public policymakers and MDBs to support the development of GIS in LAC. Drawing on lessons from Korea, the main recommendations for LAC are as follows:

1 For policymakers:

- Harmonize the legal framework, recognizing GIS as separate financial instruments.
- Strengthen coordination through anchor agencies.
- Improve data infrastructure and require information sharing.

2 For public financial institutions:

- Promote public-private co-guarantee schemes in partnership with private insurers.
- Create centralized GIS entities similar to Korea's SGI.
- Develop a diversified range of guarantee insurance products to address market gaps.

3 For MDBs:

- Provide technical support in legal and institutional reform.
- Offer financial support through risk-sharing schemes and counter-guarantee facilities.
- Leverage knowledge-sharing and pilot projects for underserved areas.

1

INTRODUCTION TO GUARANTEE INSURANCE SYSTEM

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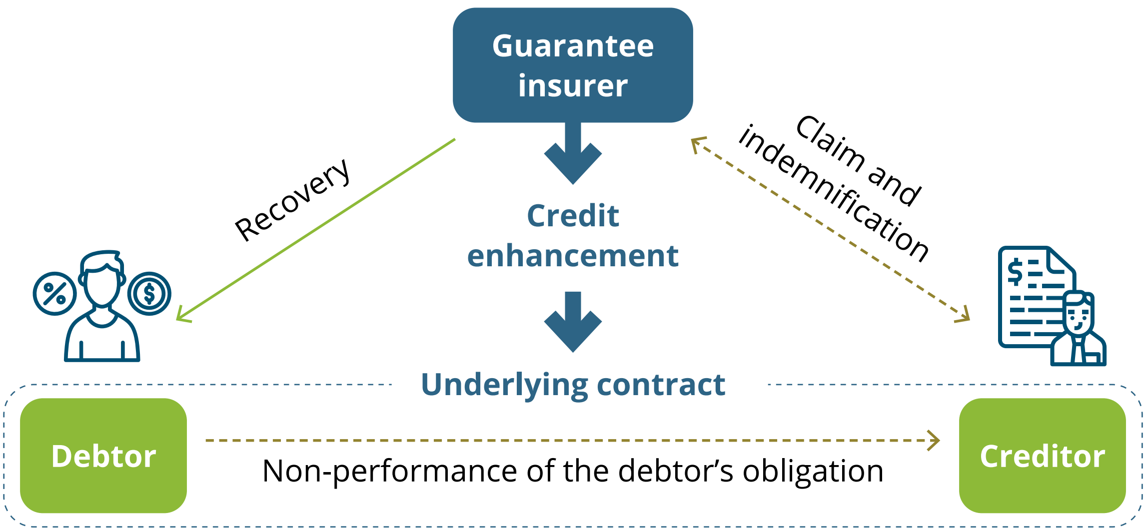
1.1 Definition

A Guarantee Insurance System (GIS) is a sophisticated financial tool that reduces the credit risk inherent in economic transactions.

Figure 1.1- 1 illustrates how GIS works. As shown in Figure 1.1- 1, GIS is a three-party agreement under which an insurer (guarantee insurer) undertakes to assume the performance risk between the contracting parties: the contractor (debtor) and the beneficiary (creditor). As a credit-enhancement mechanism, it replaces traditional security requirements, such as cash deposits or bank guarantees. If a contractor is required to provide security to ensure project performance, rather than immobilizing funds through security deposits, it can obtain performance guarantee insurance that serves as a warranty for the creditor, thereby leaving its capital available for operational purposes.

Figure 1.1- 1
Structural outlook for the GIS



The GIS ecosystem includes two basic product lines: surety bonds and credit insurance. Each class involves distinct types of risk scenarios and market requirements. Figure 1.1- 2 provides a GIS product map illustrating the variety of guarantee instruments used, ranging from contractual guarantees to credit risk-mitigating instruments.

Figure 1.1- 2
Product map

Surety bond	Contract Bonds	Non-Contract Bonds	Financial Guarantee Bonds
Credit insurance	Commercial Credit Insurance	Mortgage Credit Insurance	

Surety bonds protect the creditor against the failure of the bonded principal to fulfill its contractual obligations. For example, when a construction company is awarded a government contract, it is typically required to provide performance bonds to guarantee project completion. If the contractor fails to comply, the surety company compensates the government for any additional costs incurred.

Credit Insurance protects the company against non-payment by its customers. An exporter that sells goods to foreign buyers can ensure its accounts receivable, thus gaining the confidence to offer credit terms and to use insured receivables as collateral for working-capital financing.

Figure 1.1- 3 compares the GIS with some similar financial instruments, highlighting its superior and more comprehensive coverage. This comparison matrix shows that guarantee insurance offers broader applicability (○) across risk categories than credit guarantees and trade credit insurance, which have a more limited scope (▵ or ×).

Figure 1.1- 3
Characteristics of major guarantee schemes

	Contractual Guarantee	Financial Guarantee	Domestic	International	Industry	Personal
Guarantee insurance	O	O	O	O	O	O
Credit guarantee (guarantee funds)	×	O	O	O	O	△
Trade credit insurance	×	O	×	O	O	△

O = Fully applicable, △ = Partially applicable, × = Not applicable

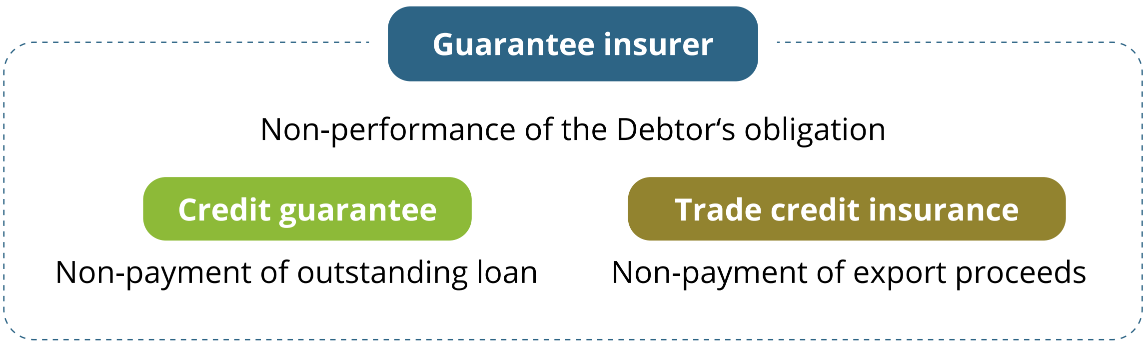
Guarantee Insurance offers comprehensive coverage ranging from contractual performance to credit protection, making it a versatile financial instrument for economic development.

In general, Credit Guarantee Funds solely cover loan repayment risk in small and medium enterprise (SME) financing and are used as an alternative to collateral, without providing broader coverage of commercial risks.

Trade Credit Insurance also mitigates cross-border trade risks but is limited to export-related transactions.

The scope of risks covered by the GIS, as illustrated in Figure 1.1-4, explains its role as an economic stimulus mechanism. By including various risk types, from performance risks to credit risks, the GIS provides comprehensive protection.

Figure 1.1- 4
Range of covered risks



The sources of economic value generated by GIS are as follows:

Capital efficiency: Replacing cash collateral requirements with guarantee insurance releases working capital that businesses can deploy productively in the economy, magnifying the economic impact of available resources.

Risk distribution: Rather than concentrating risk on individual businesses and/or banks, guarantee insurance spreads risk across diversified portfolios, limiting systemic vulnerability and enabling better use of capital.

Market access: SMEs and startups can compete with established players that have adequate collateral, thus increasing competition and innovation.

Financial system stability: In times of economic downturn, GIS helps keep credit flowing and avoid systemic failure. During the COVID-19 pandemic, such schemes played a critical role in supporting business continuity.

1.2 Economic Benefits

GIS is a well-structured economic instrument with multiple advantages, as outlined below.

1.2.1 Supporting Small and Medium Enterprises

One of the most compelling advantages of GIS lies in its significant support for SMEs. GIS contributes to SMEs' sustainable growth by:

1.2.1.1 Providing Credit Enhancement to SMEs

GIS plays a key role in leveraging more resources to complement SMEs' credit and thus promote equitable access to market

opportunities. SMEs are the backbone of a nation's economic development, accounting for a major share of the private sector. However, in underdeveloped guarantee markets, which are usually controlled by banks, the alienation of SMEs is often a problem. Indeed, SMEs are frequently excluded from financial support because risk-averse banks require high levels of collateral. On the other hand, highly rated corporations with strong credit capacity enjoy a wide range of financial support, further exacerbating the economic imbalance. GIS, however, provides guarantees to SMEs and individual business households, especially to those with lower levels of available collateral, therefore facilitating their market participation and mitigating the economic imbalance.

1.2.1.2 Fostering R&D Investment

When a promising venture with innovative technology faces difficulties in accessing financial support from the banking system, GIS can help it obtain funding, thereby enabling R&D. In addition, by using surety insurance as a substitute for deposits or as coverage for loss-compensation clauses in business contracts, SMEs can secure new financing. These new financing can, in turn, be used in subsequent stages of technology development and market introduction, establishing a virtuous cycle that promotes further advances in R&D.

1.2.1.3 Promoting SME Self-Sustainability

Guarantee insurance can enhance SMEs' self-sustainability. This becomes clear especially when compared to other financial schemes, such as direct investment or capital injection. Unlike guarantee insurance, direct investment can potentially increase a company's dependence on external support. In relation to this side effect, policy and investment for SMEs should be designed to encourage companies to improve their risk management capacities. GIS fulfills its role by granting the insurer—or guarantee insurer—the right to recover losses. For instance, in credit insurance, companies strengthen their risk-management capabilities because they must actively monitor their own risks. Similarly, in the case of performance bonds, since the bond is designed to cover losses resulting from non-performance, companies must successfully complete the contract to avoid incurring losses. As a result, they build performance records and develop more advanced business portfolios, which will ultimately strengthen their sustainability.

1.2.2 Contributing to Market Stability and Maturity

In relatively underdeveloped financial markets that require collateral to issue loans, SMEs with high credit risk tend to turn to private markets, resulting in high interest rates. However, with GIS, it becomes possible to integrate these enterprises into the formal financial sector. Furthermore, by promoting the credit-based logic underlying GIS, the development of a more advanced financial market is accelerated. As a result, guarantee insurance contributes to the stability and maturity of the economic system in the following ways:

1.2.2.1 Minimizing Adverse Selection

Through a comprehensive assessment of the debtor's bond application, guarantee insurance helps minimize the risk of adverse selection. The insurer examines the debtor's business capacity, creditworthiness, and financial stability, among other factors. When the debtor is deemed unable to fulfill its contractual obligations, the insurer rejects the application and thereby informs the creditor (the project owner) of the counterparty's weak performance capacity. In this way, the creditor is protected from the risk of adverse selection.

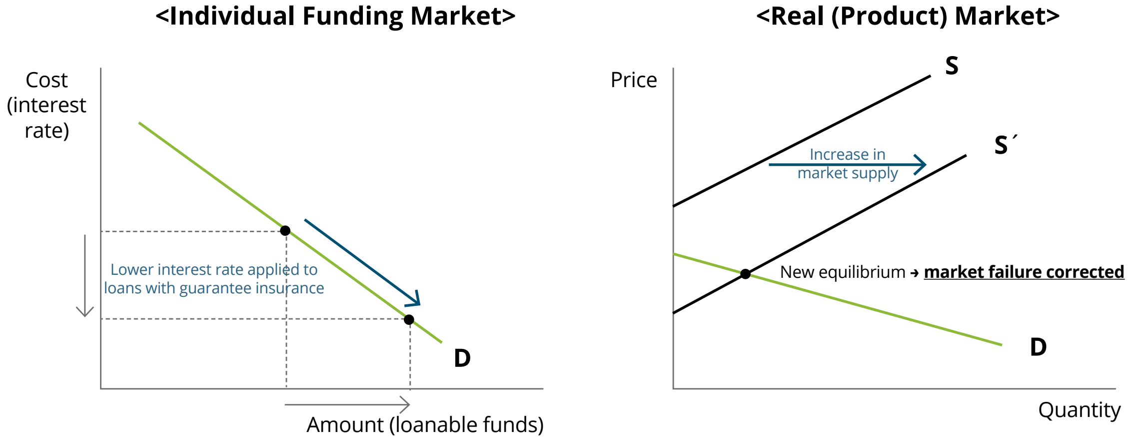
1.2.2.2 Preventing Back-to-Back Bankruptcies

Guarantee insurance hedges a project owner against potential risks in its economic activities. For example, in the context of a construction project, numerous contractors and subcontractors are typically involved. In such cases, a single instance of non-performance may trigger a consecutive breakdown of the entire project flow, resulting in a cascade of bankruptcies throughout the supply chain. By providing indemnification to the project owner for losses resulting from a contractor's or subcontractor's failure to fulfill contractual obligations, GIS reduces business uncertainty. This aspect of GIS becomes particularly evident during periods of economic downturn, as it helps prevent a domino effect of contractor defaults, thereby mitigating bankruptcy risk. By acting as a contractual safeguard, GIS contributes to the greater resilience of the nation's overall economy.

1.2.2.3 Correcting market failure

Guarantee insurance can reduce financing costs, helping to address market failure. Consider, for example, a manufacturing company that produces goods using corporate loans. Let us assume that, in the absence of guarantee insurance, this good exhibits a typical market failure in which the supplier's willingness to accept (WTA, or supplier price) exceeds the buyer's willingness to pay (WTP, or demand price) at every stage. Now, let us examine the changes caused by the introduction of guarantee insurance. In the case of corporate loans insured with GIS, banks issue loans at lower interest rates since the risk they bear is reduced. In turn, with lower interest rates, companies can access more funds, leading to an increase in the production of goods. As a result, the overall market supply increases, thus preventing market failure. Figure 1.2.2.3-1 illustrates how market failure is resolved in the example above.

Figure 1.2.2.3-1



The cost-saving effect of guarantee insurance is not limited to the case above. In fact, when comparing a bank demanding substantial collateral for a specific guarantee amount with an insurer requiring relatively lower premiums, it becomes evident that guarantee insurance enables cost savings for identical contracts.

1.2.3 Accelerating ESG Framework

ESG acts as a framework that helps stakeholders understand how an organization is managing risks and opportunities associated with environmental, social, and governance criteria. Nowadays, many companies are adapting their operational strategies to align them with ESG standards in order to achieve sustainable growth. In the course of business operations, GIS supports the transition to ESG management from two perspectives. First, it strengthens ESG value by advancing the inherent principles of GIS. Second, it underscores the role of GIS as a valuable tool in the implementation of ESG management.

1.2.3.1 Economic Inclusion and Equity Enhancement

GIS provides new financial opportunities for individuals and businesses facing difficulties in accessing institutional finance due to chronic excess demand for funds or financial practices focused on tangible collateral in the domestic financial market. As a result, guarantee insurance alleviates the distortion in resource allocation caused by the concentration of economic development in large corporations, contributing to fairer and more efficient national growth.

1.2.3.2 Effective Tool in Implementing ESG Management

The effectiveness of GIS in promoting the spread of ESG management lies primarily in its non-limitation to specific industries. In other words, given that guarantee insurance is used across a broad range of industries, it can contribute to the wider adoption of ESG management and play a role in the ESG management of supply chain relationships between upstream and downstream entities. In particular, by operationalizing ESG standards, such as carbon emissions or employee gender ratio, within the underwriting process, insurers can examine a company's degree of ESG integration. Then, insurers can select policy approaches to support ESG management. For example, they may apply positive screening, by offering preferential premium rates to ESG-friendly enterprises, or negative screening, by setting a minimum cut-off score and refraining from providing guarantees to entities that do not meet this threshold.

1.2.4 GIS Contribution to SDG

GIS can directly impact multiple United Nations Sustainable Development Goals (SDG) by empowering SMEs, supporting innovation, and fostering inclusion. In particular:

SDG 8 (Decent Work and Economic Growth): GIS helps SMEs gain access to credit, enabling businesses to grow and create jobs.

By alleviating financing constraints, more entrepreneurs can start or expand enterprises, thereby increasing employment and productivity. The outcome is a more sustainable economic growth, fueled by a vibrant SME sector. Essentially, GIS turns SMEs into engines for job creation and decent work opportunities towards achieving SDG 8.

SDG 9 (Industry, Innovation & Infrastructure): GIS contributes to developing robust infrastructure and promoting innovation by offering guarantees for both infrastructure projects and innovative companies.

For instance, guarantee insurance can facilitate infrastructure development, including roads or renewable energy plants, by reducing investor risk, and it can enable startups to finance new technologies, thereby contributing to Innovation.

Indirectly, such a broad-based GIS can also contribute to other objectives:

SDG 1 (No Poverty): Guarantees enhance access to financing, helping to reduce poverty.

When SMEs grow and create more jobs, income increases and communities flourish. Additionally, GIS can target underserved populations (e.g., microentrepreneurs in rural areas), providing them with the possibility to increase their earnings, which can in turn lead to poverty alleviation.

SDG 10 (Reduced Inequalities): GIS supports financial inclusion by helping to eliminate barriers faced by small businesses and isolated entrepreneurs.

GIS helps ensure that more people can participate in economic growth by opening access to credit and markets for those without collateral or connections. This reduces inequality by leveling the financial playing field, making success more dependent on viable ideas and hard work rather than on existing wealth.

2

KOREAN GUARANTEE INSURANCE MARKET

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2.1 Guarantee Insurance System Ecosystem

To enhance the guarantee insurance sector, it is crucial to establish a legal foundation that recognizes GIS as a valid form of collateral for diverse contracts.

Additionally, the development of an institutional framework that supports both upstream and downstream industries is essential.

More specifically, first, the role of the guarantee insurer as a party to the contract between the obligor and obligee must be clearly defined in law. Second, for guarantee insurance to function effectively, contractor credit information should be centralized and supported by legal provisions that allow the guarantee insurer to access such information. Finally, to prepare for loss events, regulations should be established to govern recovery measures, such as debt collection.

2.1.1 Legal Basis: The Legal Framework for Guarantee Insurance Operations

The legal framework for Korea's GIS comprises multiple laws that establish the roles, rights, and obligations of the parties involved.

Key among these laws is the *Insurance Business Act,* outlining the operational guidelines for insurers and specifically defining guarantee insurance as a specialized non-life insurance category. Under this act, guarantee insurers are authorized to underwrite policies that indemnify losses arising from contractual or statutory non-performance.

The *Financial Supervisory Service (FSS)* oversees these operations, enforcing compliance with regulatory standards to ensure stability and transparency in the guarantee insurance sector.

Further regulations, notably the Insurance Business Supervision Provision, specify operational requirements, including minimum capital reserves and claims-handling procedures, designed to maintain solvency and protect policyholders. Box 1 shows excerpts from key legal provisions in Korea that support the operation of guarantee insurance.

Box 1

Excerpt from key legal provisions in Korea that support the operation of guarantee insurance

[Commercial Act]

Article 726-5 (Responsibility of Guarantee Insurer) The insurer under a guarantee insurance contract shall be responsible for compensating the insured for losses caused by the policyholder's failure to perform obligations under a contract or statute.

[Insurance Business Act]

Article 2 (Definitions) (*Omitted*) b) A non-life insurance product: A contract, prescribed by Presidential Decree, which promises the payment of stipulated amounts and other benefits to the insured for losses (including losses resulting from non-performance of contractual liabilities or statutory duties and obligations) resulting from a contingency to be guaranteed, in exchange for consideration;

Article 4 (License for Insurance Business)/(1) A person who intends to run an insurance business shall require a license from the Financial Services Commission according to the types of insurance business stipulated in the following subparagraphs: (*Omitted*) 2. Types of non-life insurance business: (*Omitted*) (c) Surety Insurance;

[Enforcement Decree of the Act on Contracts involving the State]

Article 37 (Tender Bond) (*Omitted*) (2)

In addition to the laws described above, there are special laws that specify the issuance of guarantee insurance policies for specific purposes. One example is the *Special Act on Support for Small and Medium Enterprise Establishment*; this act enables SMEs to access guarantee insurance as a tool for financial support.

Together, these laws create a stable legal basis for guarantee insurance operations in Korea, enabling insurers, obligors, and obligees to operate within a defined regulatory framework that prioritizes market stability.

2.1.2 Upstream: Credit Information

In order to successfully engage in the guarantee insurance business, it is crucial not only to have a legal foundation for the system itself, but also to establish a well-defined framework for the related activities of the upstream and downstream industries. In particular, access to and management of credit information are crucial for the effective operation of the GIS. The system requires both personal and corporate credit information for purposes such as:

- Underwriting, bond principal assessment, insurance contract monitoring
- Statistical processing and review procedures (e.g., the calculation and verification of premium rates)
- Investigation of loss events, assessment of claim payments, among others

If the relevant legal framework is not well established, issues may arise, including the inability to centralize credit information or the misuse or abusive use of sensitive information, underscoring the need for clear guidelines.

As for Korea, the collection, reference, and utilization of credit information are conducted in accordance with the *Credit Information Use and Protection Act.* This law mandates that guarantee insurers be granted access to centralized credit data from institutions including the Korea Credit Information Services (KCIS), which collects and aggregates credit data across the financial sector. This legal access allows insurers to make informed underwriting decisions, thereby fostering a secure and efficient guarantee insurance market.

Additionally, the *Act on Real Name Financial Transactions and Guarantee of Secrecy* and the *Personal Information Protection Act* regulate how insurers handle sensitive financial information. These laws ensure that, while insurers can access necessary data, they must adhere to strict privacy requirements to protect personal and corporate information.

Collectively, the aforementioned laws prevent the misuse of sensitive information while ensuring that the necessary information remains available to reduce moral hazard by enabling insurers to effectively screen potential obligors (principals). In turn, this contributes to more predictable premium rates and fewer claims, ultimately enhancing the GIS's role in Korea's financial ecosystem.

2.1.3 Downstream: Debt Collection

The most significant difference between general non-life insurance and guarantee insurance lies in the recovery activities. The presence of recovery helps reduce the possibility of loss events by mitigating moral hazard and adverse selection. It may also contribute to lower premium ratings. When a loss event occurs, and the guarantee insurer pays the indemnification, the insurer may initiate recovery actions on the insurance claim, unless the case falls under specific exemption clauses. Without an appropriate legal foundation, however, the initiation of recovery actions could be considered an unlawful infringement on private property, underscoring the need for clear legal provisions. In Korea, the legal basis allowing guarantee insurance companies to exercise recovery rights is as follows.

Box 2

Legal Basis for Guarantee Insurers to Exercise Recovery Rights

- **Civil Act**

  Article 441 (Right of Reimbursement of Fiduciary Surety) (1) If a surety, who has assumed such a role at the request of the principal obligor, has, without negligence on its part, caused the principal obligation to be extinguished by performance or at its own expense, such surety shall have the right to be indemnified by the principal obligor.

  Article 481 (Constructive Subrogation by Act of a Person Who has Performed an Obligation) A person who has a legitimate interest in effecting performance shall, by operation of law, be subrogated to the rights of the obligee upon effecting the performance.

- **Commercial Act**

  Article 681 (Subrogation by Insurer Concerning the Insured Subject Matter) If the insured subject matter is totally destroyed, an insurer that has paid the full insured amount shall acquire the rights of the insured to that subject matter. However, if only part of the insurable value has been insured, the rights to be acquired by the insurer shall be determined in proportion to the amount insured relative to the insurable value.

To complement these laws, the *Act on Collection and Use of Loan and Guarantee Information* allows insurers to use specialized debt collection agencies for recovery efforts, increasing process efficiency and minimizing administrative burden on the insurer.

This structured recovery process enables insurers to maintain liquidity and solvency, ensuring their ability to continue providing guarantee insurance coverage to businesses.

2.2 Industrial Features and GIS

2.2.1 Guarantee Type Introduction

According to the classification criteria for guarantee insurance in Korea, products currently in operation can be summarized as follows:

Table 2.2.1- 1

	Subcategory	Definition	Products
Fidelity	-	Fidelity bond indemnifies an employer for a loss incurred due to an employee's fraudulent or other dishonest act.	Fidelity bond
Surety	Statutory	Statutory bonds are designed to indemnify the beneficiary for a loss incurred due to a beneficiary's failure to perform his/her legal or customary obligations.	License/permit bond, court bod, among others.
	Contract	Insurance taken out by the principal to indemnify the beneficiary for losses incurred due to the principal's contractual non-performance.	Bid bond, performance bond, maintenance bond, AP bond, among others.
	Financial	Insurance taken out by principal to indemnify the beneficiary for losses incurred due to the principal's financial non-performance.	Personal loan bond, corporate loan bond, etc.
Credit insurance	Commercial	Commercial credit insurance is entered by creditor and guarantees and obligor's payment for credit sales and services.	Trade credit insurance, among others.
	Financial	Financial credit insurance is entered by the creditor and guarantees the creditor's loss incurred due to the non-performance of the debtor.	Mobile phone installments, MCI, MI, among others.
Others	Other guarantee insurance products not included above.		

2.2.2 Role of GIS in Korean Economic Development

Following Korea's economic development trajectory, one will easily identify the significance of the guarantee insurance scheme. By providing guarantee products suitable to Korea's current industrial landscape, the GIS has firmly established itself as a crucial financial instrument for both the public and private sectors. In Korea, the GIS system emerged in the late 1960s. From the late 1960s through the 1970s, the flagship product was the fidelity bond. The introduction of fidelity bonds helped reduce employee-related risks borne by companies and strengthened the creditworthiness of young firms.

The performance bond, a guarantee insurance product that covers contractual non-performance, also emerged in the 1970s, eliminating the need to submit various deposits in economic transactions. The introduction of the performance bond during the early stages of economic development helped newly established enterprises with limited financial resources secure liquidity, further accelerating Korea's economic development. Rapid economic growth increased households' disposable income, leading to increased domestic demand for durable goods, especially automobiles and home appliances. This gave rise to the installment bond, contributing to the widespread adoption of personal automobiles in Korea.

In the 1980s various guarantee insurance products, such as performance bond, lease bond, and personal loan bond emerged in line with the rapid economic growth of Korea. Among these products, the lease bond played a significant role in supporting the equipment sector of Korea's heavy chemical industry, which was strongly fostered during the government-led economic development process. This support contributed to meeting the machinery demand of SMEs by allowing them with a more flexible liquidity. The GIS not only provided liquidity to businesses but also facilitated consumer access to funds, fostering the development of the consumer finance market. This shift was visible by looking into the mid-1980s when the predominant practice of real estate collateral-based loans began to transition to the supply of personal loan bonds. Guarantee insurance allowed even economically vulnerable individuals to obtain personal credit loans, leading to expanded liquidity supply and consequent domestic consumption growth, enabling sustained economic development.

The 1990s were a transformative period for the Korean economy. As a mirror of national economic trends, the guarantee insurance field underwent significant changes and challenges during that time, too.

Foremost among the factors influencing Korea's guarantee insurance market was the IMF's foreign exchange crisis of 1997. Before the crisis, the market operated under a privatized model, led by two major companies, Korea Fidelity & Surety and Hankuk Fidelity & Surety. However, the economic turmoil following the foreign exchange crisis triggered a wave of corporate bankruptcies, and because these companies were the bond principals, the situation led to extensive restructuring. In response, the Korean government merged the two entities, resulting in the establishment of today's Seoul Guarantee Insurance (SGI).

In addition to this market restructuring, the 1990s were also characterized by the emergence of various performance bond products. Notably, in 1994, advance payment bonds were introduced, along with overseas bonds that could be used internationally, thus expanding the scope of Korea's guarantee services beyond domestic borders. During this period, the government also introduced socially-oriented policies to support economically vulnerable groups, leading to the launch of statutory products, including judicial bonds.

From the late 1990s to the early 2000s, Korea's mobile phone market saw rapid growth, creating demand for financing solutions to enable secure installment-based purchases of mobile devices. Responding promptly, SGI introduced Mobile Device Installment Credit Insurance, easing the financial burden on consumers purchasing mobile devices. In addition, by the mid-2000s, the rapid expansion of Korean construction firms into international markets, supported by advanced technological capabilities, led SGI to provide overseas guarantee services to support these ventures.

However, not all products emerged in response to favorable market growth. While the economy was growing, income and wealth disparity were deepening, exacerbated by the lingering effects of the previous financial crisis. The indiscriminate issuance of credit cards during this period gave rise to the so-called 'Credit Card Crisis' of 2003 in Korea, causing severe financial instability for many households. Consequently, a surge in housing prices in 2005 threatened the stability of affordable housing, while the global financial crisis of 2008 resulted in a high number of individual credit delinquencies.

To address these crises, SGI assumed a stabilizing role by providing products such as fidelity bonds and personal loan bonds, aimed at enhancing citizens' financial security. Additionally, SGI launched mortgage credit insurance to guarantee security deposits for low-income renters, supporting housing stability during times of economic uncertainty.

3

ROLE OF SGI IN GIS DEVELOPMENT

ROLE OF SGI IN GIS DEVELOPMENT

3.1 Company History and Strategic Purpose

Seoul Guarantee Insurance (SGI) is rooted in Korea Guarantee Insurance, the nation's first professional guarantee insurance provider, which was founded in 1969. Korea Guarantee Insurance was established as a vital part of the government's overarching economic development policy during Korea's industrialization boom. It initially acted as an essential bonding company for construction projects and the emerging infrastructure required by the growing economy. SGI emerged out of Korea's response to the 1997 Asian Financial Crisis, showing how crises can serve as catalysts for institutional innovation. Korea's guarantee insurance market was originally run through a privatization system mainly managed by two large corporations, Korea Fidelity & Surety and Hankuk Fidelity & Surety. But the resulting economic turmoil caused many bond principals to default on their corporate debt, creating substantial restructuring needs. The Korean government responded with a consolidation strategy. In 1999, the two companies merged to become SGI, a hybrid private-public entity designed to maintain stability while remaining commercially efficient. This was not a mere crisis management exercise; it was an intentional policy decision to build an anchor institution capable of supporting national economic development goals.

SGI's founding objectives were threefold: first, to stabilize the guarantee insurance market in times of economic uncertainty; second, to secure ongoing access to guarantees for SMEs and infrastructure projects central to national economic recovery; and third, to have an institution capable of directing market operations toward the achievement of broader national development goals.

3.2 Governance Structure and Hybrid Model

SGI represents a business model with a governance structure that balances the overlapping interests of public policy and commercial sustainability. Although the company is 97.5 percent government-owned, it operates according to commercial insurance principles.

The hybrid method has several benefits:

Policy alignment:

Government ownership ensures that SGI can support national interests, including the promotion of SME development, investment in infrastructure, and economic stabilization during crises (even when pure commercial logic might dictate more conservative decision-making).

Commercial orientation:

SGI maintains a commercial discipline despite being government-owned, in accordance with its regulatory regime, and applies underwriting standards, capital adequacy requirements, and professional risk management practices over the long term.

Financial strength:

SGI has a strong balance sheet and solid rating agency support resulting from government backing (SGI is rated A+ by S&P). This financial strength enables SGI to price competitively by assuming a greater level of risk while remaining profitable.

Regulatory environment:

SGI continues to be regulated by FSS, providing transparency and prudent regulation, which supports market confidence.

3.3 Market Position and Product Portfolio

SGI is the market leader in Korea's guarantee insurance sector, effectively acting as a primary supplier for most of its sectors. This leadership in the market is derived from both scale and policy support.

Market positions and coverage: Though market shares differ by product line, SGI is effectively the cornerstone of Korea's GIS, covering most large-scale infrastructure bonds, SME guarantees, and specialized guarantee products. This position is further reinforced by the company's extensive branch network and long-standing relationships with government authorities, banks, and developers.

Product diversification: SGI's product portfolio spans the full spectrum of guarantee insurance needs as follows:

- **Performance bonds:** Guaranteeing construction and service contracts, especially for public infrastructure projects.
- **Payment bonds:** ensuring contractors are required to pay subcontractors and suppliers.
- **Bid bonds:** ensuring the integrity of public/private procurement tenders.
- **Advance payment bonds:** guaranteeing against misuse of project advance payments.
- **Credit insurance:** protecting against commercial and export credit risks.
- **Specialized products:** including customs bonds, judicial bonds, and housing-related surety bonds and credit insurance.

Client composition: SGI's client base mirrors its developmental mandate, with around 89% of its policyholders being SMEs or individuals. This illustrates that the guarantee insurance mechanism works effectively for small economic entities that may face difficulties obtaining financing or contracts–barriers that would otherwise prevent them from accessing credit or securing contracts.

3.4 Role of SGI in Economic Development Strategy

SGI is not simply a commercial insurer; it is a policy tool for economic development. This function has developed throughout Korea's development trajectory:

Infrastructure development support: During Korea's rapid industrialization period, SGI provided the necessary bonding capacity for developing construction projects with counterparties to de-risk the government's performance obligations across multiple contractors.

SME sector development: By developing accessible guarantee products, SGI has enabled SMEs to participate in public procurement and access contracts in the private sector, thus contributing to the development of a strong SME sector.

Counter-cyclical stability: In downturns in the economic cycle, such as in 1997 (Asian Financial Crisis) and 2008 (Global Financial Crisis), SGI maintained its guarantee capacity while private insurers were pulling back. This helped stabilize credit markets while maintaining construction activity.

Innovation and adaptation: From providing mobile device financing guarantees in the 2000s to expanding into global construction and infrastructure services to help build a stronger Korea, SGI has consistently moved forward by offering customers the products and services they need in a changing economy.

3.5 Integration with Financial Infrastructure

SGI's success stems in part from its alignment with Korea's financial and policy infrastructure:

Data infrastructure:

SGI leverages Korea's highly developed credit information infrastructure, which allows for sophisticated risk and pricing assessments, supporting financial inclusion among thin-file borrowers.

Regulatory coordination:

Strong cooperation with regulators, ministries of finance or procurement entities, and development institutions to ensure that guarantee insurance supports, rather than hinders, macroeconomic policy objectives.

Reinsurance and risk management:

SGI's government support enables access to international reinsurance markets, combined with domestic risk-retention capacities that reinforce the national economy.

This institutional base shows how a properly designed anchor institution can promote further development of the guarantee insurance market while addressing national economic goals, an insight with particular relevance for LAC countries that want to improve their GIS.

The analysis of Korea's GIS demonstrates how a strong legal base, a sound credit information infrastructure, and effective debt recovery processes can support a risk management approach that is successful in mitigating risk, resolving market failure, and addressing SME financing within the Sustainable Development Goals (SDGs). This experience provides a useful reference point for evaluating the possible adoption of such a model in LAC. The following section first considers the LAC region's economic background and the core features of its GIS. It then examines the broader credit and surety market, including key obstacles and potential prospects for further market growth. The research concludes with a deeper examination of the Colombian case, including an analysis of the economic context, an overview of existing guarantee and insurance instruments, and an assessment of specific opportunities to further strengthen these instruments for inclusive finance and sustainable development.

4

GUARANTEE INSURANCE MARKET IN LAC

GUARANTEE INSURANCE MARKET IN LAC

4.1 Regional Economic Outlook

After a strong rebound in 2021, global economic growth has slowed steadily amid persistent inflationary pressures, rising oil prices, restrictive monetary policies, and heightened geopolitical uncertainty. Since 2022, inflation has increased sharply, driven by robust post-pandemic demand and surges in global oil prices linked to geopolitical tensions. In response, central banks have implemented aggressive interest rate hikes, triggering adjustments in financial markets and a gradual moderation of inflation. Current expectations point toward eventual interest-rate cuts; however, prolonged high inflation and interest rates, together with tightened credit conditions, may increase business insolvencies and financial vulnerabilities, particularly if restrictive monetary conditions persist.

In addition, ongoing tensions in the Middle East threaten to disrupt energy supplies, with potential spillovers on industrial production and consumer prices, especially in Europe. Commodity prices—most notably oil—have remained high and volatile amid these geopolitical dynamics (IDB, 2024).

In LAC, GDP growth reached 7% in 2021 and 4.1% in 2022, before gradually slowing as inflationary pressures intensified. Although GDP growth in 2023 (2.1%) exceeded initial expectations, projections indicated a further deceleration to 1.7% in 2024, reflecting both global slowdown and region-specific challenges. Despite this, LAC has shown resilience, outperforming global averages, although still trailing emerging Asian economies where inflation and interest-rate pressures have been weaker. Growth dynamics remain heterogeneous: while Brazil and Mexico have exceeded projections, countries such as Chile, Colombia, and Peru have experienced slower activity due to political and economic headwinds (Swiss Re Institute, 2024).

Despite the rapid and proactive response of LAC central banks to post-pandemic inflation—including interest-rate cuts ahead of advanced economies—price levels remain high compared to global standards and above pre-pandemic trends. Monetary tightening helped stabilize capital flows, reduce core inflation, and reinforce monetary credibility across the region. Yet, persistent oil prices and the expected impacts of “El Niño” on agriculture continue to exert inflationary pressure. Although easing food and energy prices have moderated headline inflation, it was expected to remain above central bank targets through 2024 (Swiss Re Institute, 2024; IDB, 2024).

Overall, LAC continues to face significant challenges. Geopolitical tensions—specifically in the Middle East and Ukraine—pose risks to trade and energy costs, while slower GDP growth in China has weakened demand for LAC commodities. Although central bank measures have stabilized regional currencies and moderated inflation, high interest rates continue to dampen growth. As a result, insolvency risks are projected to rise in 2024–2025. Political uncertainty, elevated post-pandemic public debt, and high commodity prices further strain the region's fiscal outlook. Additional risks and opportunities stem from global shifts in trade policies, supply-chain restructuring, and political developments, such as the change of administration in the United States. These dynamics underscore the need for robust economic policies and resilience strategies to safeguard stability in an increasingly complex global environment (Swiss Re Institute, 2024; IDB, 2024).

In this context, guarantee and credit-insurance mechanisms gain importance as countercyclical policy instruments to mitigate financial risk and sustain economic activity. As growth slows and insolvency risks increase—especially for micro, small, and medium enterprises (MSMEs)—the demand for risk-mitigation tools rises. Public and private guarantee systems, in particular those securing credit access and contractual compliance, are expected to play a more prominent stabilizing role. These instruments help sustain investor confidence and ease financing constraints under tight credit conditions, while supporting financial stability by absorbing and redistributing risk within the system. This setting provides the analytical backdrop for understanding the structure and behavior of the region's guarantee insurance systems.

4.2 Public Guarantee Insurance System

The Public Guarantee Insurance System in LAC comprises three complementary public mechanisms for credit-risk mitigation:

i. Public non-life insurance institutions providing surety and credit insurance (with Colombia as a distinct regional benchmark)

ii. Credit guarantee schemes supporting MSME lending

iii. Export credit insurance (ECI) programs run by national export credit agencies

Although these instruments operate under different institutional and legal frameworks, they share common objectives: enhancing financial inclusion, supporting productive development, and stabilizing financial flows, particularly in periods of economic stress.

4.2.1 Public Insurance Institutions for Surety and Credit Insurance

Colombia represents an exceptional institutional case in Latin America, where a national-level mixed-capital non-life insurance entity—with 97% state ownership—is specifically dedicated to the provision of surety and credit insurance. Unlike other countries in the region, which lack public insurance institutions comparable to models like Korea's SGI (Seoul Guarantee Insurance), Colombia presents a unique institutional setup where the government insurer directly issues contractual guarantees and assumes performance risk. Colombia stands out in the Latin American context through La Previsora S.A., its state-owned insurer with a specialized and active portfolio in surety bonds. In this context, the Colombian case underscores the strategic role of public participation in the surety sector as a tool for enhancing market depth and reinforcing government contracting.

4.2.2Guarantee Credit Funds

In LAC, guarantee schemes—mainly structured as public or mixed funds—play a critical role in expanding MSMEs' access to credit. They address a fundamental financing barrier: the lack of collateral. By providing guarantees that substitute or complement traditional collateral, these schemes help reduce lender risk, improve loan conditions, and promote financial inclusion for underserved sectors.

However, many LAC guarantee schemes focus narrowly on repayment guarantees, limiting their ability to mitigate broader credit risks or support more complex financing needs. Although integrated into national financial systems and contributing to improved lending conditions and economic resilience, their impact could be significantly enhanced by complementing traditional guarantees with more versatile surety and credit insurance instruments.

Public and mixed guarantee schemes support financial institutions by enabling them to serve smaller, higher-risk firms. Fully public schemes typically operate at the national level through independently managed liquid funds or trusts, which allow them to assume risks associated with high-risk SME segments that mixed schemes might avoid due to their reliance on private capital.

In both public and mixed models, guarantees are primarily designed to be bank-centric, allowing financial institutions to play a central role in credit decisions and risk assessment. This approach improves efficiency in the allocation of public resources, reduces capital reserve requirements for banks, and lowers potential losses, thereby facilitating greater credit expansion toward high-risk MSMEs (Povedano, Ramírez Sobrino, Pombo & Molina, 2013).

Public guarantee schemes are therefore essential for promoting financial inclusion and strengthening economic stability, specifically in credit-constrained sectors. Their effectiveness has increased with greater private-sector participation, including contributions from financial institutions to guarantee funds and trusts. This blended public-private approach increases the reach and sustainability of guarantee systems, improves the efficiency of public spending, and amplifies their capacity to support economic growth (Pombo, 2013; IDB, 2022).

The importance of public guarantees became especially evident during the COVID-19 crisis, when they played a pivotal role in maintaining financial stability across LAC. Public guarantee programs enabled firms and households to maintain access to credit despite severe economic contraction. In countries such as Chile, Peru, and Colombia, guarantee schemes prevented a credit freeze, allowing loan volumes to remain stable or even increase. For example, Peru's guarantee programs reached 8.3% of GDP. While such programs required fiscal resources, their fiscal impact was manageable, with only Chile and Peru facing potential fiscal risks under extreme scenarios (IDB, 2022).

Table 4.2.2- 1
Public Guarantee Schemes for MSME Loans

Country	Guarantee Fund	Managing Entity	Year of Fund Creation
Argentina	FOGAR (Argentine Guarantee Fund)	Ministry of Economy	1995
Bolivia	Credit Guarantee Fund for Small and Medium Enterprises (PROPYME UNION)		2010
	Guarantee Fund for National Industry Development (Fogadin)		2021
Brazil	Investment Guarantee Fund (FGI)	National Bank for Economic and Social Development	2009
	Operations Guarantee Fund (FGO)	National Bank for Economic and Social Development	2009
Chile	Guarantee Fund for Small Entrepreneurs (FOGAPE)	Banco Estado	1980
	CORFO Guarantee Fund	CORFO	1985
Colombia	National Guarantee Fund (FNG)		1982
	Agricultural Guarantee Fund (FAG)	Finagro	1984

Costa Rica	Guarantee and Endorsement Fund of the National Development Fund (FONADE)	Development Bank (SBD)	2008
El Salvador	Agricultural Guarantee Program (PROGARA)		2000
Mexico	Guarantee and Promotion Fund for Agriculture, Livestock, and Poultry (FONAGA)	Agricultural Trust Funds (FIRA)	2002
	NAFIN Guarantee Program	National Financial Institution (NAFIN)	1997
Peru	CRECER Fund	COFIDE	2018
	Business Guarantee Fund (FOGEM)	COFIDE	2019
Uruguay	National Guarantee System (SiGa)	ANDE	2009
Venezuela	SGR-Venezuela		1990

Source: Prepared by the author based on data from Pombo (2013) and IDB (2022).

Public guarantee models have been fundamental in LAC, supporting weaker businesses and improving their credit conditions. As these businesses grow stronger, integrating private resources into these public models could amplify the impact of public investment and contribute to greater system stability. Public support should focus on the efficient use of resources and ensuring financial sustainability. Strengthening guarantee funds would provide immediate liquidity and promote long-term investment in productive capacity, thereby improving financial systems' resilience to future crises (Pombo, 2013; Povedano, Ramírez Sobrino, Pombo, and Molina, 2013; IDB, 2022).

4.2.3Export Credit Agencies

In Latin America and the Caribbean (LAC), export credit insurance (ECI) has become a critical financial instrument for promoting export growth and mitigating the risks inherent in international trade—particularly for micro, small, and medium-sized enterprises (MSMEs), which face structural barriers to entering and competing in global markets. By covering non-payment risks—whether commercial (e.g., buyer insolvency or protracted default) or political (e.g., foreign exchange restrictions, war, expropriation)—ECI reduces uncertainty, strengthens trust between exporters and foreign buyers, and improves access to trade finance. Exporters can use insured receivables as collateral to obtain pre- or post-shipment financing, a mechanism especially valuable for MSMEs that often lack traditional collateral or established credit histories. As a result, ECI increases banks' willingness to lend and reduces their capital-reserve requirements, thereby enhancing the financial inclusion of smaller exporters (IDB, 2022).

Publicly managed export credit insurance plays a notably important role in expanding access to finance in higher-risk markets, as illustrated by LAC countries with more consolidated systems, including Chile, Colombia, and Peru. Export credit agencies (ECAs) in the region, typically government-owned, are the primary providers of ECI. Countries such as Brazil (ABGF), Mexico (BANCOMEXT), and Argentina (BICE) operate ECAs that offer insurance either directly to exporters or indirectly through financial institutions (Jordana, 2010). These agencies are frequently linked to national development banks or export-promotion entities, facilitating the integration of credit, guarantees, and technical assistance within a single institutional framework. Because public ECAs can assume higher-risk transactions than private insurers, they play a strategic role in supporting exporters seeking to enter new markets or operate in volatile environments (IDB, 2022).

To sustain and broaden the reach of export credit insurance, several LAC countries are moving toward more efficient and blended governance models. In alignment with OECD and WTO guidelines, there is growing interest in public–private partnerships (PPPs) for the provision of ECI, both to ensure long-term financial sustainability and to mobilize private capital and international reinsurance markets. These partnerships help reinforce program credibility and improve compliance with international trade regulations (Jordana, 2010).

In addition, as highlighted by IDB (2022), policy priorities include:

- Strengthening institutional capacity
- Digitalizing underwriting and claims-management processes
- Developing co-insurance and reinsurance schemes

These improvements would not only reduce governments' fiscal exposure but also enhance export credit agencies' agility and responsiveness—particularly in serving smaller or first-time exporters, who face the greatest barriers in accessing international markets.

Table 4.2.3- 1
Public Export Credit and Promotion Institutions in LAC

Country	Institution	Institutional Type	Year Established
Argentina	BICE/EXPORTAR Foundation/ ProCordoba/ProMendoza	State-owned bank/Export promotion agencies	1992/1993 / 1998/2003
Bolivia	Center for the Promotion of Bolivia	Export promotion agency	1998
Brazil	BNDES/ABGF/APEX	State-owned bank/public insurer / Export promotion agency	1952/2012 / 2003
Chile	BancoEstado/ProChile	State-owned bank/export promotion agency	1953/1974
Colombia	Bancoldex/ProColombia	Development bank/export promotion agency	1992/1992
Costa Rica	Development Banking System/ PROCOMER	State financial system/ promotion agency	2008/1996
Ecuador	CORPEI/ProEcuador	Export promotion agencies	1997/2003
Mexico	BANCOMEXT/PROMEXICO Investment and Trade	State development bank/export promotion agency	1937/2007
Peru	COFIDE/PromPerú	Development bank/promotion agency	1971/2007
Uruguay	Uruguay XXI	Promotion agency	1996
El Salvador	EXPORTA	Export promotion agency	2004
Guatemala	Department of Trade Promotion	Export promotion agency	2000
Honduras	FIDE	Export promotion agency	1984
Jamaica	JTI	Export promotion agency	1990
Panama	DNPE - VICOMEX	Export promotion agency	1998
Paraguay	REDIEX	Export promotion agency	2004

Source: Prepared by the author based on data from Jordana (2010) and institutional webpages.

In LAC, export credit agencies and guarantee funds have been the main public strategies to improve credit access for MSMEs and exporters. Although LAC has developed a guarantee system primarily aimed at improving access to credit for MSMEs and exporters, this system has relied almost exclusively on public or mixed schemes, with limited diversification of instruments. The region has prioritized credit guarantee funds and public export credit agencies as key policy instruments; however, these mechanisms remain insufficient to significantly expand financing to underserved sectors, improve credit conditions, and enhance overall economic stability.

4.3 Regional Insurance Outlook

Although the Latin American and Caribbean (LAC) insurance market is the smallest globally, it has become one of the fastest-growing in the insurance industry over the past decade. From 2018 to 2022, LAC exhibited a compound annual growth rate (CAGR) of 10.9%, the highest internationally. Yet the region still accounts for only 2% of the global insurance market, highlighting both its underdevelopment and its substantial growth potential (Swiss Re Institute, 2023; McKinsey & Company, 2023; Mapfre Foundation, 2023).

LAC's insurance market showed strong growth and resilience in 2023, despite persistent macroeconomic challenges. Premium volume reached USD 200.7 billion, representing an 18% annual expansion. Growth was widespread across the region, led by Mexico (33%), Costa Rica (26%), Chile (20%), Argentina (19%), and Brazil (13%) (Latinoinsurance, 2023). Both life and non-life segments contributed to this rise, while high interest rates supported increased yields on savings and annuity products (Mapfre Foundation, 2023).

Profitability also improved in 2023, driven primarily by strong premium growth. However, despite positive overall returns, technical profitability remains a structural weakness. Though regional return on equity (ROE) reached 17% in 2022, well above the global average of 10% (McKinsey & Company, 2023), technical results have frequently been poor or even negative. In 2023, the region reported a technical result of 8% and a net technical result of –1% (Latinoinsurance, 2024), suggesting that performance continues to rely heavily on investment income rather than underwriting results. This reliance has been supported by prolonged high interest rates and post-pandemic inflation, which boosted investment returns even as claims and operational expenses rose (McKinsey & Company, 2023; Mapfre Foundation, 2023).

Market structure also influences industry performance. LAC's insurance market remains highly concentrated, specifically in life insurance. In most countries, the top five insurers dominate market share. Concentration levels vary by country: larger markets, including Brazil and Mexico, are moderately concentrated, while smaller markets—such as Peru and Venezuela, and especially Uruguay, Costa Rica, and Nicaragua—show higher concentration levels due to limited market size (Mapfre Foundation, 2023). Local insurers typically outperform global competitors in profitability, particularly in life insurance, partly due to exchange-rate fluctuations. Nevertheless, some global insurers have succeeded in the region by granting greater autonomy to their local operations. Overall, despite concentration, LAC markets remain open for new entrants, contributing to greater product diversity and competitive depth (McKinsey & Company, 2023; Mapfre Foundation, 2023).

Distribution dynamics continue to evolve. Intermediaries—brokers and agents—remain dominant, managing between 50 and 80% of non-life premiums across the region and often providing advisory services. However, intermediaries encounter structural challenges in lead generation and early client engagement (McKinsey, 2020). Digital channels remain nascent but increasingly influential: 67% of life insurance customers begin their search online, although most policies are still purchased offline. Bancassurance and affinity partnerships also play a central role, specifically in life insurance, where vertically integrated bank–insurer structures provide significant distribution advantages (McKinsey & Company, 2023).

Despite recent growth, LAC continues to display a significant insurance protection gap. Insurance density reached USD 319 per capita in 2023—a 16.8% increase from 2022—yet still far below developed market levels. For comparison, per capita insurance density was USD 295 in LAC in 2022, versus USD 7,500 in the United States (McKinsey & Company, 2023). The potential market, including current premiums plus the Insurance Protection Gap (IPG), is valued at approximately USD 440.9 billion, or 2.5 times the current market size (Mapfre Foundation, 2023). Closing this gap represents a major opportunity to strengthen financial resilience for households and firms while bolstering long-term economic stability.

The region—historically slower to innovate—is now undergoing rapid digital and technological transformation. Leading insurers are investing heavily in product innovation, digitalization, and ecosystem development. For instance, some offer integrated mobility-focused solutions that bundle auto financing, repairs, toll payments, and fuel cards. The region now hosts more than 460 Insurtech firms, which generally partner with traditional insurers to improve distribution and customer service rather than disrupt incumbents. Nevertheless, insurers—much like banks—face increasing competitive pressure from fintech and mobile-based solutions, reinforcing the need for digital transformation and more resilient business models (McKinsey & Company, 2023; Swiss Re Institute, 2023).

Looking ahead, LAC's insurance market is expected to continue expanding, though at a somewhat slower pace due to persistent economic challenges. Demand in both life and non-life segments was projected to grow in 2024. However, since profitability in the region remains heavily dependent on investment returns rather than underwriting strength, anticipated interest-rate reductions could pressure investment income and narrow margins. To sustain resilience, insurers will need to reinforce underwriting discipline, strengthen risk management, reduce costs, and accelerate digitalization across products and distribution channels. With ample room for deeper penetration and greater market diversification, the LAC insurance sector is well-positioned to address these challenges and capture emerging opportunities (Swiss Re Institute, 2023).

4.3.1 Regional Surety and Credit Insurance Overview

Surety and credit insurance are essential components of modern economic systems, supporting business continuity, financial stability, and trade expansion. In 2022, the global market generated USD 19 billion in surety premiums and USD 13.9 billion in credit insurance premiums (Swiss Re Institute, 2023b). Both instruments play a critical role in mitigating business insolvency risks and strengthening economic resilience across sectors.

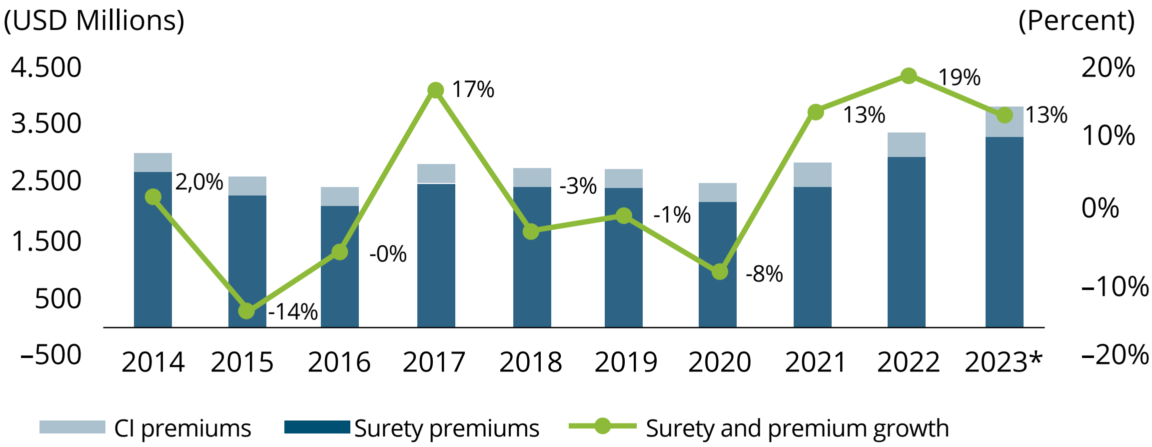
Surety bonds mitigate contractual and performance risks by guaranteeing that contractors meet their obligations. They protect project owners from financial losses arising from contractor bankruptcy or non-performance and enable contractors—particularly smaller firms—to compete for projects they might not otherwise be able to access. By broadening participation, surety markets enhance competition and can contribute to lower project costs.

Credit insurance, in turn, shields businesses from non-payment risks related to domestic or foreign buyers. By reducing uncertainty around unpaid invoices, CI encourages firms to expand into new markets and strengthen commercial relationships, thus supporting international trade and economic growth. CI also improves access to financing: insurers' risk assessments reduce expected default losses, making banks more willing to extend credit to insured firms.

Over the past decade, surety and CI premiums in Latin America and the Caribbean (LAC) have grown more slowly than the global average, yet faster than the region's GDP, demonstrating their increasing relevance in local financial systems. Globally, CI and surety premiums expanded at an annual rate of 5–6% over the past 20 years, broadly in line with global GDP growth (5.5%) (Swiss Re Institute, 2023b). In contrast, LAC premiums in these lines grew at an average rate of 3% over the past decade, surpassing the region's modest GDP growth of 1.2% (Latinoinsurance, 2024).

In 2023, LAC surety and CI premiums experienced a strong 19% annual increase, reaching USD 4.1 billion (Latinoinsurance, 2024b). This acceleration reflects strengthened demand for credit-risk mitigation instruments in a period of pronounced macroeconomic volatility, rising insolvencies, and tighter credit conditions.

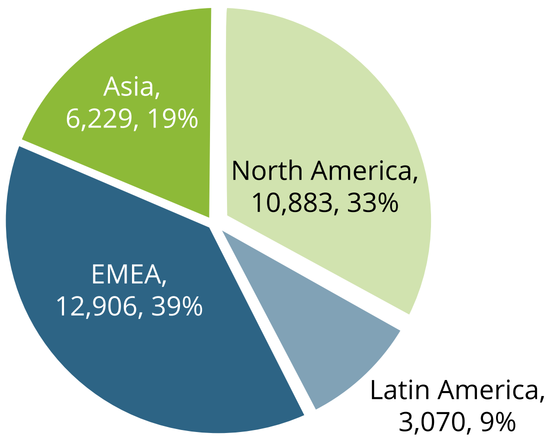
Figure 4.3.1- 1
LAC Premiums Surety and CI (Volume and annual Growth)



Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

Figure 4.3.1- 2

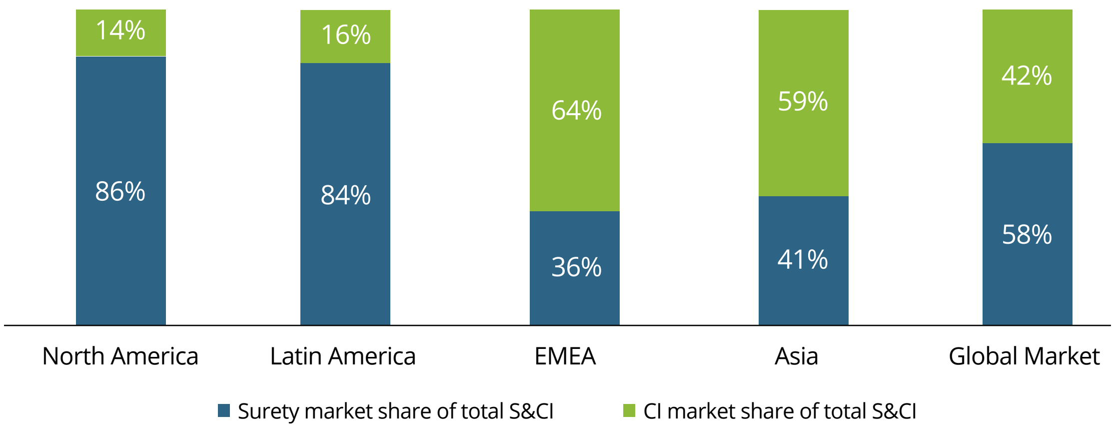
LAC: Surety and CI Market Share by Region, 2020



Source: Author's calculations based on appendix information found in Swiss Re Institute (2023b).

Figure 4.3.1- 3

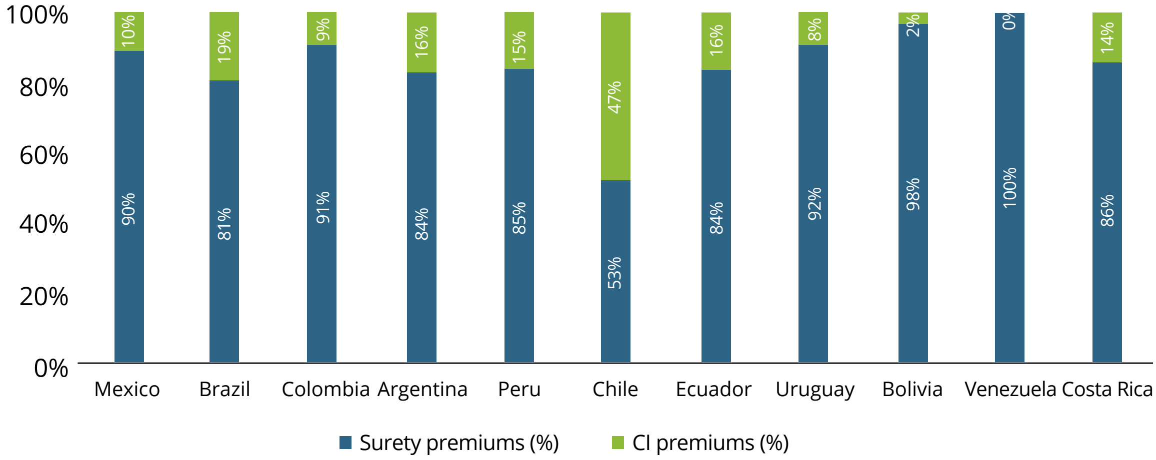
LAC: Surety and CI Share by Region, 2020 (Percent)



Source: Author's calculations based on appendix information found in Swiss Re Institute (2023b).

In the LAC region, surety premiums overwhelmingly dominate the surety and CI industry, highlighting a significant imbalance in relation to the global market. Globally, CI premiums account for approximately 41% of total surety and CI premiums. However, in LAC during 2023, CI accounted for an average of 16% of the surety and CI market. Conversely, surety constituted 84% of the total LAC market, compared to 58% globally. Consequently, industry trends in LAC are predominantly driven by surety performance. Except for Chile, this pattern repeats itself in all countries in the region. While this behavior highlights regional dynamics in LAC, a more detailed analysis of surety and credit insurance is provided in the following section.

Figure 4.3.1- 4
LAC: Surety and CI Premiums Market Share by Country (USD Millions)



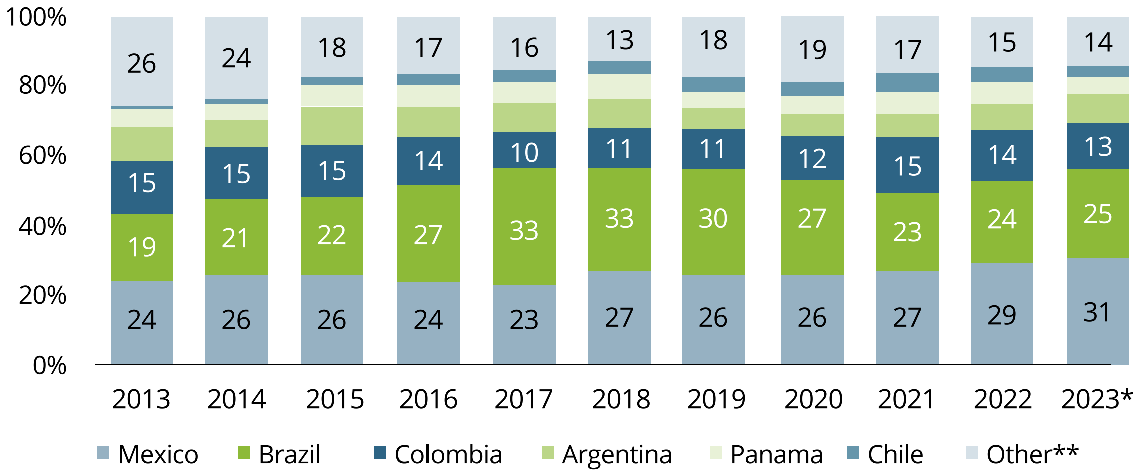
Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

4.3.1.1 Surety Overview and Outlook for LAC

Over the past decade, the surety market in LAC has expanded considerably, led by Mexico, Brazil, and Colombia. The surety market growth has been driven by LAC's sustainable and resilient economic development, boosted by public infrastructure projects. Over the past ten years, surety premiums in the region have recorded an average annual growth rate of 2.8%, outpacing the regional GDP growth rate of 2.2%. In 2023, LAC's surety market reached USD 3.27 billion, accounting for 13.4% of the global market, with Mexico (31%), Brazil (25%), Colombia (13%), Argentina (8%), Panama (4%), and Chile (4%) together representing 85% of the region's premium volume.

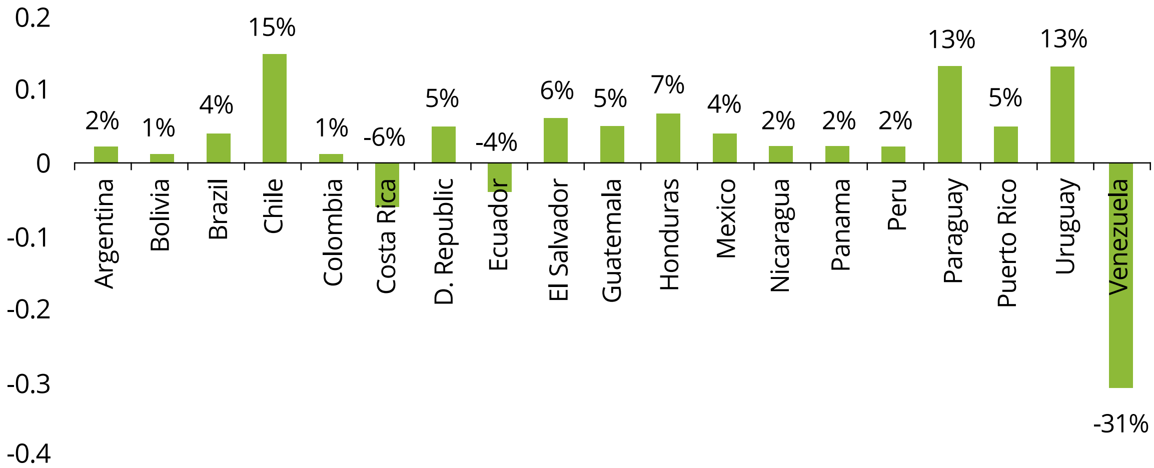
Most countries in LAC have experienced a positive compound annual growth rate (CAGR) in the surety market over the past decade, often surpassing growth rates across all insurance lines. The countries with the highest CAGR in surety premiums were Chile (15%), Peru (13%), and Uruguay (13%), significantly exceeding the average CAGR for the decade and their respective insurance markets. Conversely, Venezuela (-31%), Costa Rica (-6%), and Ecuador (-4%) exhibited negative CAGR, with the latter contrasting with positive growth in total insurance lines. In the case of Venezuela, the sharp decline in surety premium growth is linked to a 484% contraction in public expenditure during the same period.

Figure 4.3.1.1- 1
LAC: Surety Premiums Market Share by Country



Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

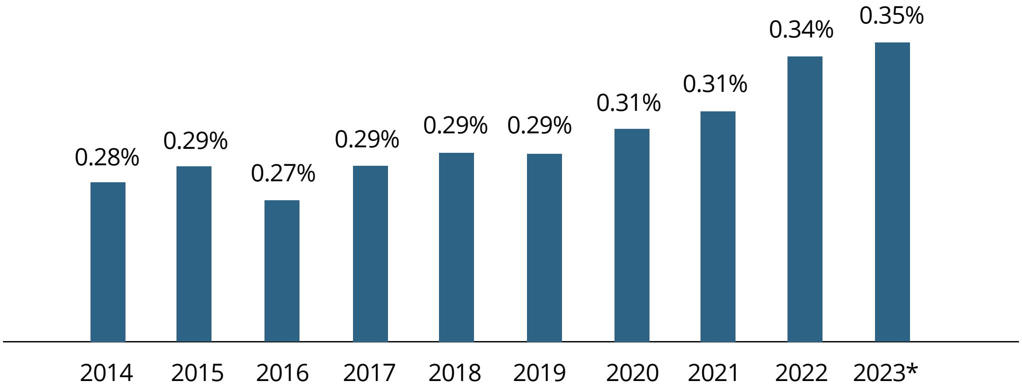
Figure 4.3.1.1- 2
LAC: Surety Premiums – Compound Annual Growth Rate (CAGR) by Country



Source: Author's calculations based on data from World Bank (2024) and Latinoinsurance (2024). *Cumulative value from January to September 2023.

Public infrastructure spending in the region—the main driver of growth in surety premiums—has decreased over the past decade. Between 2014 and 2023, surety premiums grew at an average annual rate of 2.8%, while public spending declined by an average of 1% per year over the same period. As a result, surety premiums as a share of public spending increased from 0.28% to 0.35% (Latinoinsurance, 2024). This is due to the increasing implementation of regulatory frameworks that promote the use of government bonds as a strategy to protect public infrastructure and other commercial transactions in LAC countries. Indeed, in all markets in the region, except for Brazil[1], the most common surety bonds are the contract bonds, which ensure the completion of public infrastructure projects (Swiss Re Institute, 2023b). This reflects the growing importance of contractual bonds in strengthening the region's surety insurance market.

Figure 4.3.1.1- 3
LAC: Surety Premiums as a Percentage of Public Expenditure by Year



Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

As contract bond premiums constitute the largest segment of surety in LAC, the trajectory of the surety market has been closely related to public spending patterns. Historically, the surety sector in Latin America had experienced rapid growth, with annual growth rates exceeding 20% until 2007. In that year, there was a significant decline due to the global financial crisis, leading to a reduction in public spending and delays in infrastructure projects. Subsequently, the growth trend in the surety sector became erratic, with two notable declines in 2015 (a decrease of 14%) and 2020 (a decrease of 9%), and two significant peaks in 2017 (17% growth) and 2022 (19% growth), all closely linked to public expenditure patterns during those years. The correlation between surety premium growth and public expenditure growth was 0.92 between 2014 and 2023.

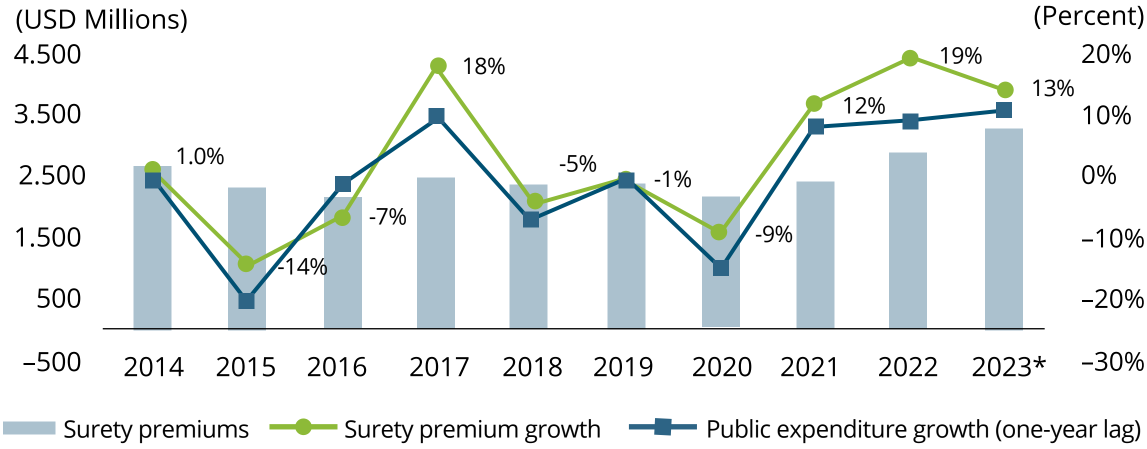
[1] Brazil is the largest market, with more than 80% of premiums derived from judicial bonds (Re, 2023).

Between 2014 and 2017, the surety market recorded its most significant decline of the decade, followed by its second-highest expansion. In 2015, the surety market saw its most significant decline of the decade, driven by economic instability reinforced by cuts in public spending in key markets such as Brazil (a 33% decrease in the surety market) and Venezuela (a 436% contraction). By 2017, the surety market had recovered, peaking at an annual growth rate of 18%, driven by improved economic conditions, the stabilization of commodity prices, and particularly an increasing investment in infrastructure.

Between 2018 and 2023, the surety market underwent both a decline and a recovery. In 2018, the surety market posted a significant decline, explained by a decrease in public spending, driven by Argentina (-65%) and Brazil (-10.62%). This downward trend continued in the following years and was exacerbated in 2020 by the economic impact of the COVID-19 pandemic due to a reduction in public spending and an increase in the cancellation of infrastructure projects in several countries, specifically in Mexico and Brazil, which affected construction activities. The recovery phases in 2021, 2022, and 2023 were driven by an increase in public spending on infrastructure and a general post-pandemic economic recovery in the region.

Figure 4.3.1.1- 4

LAC: Surety Premium Growth vs Public Expenditure Growth by Year

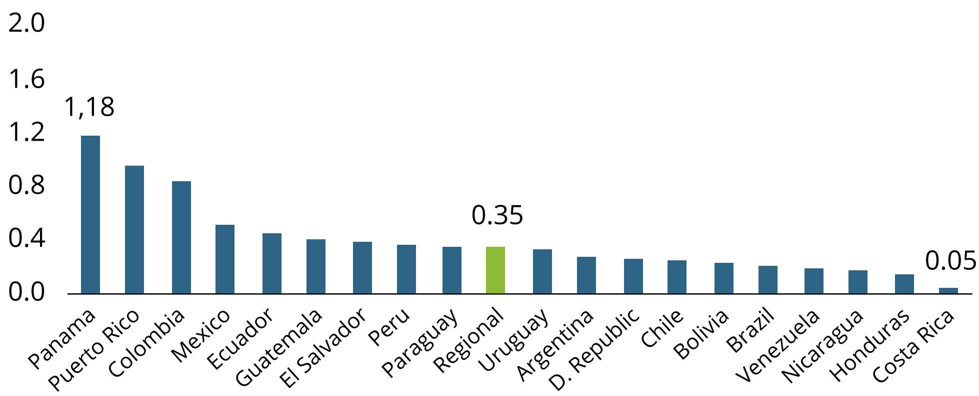


Source: Author's calculations based on data from World Bank (2024) and Latinoinsurance (2024). *Cumulative value from January to September 2023.

However, the relationship between surety premiums and public expenditure varies across countries. For 2023, Panama, Puerto Rico, and Colombia exhibited the highest levels of surety premiums relative to their public expenditure. In the Panamanian case, this can be attributed to a 60% increase in public expenditure over the last decade, driven by major public investments in infrastructure like the Panama Canal Expansion, and the Lines 2 and 3 of the Panama Metro. Conversely, Costa Rica, which in 2023 had a level of public expenditure comparable to Panama's, recorded the lowest proportion of surety premiums relative to public expenditure, at only 0.05%.

Figure 4.3.1.1- 5

LAC: Surety as Percentage of Public Expenditure by Country, 2023*



Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

Box 3

Infrastructure in Latin America: Structural Gaps, Institutional Challenges, and the Key Role of Surety Bonds

Infrastructure is a fundamental pillar of economic development, territorial integration, and inequality reduction in Latin America and the Caribbean (LAC). Despite its strategic importance, the region faces a persistent infrastructure gap resulting from insufficient investment, limited project planning, and execution challenges. These deficiencies undermine competitiveness, restrict equitable access to basic services, and hinder progress toward the Sustainable Development Goals (SDGs).

Infrastructure investment has a strong production multiplier effect—stimulating private investment, job creation, and productivity growth (Fay, 2017). Yet, low investment levels remain a critical bottleneck. According to the Inter-American Development Bank, LAC countries invest only 2.8% of GDP annually in infrastructure, far below levels in East Asia (5.7%) and South Asia (4.4%). The region's underdevelopment of capital markets further limits long-term financing, discouraging participation from institutional investors, such as pension funds and insurers. Although interest in public–private partnerships (PPPs) is growing, less than 1% of assets managed in LAC are allocated to infrastructure (Álvarez, 2022; Brichetti, 2021).

Meeting the SDGs by 2030 will require more than USD 2.2 trillion in infrastructure investment. Of this total:

47% is needed for SDG 9 (industry, innovation, and infrastructure), specifically roads, airports, and telecommunications;

26% for SDG 7 (affordable and clean energy);

17% for SDG 6 (clean water and sanitation); and

10% for SDG 11 (sustainable cities and communities).

These figures underscore the urgency of mobilizing capital and strengthening institutional capacity to close the region's infrastructure gap (Brichetti, 2021).

Beyond low investment levels, LAC experiences structural challenges: institutional fragility, fragmented regulatory frameworks, and limited administrative capacity, particularly at the subnational level (Lozano Serna, 2018). Bureaucratic bottlenecks, unclear permitting processes, and weak coordination among regulatory bodies increase transaction costs and legal uncertainty. Issues related to land tenure, indigenous rights, and environmental governance often lead to delays or cancellations. Many countries also lack appropriate oversight mechanisms for transparent and accountable project delivery.

Technical and human capital constraints further undermine project quality. A shortage of specialists in project preparation, risk assessment, procurement, and contract management contributes to cost overruns, execution delays, and insufficient maintenance planning, reducing long-term social and economic returns.

Additionally, the absence of robust project pipelines and reliable infrastructure data weakens strategic planning and undermines investor confidence. Without multi-year investment frameworks and clear prioritization, infrastructure development becomes reactive and fragmented rather than forward-looking and sustainable.

Taken together, these constraints create a challenging environment for infrastructure development in LAC, where uncertainty, institutional fragility, and systemic inefficiencies deter private investment. In this context, surety bonds play a strategic role in advancing infrastructure development. Beyond risk transfer, surety instruments help:

- Strengthen trust among public authorities, contractors, and financiers
- Reinforce accountability by guaranteeing contractual compliance
- Improve execution capacity by encouraging proper performance and timely delivery

Surety bonds also have a significant impact on the infrastructure financing ecosystem. Their presence reduces perceived project risk for banks and investors, thereby improving access to capital and enhancing project bankability. This is especially relevant for large-scale infrastructure initiatives aligned with SDG 9, where investments in transportation networks, logistics, and telecommunications require strong coordination and credible oversight.

By guaranteeing contractor performance and mitigating execution risks, surety bonds strengthen PPP structures, attract private investment, and support the efficient delivery of infrastructure projects—helping ensure that they generate the intended social and economic benefits.

Unlike the insurance sector as a whole, the surety business in LAC has achieved high profitability—not solely reliant on investment returns—with most countries showing robust performance, excluding Chile. Technical results of the surety business have remained stable and consistently high over the past decade. Within LAC, this positive technical result is surpassed only by the accident insurance business line. Indeed, the technical result has consistently been positive, starting at 28% in 2014, declining to 24% in 2018-2019, increasing to 29% in 2022, and ending up at 25%

in 2023. The regional technical result averaged 25% over the past decade, signaling healthy market development despite significant variation across countries. Costa Rica led LAC's performance with a technical result of 57%, followed closely by Ecuador at 56%, while most of the rest of the countries showed technical results above 20%. However, Chile, the sixth-largest surety market in the region, stood out as a negative outlier with a technical result of -21%.

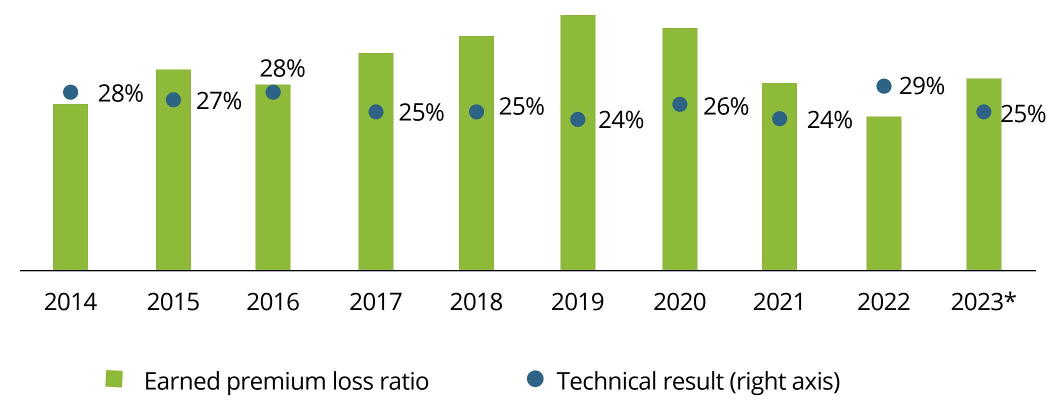
Profitability in the surety business has been stable over the past decade, despite elevated claims and rising management costs. The net combined ratio has worsened in the last decade, going from 58% in 2014 to 62% in 2023. This increase is largely attributed to higher earned loss ratios, in particular between 2017 and 2020, reaching a peak of 40% in 2019. This period also saw an upward trend in management costs, adding pressure to the net combined ratio. In contrast, non-proportional reinsurance expenses have remained stable and low. Similarly, acquisition expenses in the region have remained low or even negative, showing significant cost savings and efficiency in policy acquisition, despite brokers dominating the market for performance surety bonds as the primary intermediary channel.

In 2023, profitability outcomes across LAC countries varied widely, driven by factors such as loss ratio based on earned premiums, expense management, acquisition costs, and non-proportional reinsurance expenses. Markets like Paraguay (8%) and Brazil (11%) profited from negative acquisition expenses (-18% and -48%, respectively) and low loss ratios, suggesting strong cost control and fewer claims. Conversely, Chile had the region's highest combined ratio (406%), mainly due to a high loss ratio based on earned premiums (373%) resulting from high contract default and regulatory changes requiring immediate settlement on first-demand guarantees. Moreover, Chile's surety business faces high management and reinsurance costs, reflecting significant financial strain. According to the Swiss Re Institute (2023b), underwriting discipline has remained challenging in Chile in recent years and has been weakening in Brazil[2].

[2] In Brazil, the region's largest market, the judicial bond segment, which dominates surety premiums, has proven effective despite initially high risk perceptions. However, intense competition has driven premium rates down significantly in recent years.

Figure 4.3.1.1- 6

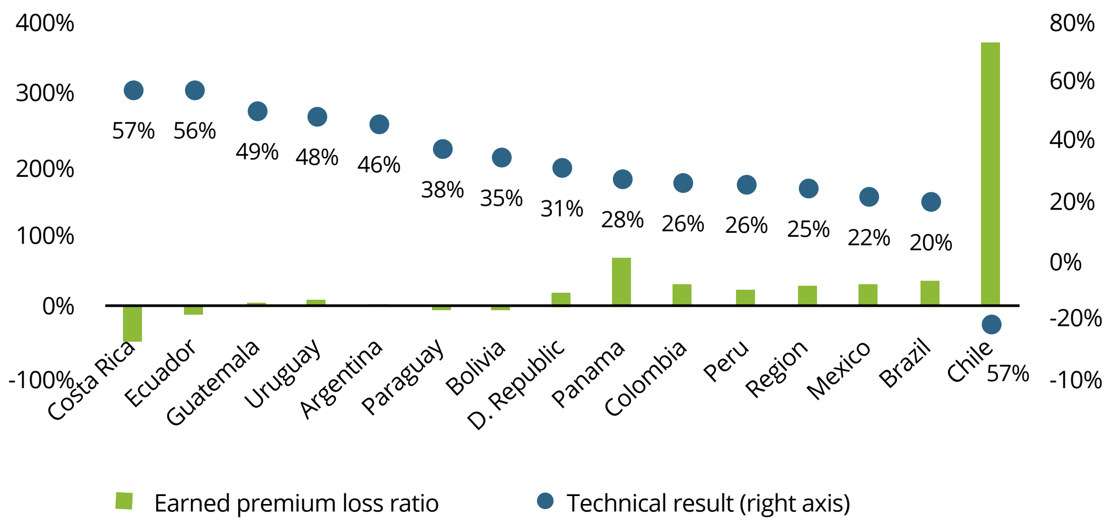
LAC: Surety Loss Ratio and Technical Result by Year (% of Written Premiums)



Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

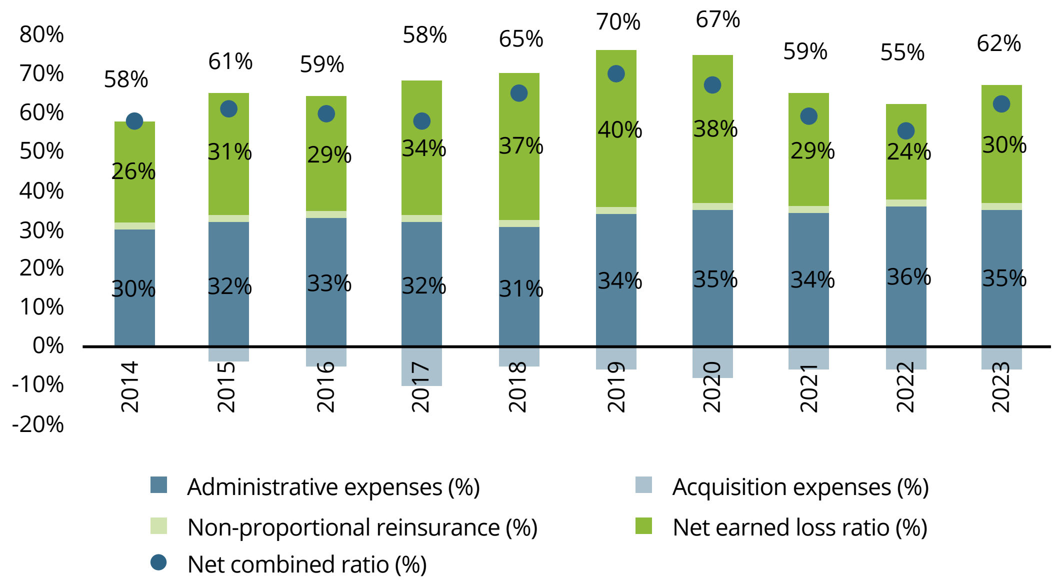
Figure 4.3.1.1- 7

LAC: Surety Earned Premium Loss Ratio by Country, 2023



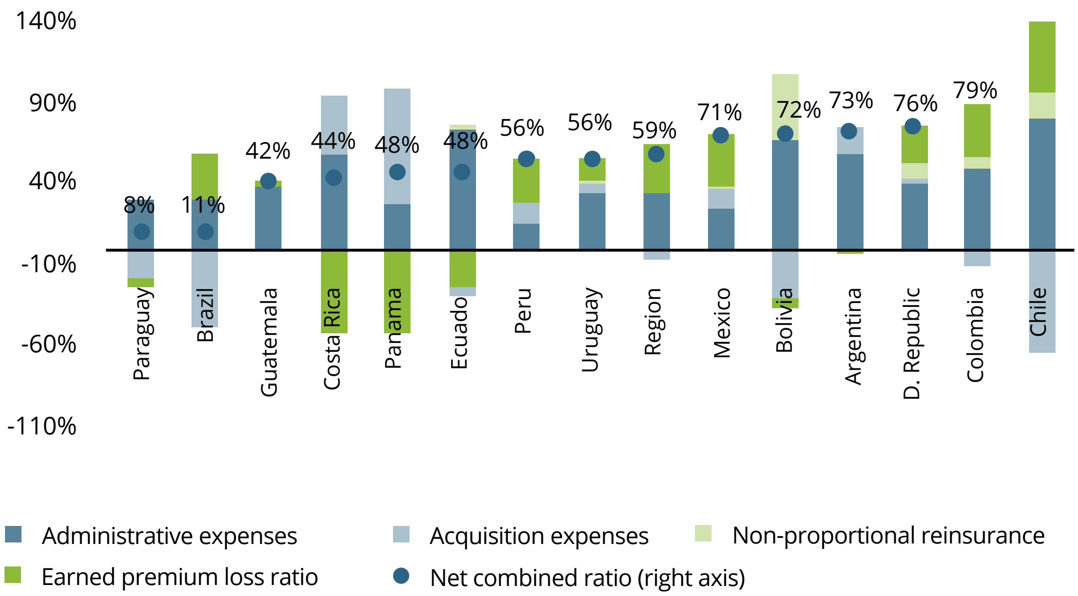
Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

Figure 4.3.1.1- 8
LAC: Surety Net Combined Ratio by Year



Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

Figure 4.3.1.1- 9
LAC: Surety Net Combined Ratio by Country, 2023*



Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

Ceded surety premiums in LAC have remained relatively stable in recent years, suggesting the presence of a mature and consolidated reinsurance market, despite substantial variation across countries. Over the past decade, surety loss ratio has hovered around 60%, and ceded premiums—after rising between 2014 and 2017—have stabilized at approximately 60% of total premiums at the regional level. In 2023, Bolivia (32%) and Uruguay (33%) reported the lowest ceded-premium ratios, while most countries remained within the 50–60% range. By contrast, Brazil (77%) and Chile (79%) exhibited the highest levels of reliance on reinsurance. The persistently high and stable cession levels across LAC signal a mature risk-transfer structure, while the particularly elevated ratios in Brazil and Chile indicate a strong dependence on reinsurance to manage the scale and complexity of their surety portfolios.

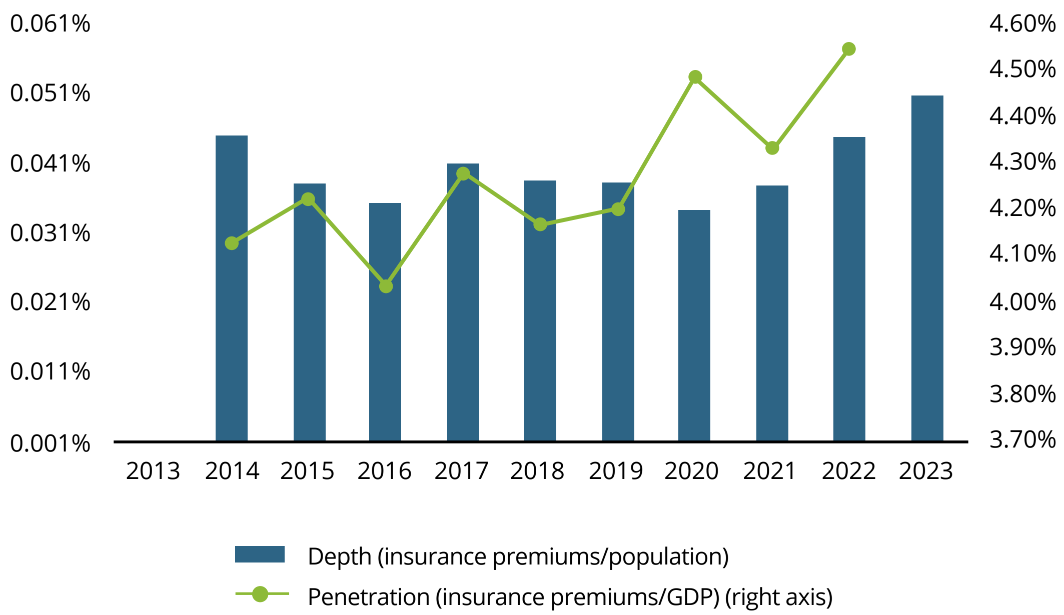
Despite the diversity of surety products across the region, market competitiveness remains moderate and concentrated, primarily among local firms. There is substantial space for new entrants to enhance market efficiency and broaden product availability. Highly concentrated surety markets prevail in Costa Rica, Nicaragua, Bolivia, Ecuador, and Uruguay, whereas Chile, Paraguay, Colombia, El Salvador, Panama, Peru, Puerto Rico, Guatemala, and Mexico exhibit moderate concentration. The most competitive surety markets are found in Argentina, Brazil, and the Dominican Republic. Local insurers held 55% of the market share in 2023, a slight decrease compared to the previous year, reflecting the growing presence of global and regional insurers among the region's 403 active insurance groups. On average, each group generated USD 8.1 million in premiums.

Overall, LAC's surety market shows stagnant but heterogeneous development, with clear growth potential in several countries. Between 2014 and 2022, regional market penetration grew modestly from 4.13% to 4.54%, while market depth increased from 0.44% to 0.50%, indicating limited but steady gains in per-capita premium volumes and product uptake. Panama leads the region with the highest penetration (0.17%) and depth (3.2%), followed by Puerto Rico with a depth of 3.8%. At the lower end, Venezuela and Costa Rica exhibit penetration rates of only 0.01%, with negligible depth. Mid-range performers, such as Colombia (0.12% penetration; 0.8% depth) and Uruguay (0.06% penetration; 1.3% depth), illustrate the sector's uneven development and underscore the role of economic, institutional, and regulatory conditions in shaping market performance.

In 2024, all countries offered contract bonds, though coverage scope and policy terminology vary. A review of 444 surety products across 63 insurers in 17 LAC countries reveals a diverse and expanding market (Box 1). Some countries offer specialized bonds for public utilities or state-owned enterprises, and non-contract bonds—including customs, tax, judicial, and lease bonds—are also common. Nevertheless, despite this increasing product diversity, the regional market remains primarily oriented toward surety for public works, driven by the dominance of government procurement and infrastructure contracting in the market.

Figure 4.3.1.1- 10

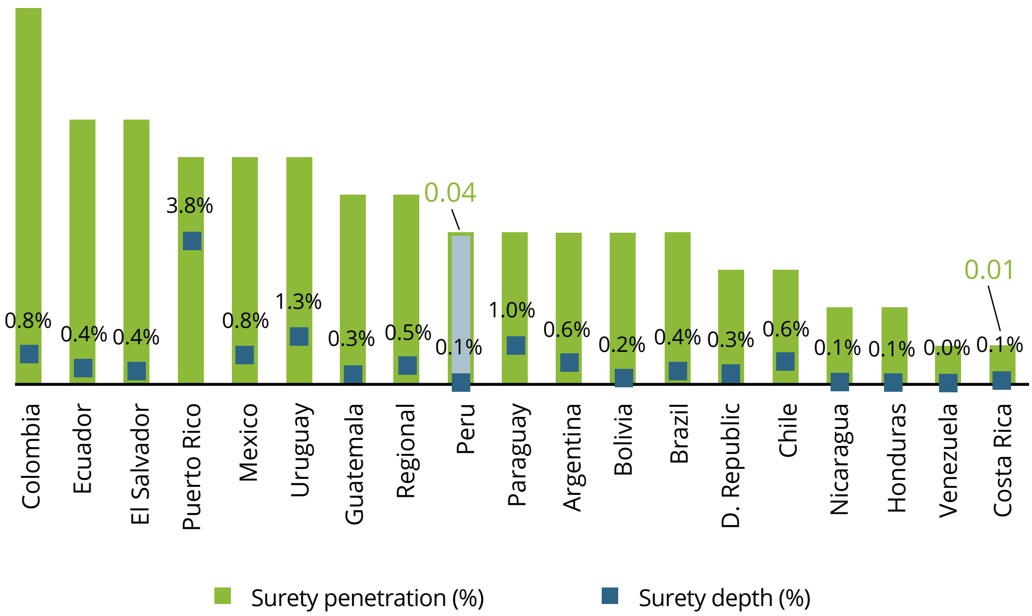
LAC: Surety-Penetration and Depth by year



Source: Author's calculations based on data from World Bank (2024) and Latinoinsurance (2024). World Bank figures refer to the total population, while Latinoinsurance data represent cumulative values for surety from January to September 2023.

Figure 4.3.1.1- 11

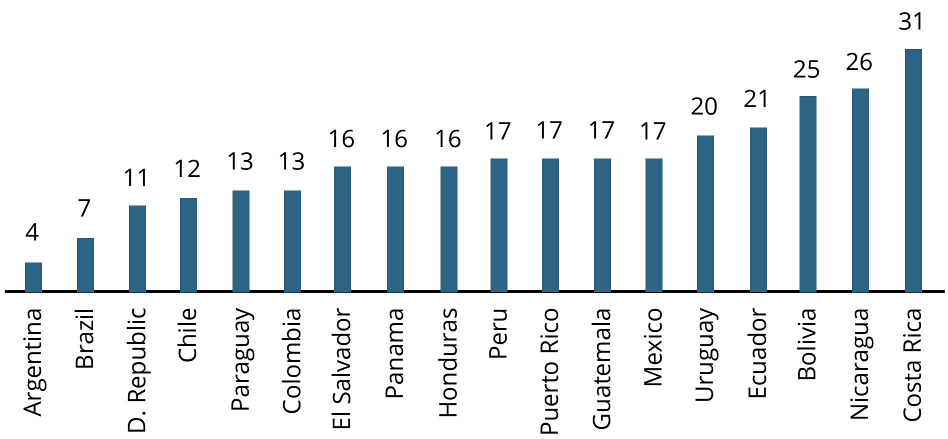
LAC: Surety Penetration and Depth by Country, 2023* (Percentage)



Source: Author's calculations based on data from World Bank (2024) and Latinoinsurance (2024). World Bank figures refer to the total population, while Latinoinsurance data represent cumulative values for surety from January to September 2023.

Figure 4.3.1.1- 12

LAC: Surety Herfindahl-Hirschman Index by Country, 2023*



Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

Overview of Surety Insurance Products in Latin America and the Caribbean

Surety bonds represent a critical financial instrument for enhancing contractual compliance, protecting public resources, and promoting investment in infrastructure and economic activity. Surety insurance in LAC is broadly divided into two main categories: contract bonds and non-contract or commercial surety bonds. Contract bonds are designed to support the performance of construction and service contracts, offering financial security for public or private entities when engaging contractors. This group includes bid bonds, performance bonds, and maintenance bonds, among others. In contrast, commercial surety bonds cater to legal, administrative, and regulatory obligations, covering areas including tax compliance, customs duties, court-related guarantees, and licenses.

This overview covers 444 surety products from 63 insurers across 17 Latin American and Caribbean countries, including Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. In each country, between 5 and 15 insurers with significant market share were selected, collectively representing about 60% of the regional surety market.

- **Contract Bonds**

  Contract bonds dominate the surety landscape. All 17 reviewed countries offer contract bonds, covering both public and private sectors, though product names and coverage may differ. Contract bonds are commonly used for government contracts, with some nations providing specialized products for public utility companies and state-owned businesses, such as Colombia's Ecopetrol and Peru's MiVivienda Fund. Contract bonds include bid bonds, performance bonds, advance payment bonds, investment bonds, and maintenance bonds, with a periodic maintenance bond offered by 27 insurers, mainly in Colombia and Argentina. Additional bonds, for example, service-only performance bonds, are offered in Argentina, Brazil, and Peru, while payment bonds for suppliers are available in Nicaragua and Paraguay. Finally, some insurers offer comprehensive products without specifying bond types, a common practice in Colombia, Argentina, and Panama.

- **Non-Contract Bonds/Commercial Surety**

  Non-contract surety products show greater variability and less widespread adoption. Customs bonds are widespread and offered by 49% of LAC insurers. Tax bonds are available in Argentina, Mexico, and Panama, while Colombia categorizes them under legal provisions, including licenses and permits. Judicial bonds are available through 44 insurers, especially in Colombia, Ecuador, and Bolivia. Lease bonds are provided in Colombia, Chile, and Mexico, while environmental bonds are unique to El Salvador and Argentina. Fidelity bonds, offered for both private and public sectors, are particularly common in Mexico and Colombia.

On the other hand, specialized commercial surety products include Chile's Green Sale bonds, which insure off-plan housing buyers, and Uruguay's Advance of Manufacture insurance, covering pre-delivery payments. Chile also offers a guarantee allowing for the substitution of withheld amounts related to obligations with the Ministry of Public Works.

Surety Insurance Products in Latin America and the Caribbean

Surety products by country			Argentina	Bolivia	Brazil	Chile	Colombia	Costa Rica	Cuba	Ecuador	El Salvador	Guatemala	Honduras	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay	Venezuela
Surety insurance			✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
1.1	**Contract bonds**		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	1.1.1	Bid bond	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	1.1.2	Performance bond	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	1.1.3	Advance payment bond			✓		✓				✓					✓			✓	
	1.1.4	Advance payment of performance and investment bond	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	1.1.5	Maintenance bond	✓	✓	✓		✓			✓	✓	✓			✓					
	1.1.6	Quality and performance bond for goods and equipment supplied	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	1.1.7	Labor and benefit payment bond					✓			✓								✓		
	1.1.8	Services bond (consultancy)	✓	✓	✓						✓		✓		✓		✓	✓		
1.2	**Non-contract bonds/commercial surety**		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	1.2.1	Bail bond, judicial bond or court bond	✓		✓		✓			✓	✓	✓	✓	✓	✓	✓			✓	✓
	1.2.2	License & permit bond	✓		✓		✓			✓	✓	✓		✓	✓	✓			✓	✓
	1.2.3	Tax bond	✓				✓					✓		✓	✓	✓				
	1.2.4	Customs bond	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	1.2.5	Fidelity bond	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	1.2.6	Lease bond (for companies)	✓		✓	✓	✓			✓	✓	✓		✓						

Surety insurance products in LAC are generally diverse and present across most countries in the region, covering a wide range of contractual and regulatory obligations. However, there remains substantial room to develop new products tailored to meet emerging market needs and sector-specific requirements. In addition, many functionally equivalent products are marketed under different names, leading to inconsistencies in terminology and regulatory interpretation. This highlights the value of advancing regional harmonization and mutual recognition frameworks to promote clarity, comparability, and greater market integration.

Box 5

Surety Regulatory Framework in Latin America and the Caribbean

The following is a general analysis of regulatory issues impacting LAC's surety sector. This analysis is based on a survey conducted by Insuralex (2023) among legal consulting firms in 15 countries in the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Paraguay, Peru, Uruguay, and Venezuela.

From a regulatory perspective, surety bonds are authorized in all LAC countries analyzed. In fact, they are mandatory in public procurement frameworks, especially in construction and infrastructure. However, significant variation exists in regulatory architecture:

- **Licensing requirements differ—some jurisdictions** (e.g., Guatemala and Colombia) require additional authorizations and capital thresholds for insurers offering surety products.
- **Contractual freedom** is conditional or restricted in several countries. In Colombia, Ecuador, and Paraguay, bond terms are standardized and non-negotiable, limiting flexibility.
- **Bond revocability** is regulated differently: While some countries allow unilateral revocation under certain conditions, others (Brazil, Chile, and Panama) strictly prohibit it to protect continuity in contractual obligations.

- **Counter guarantees** are widely permitted, enabling insurers to manage risk through collateral mechanisms.
- **No jurisdiction imposes** statutory limits on coverage amounts, allowing for market-based pricing and scalability according to project risk.
- **A minority of countries** (e.g., Argentina and Panama) empower public authorities to disqualify insurers in cases of misconduct or when this is deemed to be in the state's best interest—raising potential concerns about regulatory discretion.

Surety Regulatory Framework in LAC

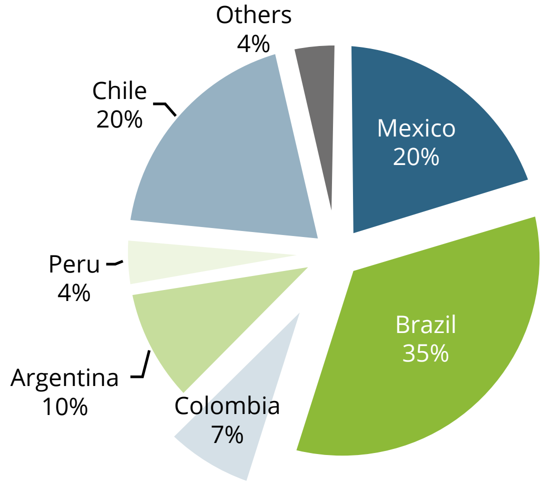
Characteristics	Argentina	Bolivia	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	Ecuador	Guatemala	Mexico	Panama	Paraguay	Peru	Uruguay	Venezuela
Regulatory Authority	Argentine Insurance Regulator (SSN)	Authority for the Supervision and Control of Pensions and Insurandce	Superintendence of Private Insurance (SUSEP)	Financial Market Commission (CMF)	Financial Superintendence (SFC)	General Insurance Superintendence	Insurance Superintendence	Financial Policy Board	Superintendence of Banks	National Insurance and Surety Commission (CNSF)	Superintendence of Insurance and Reinsurance	(Superintendent of Insurance	(Superintendence of Banking, Insurance, AFP) SBS	Superintendence of the Financial System (SSF)	Superintendence of Insurence Activity (SUDEASEG)
Insurers offer surety bonds	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Additional license/authorization required	Yes		No		Yes		No	Yes	Yes	No		No	No	Yes	No
Mandatory surety bonds for government contracts	Conditional Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Contractual freedom for surety bonds	Yes	Conditional Yes	Yes		No	Conditional Yes	Conditional Yes	No	Yes	No	Conditional Yes	No	Conditional Yes	Conditional Yes	No
Insurers request counter-guarantees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Insurers revoke surety bonds	Yes	Conditional Yes	No	No	No	Conditional Yes	Conditional Yes	No	Yes	No	No	Yes	Conditional Yes	No	No
State limits on surety bond coverage	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
State disqualification from surety bonds	Yes		No	No	No	No	No	Yes	No	Yes	Yes	Yes	No	No	No

In summary, while certain practices are common across countries, such as the requirement for surety bonds in government contracts, the choice by insurers to request counter-guarantees, and the absence of state-imposed limits on surety bond coverage, various countries feature exceptions and specific requirements regarding additional licensing, contractual freedom, and state disqualification practices.

4.3.1.2 Credit Insurance Overview for LAC

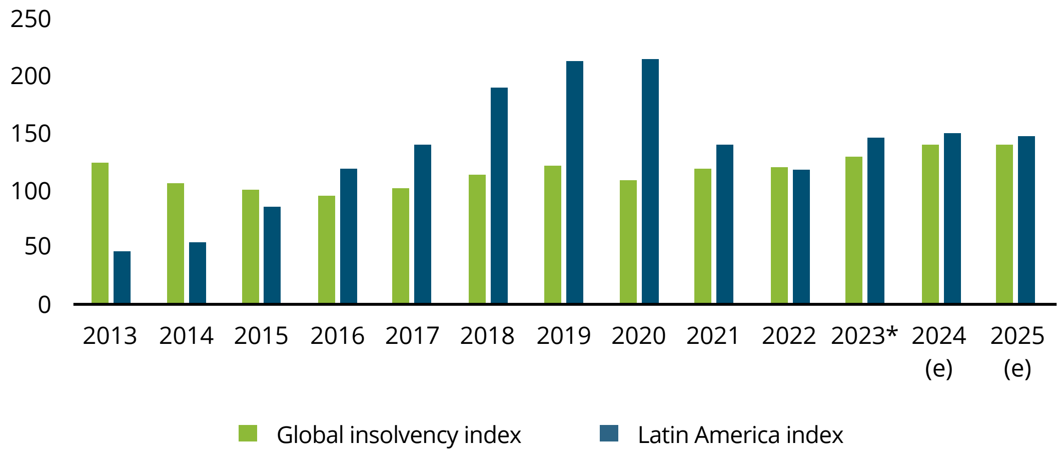
Credit insurance (CI) is essential for economic resilience in LAC, with Brazil, Chile, and Mexico leading the market to support trade stability against insolvency risks. In 2023, the CI industry in LAC reached USD 541.6 million in premiums, led by Brazil, Chile, and Mexico, representing 75% of the regional market. In the region, CI boosts trade and investment by protecting against economic volatility. This is especially relevant in LAC's unstable economic environment, where insolvency and default risks are significant. According to Allianz, since 2016, the LAC insolvency index has consistently surpassed the global average (Allianz, 2020, 2024). The insolvency index was projected to remain high—similar to 2023 levels—throughout 2024 and 2025, signaling continued economic challenges for the region.

Figure 4.3.1.2- 1
LAC: CI Market Share, 2023
(USD Millions)



Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

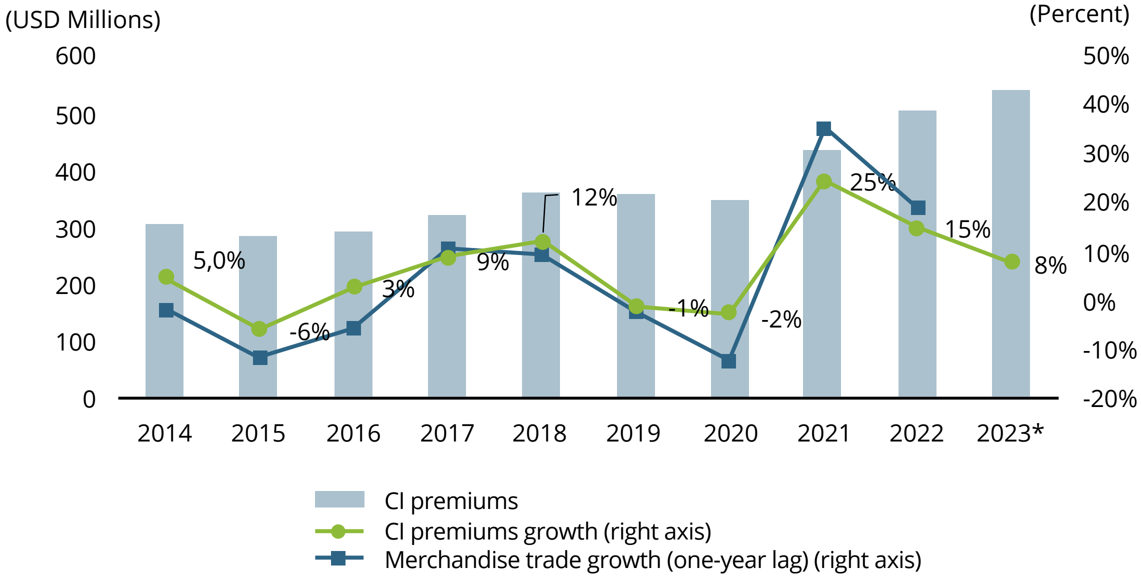
Figure 4.3.1.2- 2
Global and LAC Insolvency Index by Year



Source: Allianz (2020, 2024) .

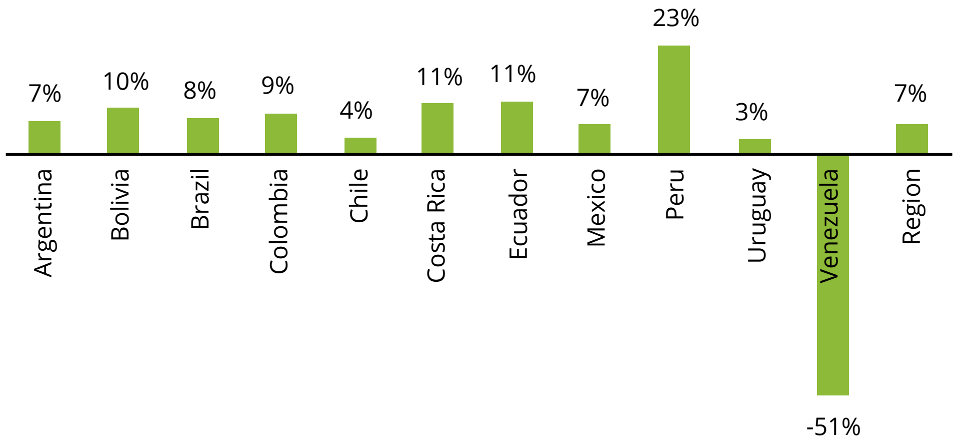
The CI sector in Latin America has grown steadily, driven by post-pandemic economic recovery and trade. Over the past decade, CI in Latin America has expanded significantly in most countries, despite periodic fluctuations due to regional trade dynamics. This trend included a 6% contraction in 2015, a strong 25% rebound in 2021, and steadier growth in the following years as economies stabilized following the pandemic. During the last decade, the region's average annual growth of CI premiums reached 6.8%, outpacing the regional GDP growth of 2.2%. Said growth in CI premiums was driven by economic recovery, trade increase, and the focus on credit risk management. By country, Peru led CI premium growth over the past decade with an increase of 22.8%, followed by Ecuador at 11.0%, and Costa Rica at 10.5%. Conversely, Venezuela featured a severe decline, with CI premiums dropping by 50.9% due to local economic challenges.

Figure 4.3.1.2- 3
LAC: CI Premium Growth vs Merchandise Trade Growth by Year



Source: Author's calculations based on data from World Trade Organization (2024) and Latinoinsurance (2024). WTO data refer to merchandise trade growth, while Latinoinsurance data represent cumulative values for surety from January to September 2023.

Figure 4.3.1.2- 4
LAC: Average CI Premium Growth by Country (2014-2023) (Percentage)



Source: Author's calculations based on data from Latinoinsurance (2024).

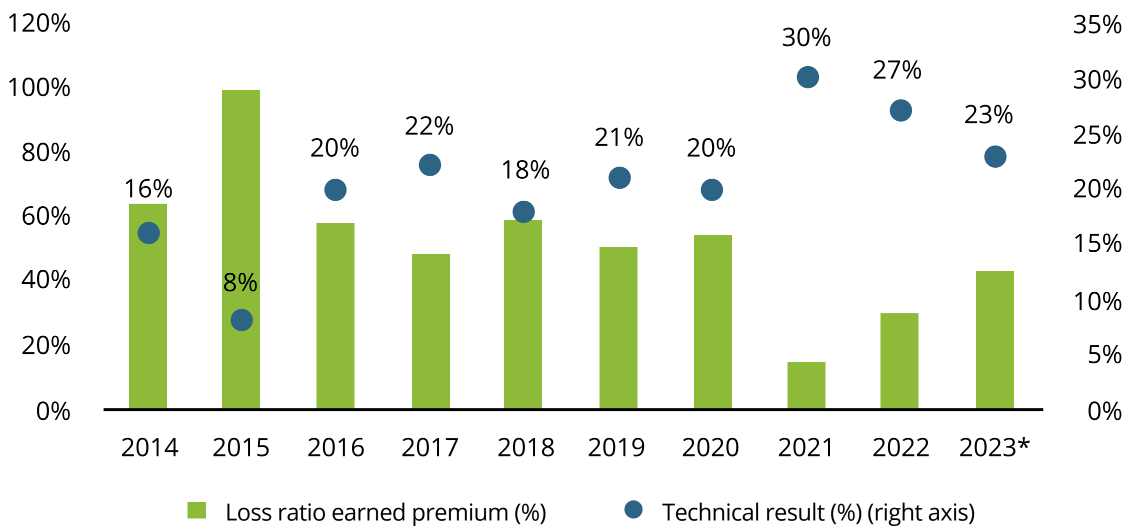
The credit insurance industry in LAC has grown strongly, yet it continued to hold the smallest global market share in 2022. According to the Swiss Re Institute (2023b), the EMEA region (Europe, the Middle East, and Africa) dominated the global market in 2022, with total premiums reaching USD 8.22 billion, significantly exceeding other regions. Asia followed with premiums totaling USD 3.65 billion, while North America ranked third with USD 1.57 billion. Latin America remained the smallest market, with premiums amounting to USD 595 million.

Over the past decade, regional credit insurance growth has closely tracked trade flow patterns, showing a positive correlation. From 2014 to 2022, trade flow growth has driven credit insurance demand. However, this demand becomes effective only in the following year (a one-year lag), due to annual policy renewals and insurers adjusting coverage based on previous loss events (the correlation between CI premium growth and trade flow growth was 0.97). This relationship underscores the essential role of CI in supporting trade by reducing buyer default risk and promoting market stability.

As in the Latin American and Caribbean surety industry, credit insurance has achieved strong profitability without relying solely on investment returns. After a very challenging year in 2015—with a technical result of 8% only and a high loss ratio of 99%—the industry reached a peak technical result of 30% in 2021, supported by a steady decline in loss ratio, which dropped to 15% that year. By 2023, the technical result decreased to 23%, down from 27% in 2022. The steady progress since 2016 highlights increased adoption of effective risk mitigation strategies, as well as operational optimization within the region's credit insurance market.

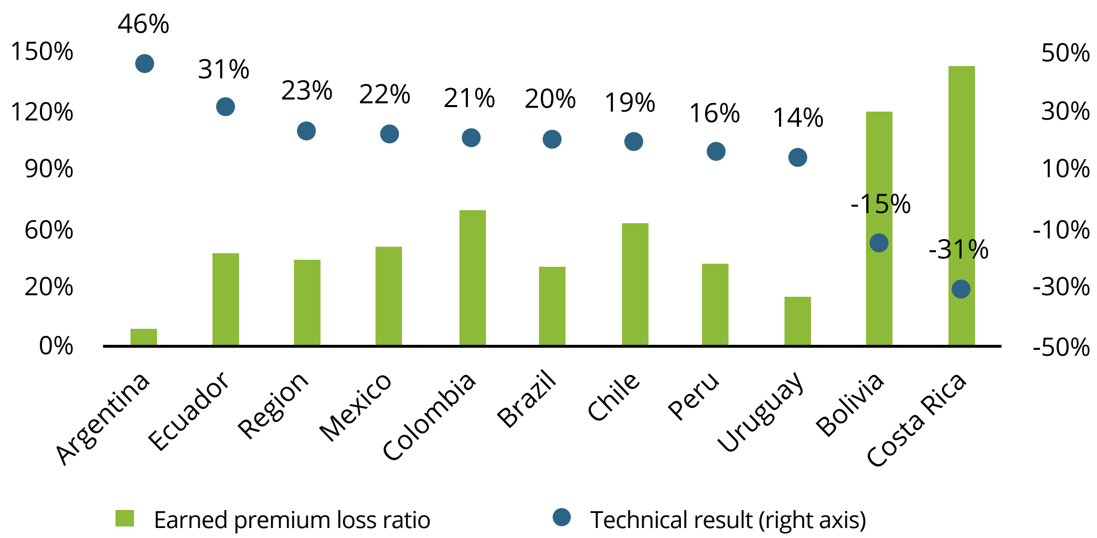
Credit insurance profitability in Latin America in 2023 varies significantly across countries. Argentina leads, with a high technical result and low claims, implying strong profitability. Ecuador and the regional average show a balanced performance with moderate technical results and loss ratios. Mexico and Colombia have similar technical results, but Colombia experiences higher claims. Brazil and Chile exhibit reasonable technical results, with Brazil demonstrating stronger claims management. Peru and Uruguay report lower technical results but maintain relatively low loss ratios. In contrast, Bolivia and Costa Rica face significant challenges, with negative technical results and high loss ratios.

Figure 4.3.1.2- 5
LAC: CI Loss Ratio and Technical Result by Year (% of Written Premiums)



Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

Figure 4.3.1.2- 6
LAC: CI Technical Result vs Earned Premium Loss Ratio by Country, 2023



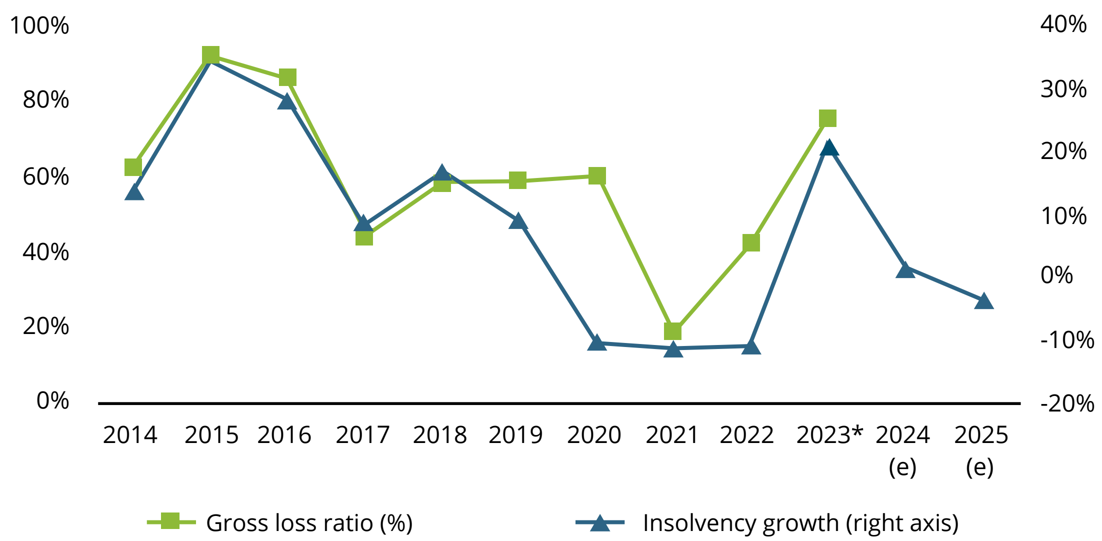
Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

Given its cyclical nature, CI premium and loss ratios are strongly linked to economic cycles, particularly to trade flows and insolvency rates. From 2014 to 2016, insolvency growth peaked in 2015, associated with a peak in gross loss ratios. In contrast, from 2017 to 2019, declining insolvency rates were accompanied by a reduction in gross loss ratios. For 2023, the expected economic recovery suggests a further increase in gross loss ratio, reflecting an expected increase in claims (during this period, gross loss ratio and insolvency growth show a correlation of 0.84). Insurers actively monitor corporate cash flows and early warning indicators to manage risk effectively. Insolvency levels were expected to remain high in 2024 and 2025, close to 2023 levels, signaling ongoing economic challenges in the region.

During recent economic downturns, such as the COVID-19 pandemic, CI showed resilience. During the COVID-19 pandemic (2020-2022), the region's governments implemented policies aimed at controlling insolvency, cushioning the economic impact on insured companies. However, gross loss ratios remained relatively high in 2020 due to a delayed adjustment of insurers to these policies, with a peak in claims resulting from the initial shock. In 2021, loss ratios declined substantially, signaling both stronger adaptation to government interventions and changes in bankruptcy laws, which helped control insolvency growth. By 2022, as government support was gradually withdrawn, insolvency growth rose, leading to a higher gross loss ratio.

Figure 4.3.1.2- 7

LAC: CI Gross Loss Ratio vs Insolvency Growth by Year



Source: Author's calculations based on Allianz (2020) & (2024) and Latinoinsurance (2024). Allianz refer to Insolvency, while Latinoinsurance data represent cumulative values for Surety from January to September 2023.

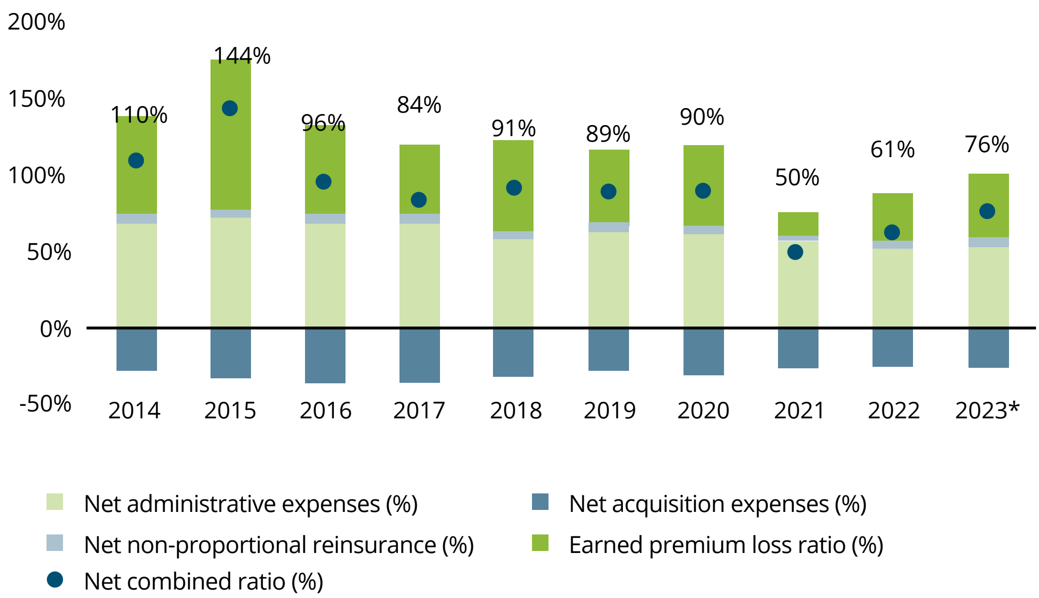
The CI industry in LAC has improved in recovery and efficiency over the past decade, though high combined ratios remain a key challenge. The net combined ratio, which peaked at 144% in 2015, significantly improved to 50% in 2021, pointing to gains in profitability and operational efficiency. However, by 2023, it had increased to 78%, highlighting ongoing challenges for the industry.

The net earned loss ratio has remained volatile, averaging around 50% in the last decade, except for 2015—when it declined to 15%—revealing substantial claim management difficulties.

Persistently high loss ratios in CI have led to a steady reliance on ceded premiums of around 70% throughout the past decade. The sustained use of reinsurance reflects the industry's strategy to mitigate underwriting risk and stabilize financial performance amid claims exposure. Insurers have prioritized risk transfer to manage volatility and alleviate balance sheet strain, underscoring the critical role of reinsurance in supporting solvency and operational resilience within the credit insurance market.

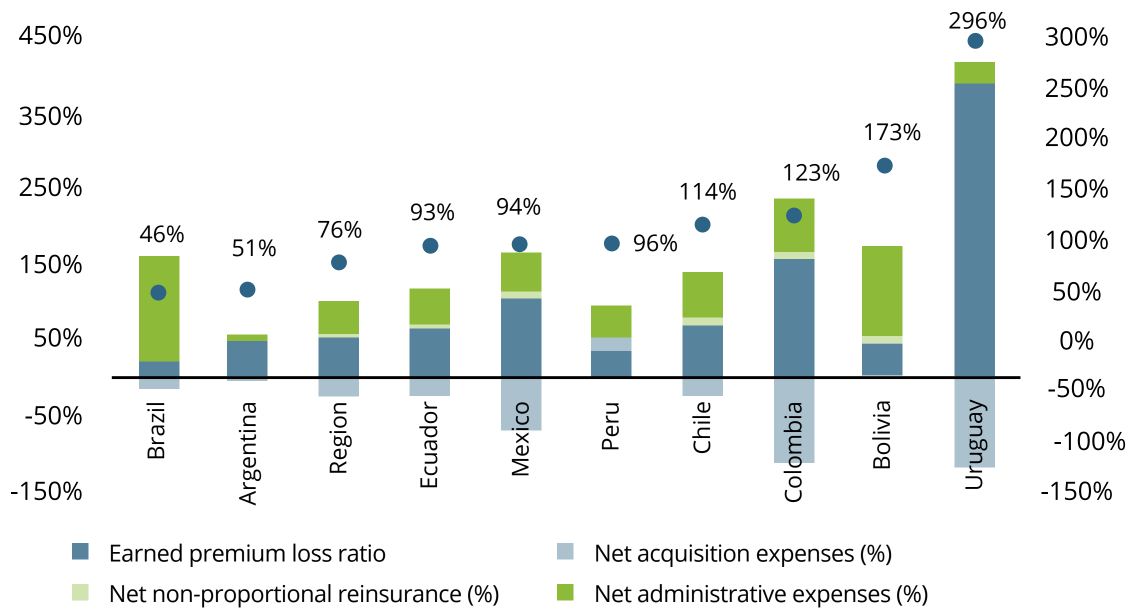
Performance across LAC countries in CI during 2023 was mixed, with some markets benefiting from cost efficiency while others faced high operational expenses. In 2023, Brazil and Argentina performed well, with Brazil benefiting from low management costs and negative acquisition expenses, while Argentina profited from low acquisition expenses. Conversely, Mexico and Peru experienced high operational costs, though Mexico partially mitigated these effects through efficient acquisition cost recovery. Chile and Colombia struggled with high management costs and high combined ratios, while Bolivia and Uruguay were subject to severe financial pressure due to the same reason.

Figure 4.3.1.2- 8
LAC: CI Net Combined Ratio by Year



Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

Figure 4.3.1.2- 9
LAC: CI Net Combined Ratio by Country, 2023*

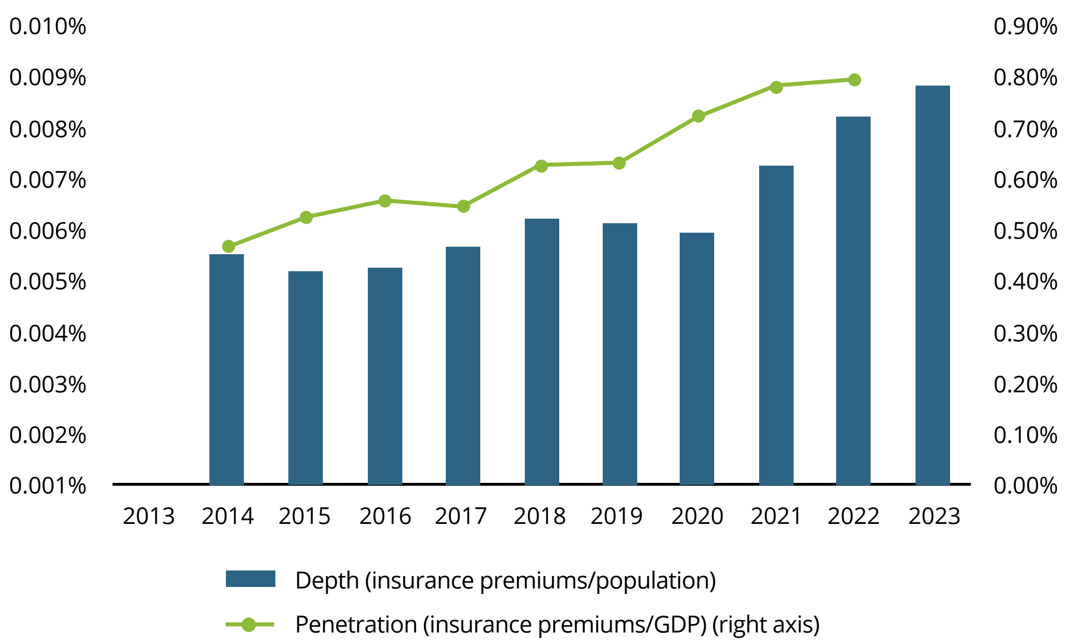


Source: Author's calculations based on data from Latinoinsurance (2024). *Cumulative value from January to September 2023.

The CI market in LAC is both fragmented and concentrated, with 44 insurance groups operating in the region, with the top 10 insurers' market share reaching over 60% of total premiums. Brazil leads in terms of the number of insurers, with seven, and also records a high average premium per company of USD 26,822, reflecting strong market presence and high-value transactions. Mexico follows, also with seven companies, with average premiums of USD 15,699, while Chile has six companies, with average premiums of USD 6,864. Despite having only three companies, Colombia records the highest premiums per company, at USD 35,942, suggesting significant market activity concentrated in a limited number of high-value transactions. International insurers dominate LAC's CI market, reaching a staggering 83% market share in 2022 and expanding to 85% in 2023. This high concentration among a few major players underscores opportunities to increase competition and foster innovation to better serve the region's diverse business needs.

Over the past decade, CI in LAC has shown steady growth in both penetration and depth; as a result, by 2024, all countries in the region offered credit insurance products. CI adoption has expanded steadily, with penetration increasing from 0.00468% in 2014 to 0.00794% in 2022. Similarly, CI depth rose from 0.005% to 0.008%, indicating a gradual increase in per capita premium volumes and broader access to credit risk protection. Moreover, a survey of 63 insurers across 17 countries reveals a diverse and growing portfolio of credit insurance products available in the region. Approximately 80% of these insurers provide coverage for both national and international commercial transactions. This trend underscores the expanding strategic relevance of credit insurance in LAC, reflecting not only the market's maturation but also a regional commitment to strengthening financial resilience and credit risk management practices.

Figure 4.3.1.2- 10
LAC: CI Penetration and Depth by Year



Source: Author's calculations based on data from World Bank (2024) and Latinoinsurance (2024). World Bank figures refer to the total population, while Latinoinsurance data represent cumulative values for surety from January to September 2023.

4.3.2 Challenges and Opportunities for Surety and Credit Insurance

The surety and CI sectors in LAC face a dynamic operating context marked by both persistent structural limitations and emerging opportunities for transformation. Despite their strategic relevance in supporting contractual performance and trade finance, these lines remain underdeveloped. Key challenges include limited product penetration, high operational costs, fragmented regulatory environments, and low public awareness. At the same time, the region presents promising conditions for innovation, driven by digitalization, infrastructure development, and trade reconfiguration. This section analyzes critical dimensions shaping the future of the sector, including the shift toward client-centered and ecosystem-based models, digital transformation and operational efficiency, regulatory harmonization, and strategies for expanding market reach and product diversification.

4.3.2.1 Innovation and Client-Centered Models in Insurance

The rapid emergence of more agile insurtech competitors is driving the LAC insurance industry—including surety and CI—to rethink traditional business models. Insurers are increasingly under pressure to adopt ecosystem-based and client-centered approaches that move beyond conventional coverage structures. Mirroring trends in the banking sector, companies are pursuing strategic alliances and building integrated service networks that address a broader spectrum of client needs. These models benefit from process automation and interoperability under open finance frameworks, which reduce transaction costs and improve access to insurance products.

Product diversification is a central component of this shift. In the surety sector, the development of non-contractual bonds, such as customs, tax, leasing, and judicial bonds, has expanded opportunities for market growth and reduced dependence on public works contracts. The customization of surety products for state-owned enterprises and large corporations, as observed in Colombia and Peru, further illustrates the potential for expanding into specialized market segments. In credit insurance, penetration among SMEs remains low due to scale limitations, but digital solutions now make it possible to design simplified and affordable solutions tailored to their needs.

4.3.2.2 Operational Efficiency Improvements through Digital Transformation

Historically, insurers in LAC have relied heavily on investment returns—supported by high interest rates—rather than operational efficiency. This reliance is risky: Prolonged periods of declining interest rates could threaten profitability, especially in segments with high loss ratios and high operational costs. Consequently, credit and surety insurers should focus on improving efficiency and strengthening overall operational performance.

Enhancing underwriting and policy administration is particularly important. Surety portfolios in LAC are heavily concentrated in public infrastructure contracts, creating exposure to a small number of contractors and amplifying the impact of adverse events. Although claims are infrequent, losses can be severe when they occur, requiring insurers to keep substantial reserves. The long-tail nature of surety claims—often taking years to resolve—compounds these challenges and complicates financial planning (Mayorga, 2016). To remain competitive, insurers must reinforce underwriting standards as well as legal and risk management capabilities to better manage these timing mismatches and mitigate financial volatility.

The adoption of centralized information systems is essential for efficient underwriting in both credit and surety insurance. Platforms that consolidate financial and commercial data on insured firms allow insurers to more accurately assess buyer or contractor risk. Colombia's SISCONC system, operated by Fasecolda, is a strong example: It provides granular information on contract performance and compliance, enabling insurers to enhance underwriting decisions and strengthen risk management. Advances in digitalization and AI-driven analytics further improve these capabilities by supporting real-time decision-making. For instance, in credit insurance, AI tools can automate credit limit adjustments based on observed behavioral patterns. However, regulatory hurdles continue to limit full adoption of digital technologies, both globally and within LAC.

Cost inefficiency remains a major challenge. Operational expenses for Latin American insurers are nearly double those of their European peers, eroding profitability—specifically in the surety business. While operational costs in credit insurance have remained high over the past decade, costs in surety have increased significantly. Addressing this trend requires rapid implementation of cost-management strategies, including broader digitalization and automation. Client-centric digital platforms that streamline policy issuance, updates, cancellations, and personalized product recommendations can substantially improve operational efficiency and customer experience.

4.3.2.3 Regulatory Challenges and Product Standardization in Surety Insurance

Regulatory fragmentation remains a significant obstacle for the surety market in LAC. Despite a diverse and competitive product landscape, substantial differences in national regulatory frameworks hinder the development of standardized products, in particular in sectors like construction and infrastructure, where contract bonds support high-value projects. Lack of harmonized terminology, inconsistent coverage definitions, and country-specific licensing requirements—including those seen in Mexico, Argentina, and Colombia—add operational complexity and reduce insurers' ability to scale across borders. Moreover, contractual rigidity, such as limitations on transferring price risks or negotiating flexible supplier contracts, reduces the adaptability of surety products and weakens resilience in the face of cost fluctuations.

4.3.2.4 Enhancing Market Penetration and Product Diversity

Penetration of credit and surety insurance remains the lowest among major insurance segments in LAC, largely due to limited awareness and the perceived complexity of these products. Insufficient financial literacy makes it difficult for potential clients to fully understand the value and function of these tools. To close this gap, insurers are investing in better distributor training, improving product knowledge and advisory capacity, and empowering brokers and agents to better communicate product benefits. Furthermore, the expansion of digital distribution channels—including online quotation systems—strengthens personalization, customer engagement, and trust.

Infrastructure development and public-private partnerships (PPPs) represent key drivers of future growth for surety insurance. Countries undertaking major infrastructure expansions, notably Panama and Colombia, have already seen increasing demand for surety products associated with public investment cycles. As other LAC countries advance their infrastructure agendas, demand for contract bonds is likely to rise. PPPs play a pivotal role in this process, offering a structured mechanism for risk allocation and contract compliance and therefore reinforcing the need for surety solutions. However, the actual growth trajectory will depend on governments' ability to execute planned infrastructure projects and sustain long-term investment commitments.

Credit insurance is also poised for expansion as global trade reconfigurations reshape trade flows. Emerging supply-chain shifts have increased foreign investment in LAC, in particular in the commodity and manufacturing sectors. Improved regulatory credibility and fiscal adjustments across the region are contributing to a more stable macroeconomic environment, positioning LAC as an increasingly attractive destination for nearshoring and diversified sourcing strategies. These developments are expected to underpin sustained growth in credit insurance demand as trade and investment flows deepen.

5

COLOMBIAN CASE

COLOMBIAN CASE

5.1 Country Overview and Outlook

Colombia's economy has experienced modest performance in recent years, marked by slow GDP growth and persistent inflationary pressure. Inflation reached 13.1% in 2022, the highest level in three decades, driven largely by increases in energy and food prices. Although inflation fell to 9.28% in 2023 following the Central Bank's aggressive monetary tightening, it remained above target. In 2024, inflation eased further to 5.2%, yet still exceeded the Central Bank's 3% goal, in part due to anticipated "El Niño" effects on food and energy costs. Monetary policy gradually shifted toward easing, with the policy rate lowered from 13% in January 2024 to 9.5% by December. However, the pace of reductions slowed in 2025 (reaching 9.25% in May) amid global financial uncertainty and renewed food price risks.

Economic activity weakened significantly in 2023, when GDP grew only 0.71%, reflecting subdued private consumption and a sharp contraction in fixed investment. A modest recovery occurred in 2024, with GDP expanding 1.6%, and a firmer rebound is expected in 2025. Despite relatively stable private consumption, declines in consumer and business confidence continue to weigh on future spending and investment prospects. Investment levels remain low: from 21.3% of GDP in 2019 (pre-pandemic) to 17% in 2023, with a slight increase to 17.6% in 2024, constrained by political and regulatory uncertainty and delays in housing and infrastructure projects. Nevertheless, civil works and public infrastructure are expected to support a gradual investment recovery in 2025 (BBVA Research, 2024).

External conditions present additional challenges. Colombia keeps a strong trade relationship with the United States, although evolving U.S. trade policy under a new administration introduces uncertainty. Export performance has weakened due to declining oil and coal prices—commodities that account for roughly 50% of Colombia's exports. Limited domestic savings have contributed to a sizable external deficit, financed primarily through foreign direct investment. While the current account deficit narrowed sharply—from 6.3% of GDP in 2022 to 2.7% in 2023 and 1.8% in 2024—it is expected to widen again to 3.5% in 2025. Rising remittances will partially mitigate this deterioration. Nevertheless, Colombia's growing reliance on external financing remains a medium-term vulnerability, leaving the economy exposed to global shocks (BBVA Research, 2024).

Fiscal conditions have also deteriorated. Lower oil prices have reduced fiscal revenues amid increasing public spending. The fiscal deficit widened from 4.2% of GDP in 2023 to 6.8% in 2024, pushing the public debt ratio from 53% to 61% of GDP. Strict adherence to the fiscal rule will be essential to contain public debt financing costs and sustain investor confidence—particularly in a context of high global interest rates and tightening credit conditions (OECD, 2024).

Colombia's short- and medium-term outlook, therefore, remains challenging. Both the OECD and the IDB emphasize the need to stimulate investment, maintain fiscal discipline, and advance structural reforms to enhance productivity, resilience, and long-term growth. Managing inflation, restoring investor confidence, and sustaining fiscal responsibility will be critical as the country confronts both domestic pressures and an increasingly volatile international environment (OECD, 2024; IDB, 2024).

5.1.1 Colombian Industrial Structure

A significant share of MSMEs in Colombia—especially micro-enterprises—operate informally, severely limiting their access to formal credit markets, legal protections, and opportunities for business growth. According to EMICRON (2022), between 2019 and 2022, an estimated 88.5% of micro-businesses were not registered with a chamber of commerce, 76.8% were not registered with the tax authority (DIAN), 88.3% did not pay social security contributions for owners, and 80.3% did not pay social security contributions for workers. Such high levels of informality create a structural barrier to economic development, as informal firms are excluded from financing and support mechanisms available to formal enterprises.

Despite their informality, micro-enterprises represent the overwhelming majority of businesses registered in Colombia. Precise estimates of total firms remain difficult due to informality, yet data from Confecámaras and the Single Business Registry (RUES) indicate that, by the end of 2022, Colombia had 1,733,265 registered firms, of which 99.5% were MSMEs. Within the registered firms, 92.3% were micro-enterprises, 5.9% small firms, and 1.6% medium-sized firms, with large firms accounting for just 0.5% of the total.

The Colombian business structure is dominated by commerce and services, representing 41% and 40% of registered firms, respectively. Micro-enterprises predominate across all sectors: In manufacturing, they constitute 91% of firms (followed by 7% small firms, 2% medium-sized firms, and 1% large firms), and in services, they represent 90% of firms (with small and medium-sized firms accounting for 7% and 2%, respectively). Across the economy, micro-enterprises thus form the backbone of Colombia's productive fabric (RUES, 2021).

MSMEs also exhibit large differences in terms of maturity. Confecámaras classifies firms into Established, Young, Mature, Startup, and New. Micro-enterprises tend to be significantly younger than the average enterprise, with nearly 40% operating for less than two years, whereas most small and medium-sized enterprises have been active for more than six years, reflecting more stable organizational structures among larger firms.

Innovation activity is limited among Colombian MSMEs, specifically in manufacturing and services. Between 2017 and 2019, less than 1% of small and medium-sized enterprises were fully engaged in innovation, while 32.7% of medium-sized and 20.5% of small enterprises pursued innovation only partially. Among industrial firms, over 70% of small firms and 59.4% of medium-sized firms did not engage in any innovation activities; similar figures are observed in services, at 69.3% of small firms and 70% of medium-sized firms. Micro-enterprises report even lower rates, with 90.1% (industry) and 81.2% (services) not engaging in innovation. Innovation barriers include scarce internal resources, uncertainty about demand, a weak innovation culture, and a lack of access to external financing (IDB, 2024).

Export activity is also limited, specifically for micro-enterprises. Only 1.4% of formal Colombian firms export. Between 2010 and 2019, 22,181 Colombian firms exported goods or services, with large and medium firms dominating export volumes. Large firms accounted for 89.8% of total exports, whereas micro-enterprises contributed just 0.8%, underscoring their marginal role in international trade.

Colombian exports also show low complexity and limited integration into global value chains (GVCs). In 2019, only 1.2% of firms were exporters, and the country's Economic Complexity Index was 0.25, below the Latin American average. Exports remain heavily concentrated in commodities, with fewer than 12% incorporating imported inputs—a low share compared to more integrated economies with diversified or advanced manufacturing sectors. These indicators highlight the persistent challenges Colombian firms face in diversifying their export baskets, upgrading product sophistication, and entering higher value-added segments of global markets.

5.1.2 Market Report

Bank Credit is the primary financing source for Colombian SMEs, with the following most commonly used products: commercial credit (71.8%), overdraft (17.2%), microcredit (8.2%), and credit cards (3.5%). Among microenterprises, commercial credit is also the most widely used financing product, although only 10.4% of total commercial credit is directed toward microenterprises by the financial sector. Microcredit serves as the second most important financing source, providing crucial support for smaller businesses with limited access to traditional financing. Finally, overdrafts and credit cards are primarily used to address short-term liquidity needs, enabling micro and small businesses to manage cash flow during temporary fluctuations (IDB, 2024).

However, commercial credit remains insufficient to fully meet the financing needs of Colombian SMEs. Despite a 32% growth in the SME credit portfolio over the past five years, the funding gap remains substantial, at around 13% of GDP (SME Finance Forum, 2019[3]). Additionally, less than half of Colombian SMEs apply for loans, often discouraged by barriers such as high borrowing costs and complex application processes. These factors prevent many businesses from accessing the financial resources needed to grow.

Financing gap for SMEs in Colombia is driven by both demand- and supply-side challenges, largely stemming from information asymmetries. Many SMEs lack a formal credit history and adequate financial records, leading to credit constraints and the imposition of harsh collateral requirements, difficult to meet for small businesses. Informality among firms further exacerbates this issue, as unregistered businesses encounter even more obstacles in accessing financing. In addition, SMEs encounter burdensome paperwork, higher interest rates (in comparison to larger firms), limited awareness about financial services, low trust in the financial sector, and cultural barriers (IDB, 2024; KDI, 2022).

Given the limitations of traditional debt instruments, alternative financing options are critical for meeting the needs of Colombia's SMEs. Strengthening and developing innovative financial tools, including guarantee schemes, credit insurance products, or the use of intangible assets as collateral, is essential to close the financing gap left by conventional loans. These instruments can offer SMEs vital support to invest, innovate, and expand by improving access to credit without the stringent collateral requirements often associated with traditional loans.

Despite recent progress, state-backed guarantees remain insufficient to close the substantial credit gap experienced by Colombia's SME sector, and credit insurance schemes are still limited in their impact. Public guarantee programs, namely those provided by the National Guarantee Fund (FNG) and the Agricultural and Livestock Guarantee Fund (FAG), expanded notably in response to the pandemic, offering partial guarantees that lower lenders' risk and thus improve credit access for SMEs. However, these guarantees still fall short of demand, with micro and small businesses highly reliant on FNG and FAG for support, serving as collateral guarantors. Most commercial loans to SMEs are short-term and require collateral, with seven out of ten loans demanding it, while microloans often do not require collateral, relying on state-backed guarantees instead. This reliance on limited state-backed guarantees and the immature credit insurance sector highlights the need for more robust risk mitigation mechanisms to better support SME financing and growth.

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3 https://www.smefinanceforum.org/data-sites/msme-finance-gap

The use of intangible assets as collateral offers a promising, yet underused opportunity to improve SME's access to financing in Colombia. Although movable collateral regulation was introduced in 2013, in practice, the use of intangible assets—such as intellectual property, patents, and trademarks—as loan guarantees remains limited. This model has been successfully implemented in countries like South Korea and several European nations, demonstrating the leverage potential of intangible assets when appropriate valuation methods are established, thereby allowing innovative companies to use them effectively as collateral (KDI, 2022). Implementing similar frameworks in Colombia may open new financing pathways for SMEs, especially those in high-value, innovation-driven sectors.

5.1.3 Financial Guarantee System in Colombia

In Colombia, the guarantee and insurance markets are fundamental in advancing financial inclusion and boosting economic growth, providing credit access and risk protection to population sectors that might otherwise lack financing access due to insufficient collateral or coverage options. At the heart of this system are two major public guarantee funds: the National Guarantee Fund (FNG) and the Agricultural and Livestock Guarantee Fund (FAG), both funded by the National Government. Complementing this ecosystem is *Bancóldex*, Colombia's development bank. On the insurance side, the system comprises two public entities: Positiva[4] and La Previsora.

The FNG has been instrumental in expanding credit access, particularly for microenterprises and SMEs, by offering guarantees that reduce the lender's financial risk and promote inclusion. Since its inception in 1982, the FNG has played a crucial role in broadening financial access for independent workers, MSMEs, and larger businesses by providing partial guarantees that reduce lending risks for financial institutions. This approach provides borrowers without traditional collateral access to credit, thereby extending financial services across a broader range of economic sectors.

Over the past decade, the FNG has significantly increased the volume and value of guarantees issued through banks, primarily benefiting SMEs. The total loan value backed by the FNG guarantees grew from USD 2.3 billion in 2012 to USD 3.74 billion in 2023[5] (FNG, 2024). Coverage rates remained steady at around 50% throughout the decade, while commission rates rose from 2.3% in 2012 to 5.5% in 2022. In 2022, microenterprises received 70.1% of these guaranteed loans, while SMEs obtained 28.4%, stressing FNG's role in broadening access to microcredit. Although FNG

[4] Positiva is specialized in occupational risk and individual life insurance.

[5] Values in constant 2023 USD.

allocated quotas to both supervised and unsupervised financial institutions, 92.5% of the guaranteed value and 90.8% of total guarantees from 2012 to 2022 were concentrated in only 13 banks (IDB, 2024).

During the pandemic, the FNG's guarantee impact was countercyclical, reaching a capitalization of USD 850 million, which, jointly with the "Unidos por Colombia" program, provided essential guarantees, enabling firms to keep paying their employees and keep their production running. During 2020 and 2021, the program launched nine new guarantee lines of USD 5.35 billion and USD 5.34 billion, respectively, securing 638,286 and 350,127 loans each year, and assisting over half a million MSMEs (FNG, 2021, 2022). Despite its impact, FNG´s high fees and complex administrative procedures discourage financial intermediaries from using the guarantee quota provided by the fund.

Although initiatives have been launched to streamline processes, reduce fees, and improve risk diversification to enhance the fund's positive impact, the requirements for quota approval still do not account for differences in the type and size of intermediaries, nor the time and steps needed for guarantee formalization.

Similarly, the FAG established in 1984 supports Colombia's agricultural sector, focusing on farmers, agribusinesses, and rural enterprises that face some particular financial barriers.

The FAG reduces risk for financial institutions by providing partial guarantees, thereby encouraging banks to supply credit to agricultural businesses. From 2012 to 2022, the FAG issued an average of 264,255 guarantee certificates per year, supporting loans totaling USD 600 million, with most funds directed toward small producers (IDB, 2024). A tailored approach in guarantee design has supported Colombia's rural economy, offering the most favorable coverage rates and fees to small producers, with contractual terms gradually adjusting by credit size. For 2022, small producers received a high coverage rate of 80% of the credit amount, with a lower fee of 1.5%. Meanwhile, rural agricultural microcredit had less favorable terms, offering a 50% coverage rate and a 2.5% fee.

Besides public national-level guarantee institutions, Colombia has also developed regional mixed guarantee funds, combining public and private funds to address local financing needs more effectively.

These regional funds serve specific geographical areas, offering localized support to SMEs through partnerships between regional governments, financial institutions, and private-sector companies. By combining public funding and private expertise, mixed funds provide flexible and regionally adapted credit guarantees, a structure that is especially beneficial for local businesses that may not meet the criteria for national-level guarantees. This model facilitates targeted credit access for SMEs and enhances regional economic development by focusing on local industries and needs.

Bancóldex is Colombia's business development bank, acting as a key instrument of public policy to foster entrepreneurial growth, enhance competitiveness, and promote sustainable economic development across all regions and sectors.

In addition to supporting domestic enterprises, Bancóldex plays a strategic role in facilitating the internationalization of Colombian companies, notably by strengthening export capacity and access to global markets. The institution offers a comprehensive suite of financial and non-financial services, including direct credit lines, structured financing, leasing, investment through capital funds, and business advisory programs. Within this broader framework, guarantees represent a core risk-mitigation tool. These guarantees enable access to more favorable loan conditions; however, their reach remains constrained by institutional concentration and limited territorial coverage, underscoring the need to develop more inclusive and regionally adaptable guarantee mechanisms.

La Previsora has evolved from a state-focused insurer into a competitive provider of insurance products for both public and private sectors in Colombia.

La Previsora, established by the Colombian government in 1962, initially centered on insuring state-owned assets. In 1976, it was expanded to include group life and accident insurance for public officials, and later extended even further to cover assets owned by local governments (departments and municipalities within Colombian regions). With the economic liberalization at the beginning of the 90s and Law 45 of 1990, La Previsora entered the private insurance market, transitioning from a state-exclusive insurer to a competitive market player. Today, La Previsora offers insurance products for individuals—automobile, home, property, and compulsory civil liability insurance on car accidents—and for businesses, including agricultural, construction, performance bonds, multi-risk, property, and liability insurance. La Previsora's surety bond portfolio covers legal and financial risks across three categories: public sector management, private sector management, and fidelity and financial risks. However, despite this broad coverage, La Previsora holds less than 2% of Colombia's surety insurance market share.

5.1.4 Insurance Outlook for Colombia

Over the past decade, Colombia's insurance market has shown steady growth, aligned with the country's economic growth and an increasing demand for insurance. In 2023, total premiums reached USD 11.573 billion, marking a 30.4% increase over the decade and a 7% growth when compared to 2022. Growth was significant across both life and non-life insurance segments, with life insurance, specifically in the pension-related segment, leading the market expansion. This segment had a staggering nominal growth of 67% in 2022, largely driven by new pension policy issuances. The non-life segment also recorded solid growth, especially in automobile and transportation lines, while property and liability insurance gained traction—driven by infrastructure and real estate development—amid increased domestic demand and a post-COVID economic recovery (Fasecolda, 2024, 2024b).

However, the insurance market faces substantial challenges. In 2022, high inflation negatively affected the combined ratio, impacting loss ratios and driving up the expense ratio. Technical performance weakened further in 2023, with gross loss ratio rising to 77.9%, largely due to inflationary adjustments to mathematical reserves, particularly in pensions and workplace risk segments. The combined ratio peaked at 120.4% in 2022, indicating persistent technical difficulties. Despite these obstacles, the industry displayed resilience, achieving a 205.4% surge in profitability, driven by large investment returns (Fasecolda, 2024, 2024b).

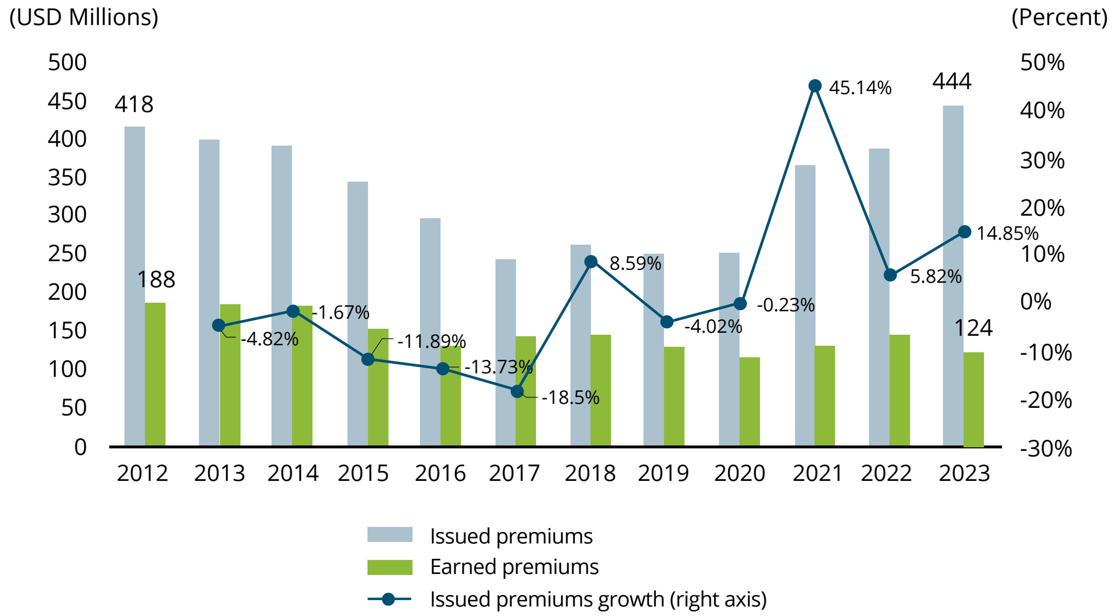
The Colombian insurance market has made notable progress in raising awareness on the importance of insuring against risk and improving key indicators, with significant opportunities for thriving in coverage. In 2023, the insurance market showed moderate concentration, with Grupo Sura as the leading player. The insurance industry moved forward in highlighting the importance of risk management and insurance instruments as a risk mitigation tool, contributing to the improvement in penetration, density, and depth. Insurance penetration reached 3.42% of GDP, and average spending per Colombian rose to USD 242. However, depth and density remain below regional averages, with opportunities for market expansion in coverage and an increase in per capita investment (Fasecolda, 2024, 2024b).

The Colombian insurance market—as the Latin American one—displays a continuous improvement, though rising costs and high loss ratios need strategic adjustments to maintain insurer profitability. In 2024, total premium growth was expected to slow down to 3.3% in real terms, following a 13% increase in 2023. This deceleration reflects the impact of inflation and economic challenges, although interest rates are expected to continue supporting investment return, specifically in the life insurance segment. Life premiums were projected to grow by 3.4% in 2024, after a near 15% increase in 2023, driven by mandatory mortgage insurance and increased risk awareness. Non-life premium growth, specifically in motor insurance, was also expected to grow less in 2024, by 3%, following substantial rate increases in 2023 driven by foreign-exchange volatility and rising auto-parts costs. As inflation eases, motor insurance growth is expected to stabilize along with claims amounts (Fasecolda, 2024, 2024b).

5.1.4.1 Surety Overview for Colombia

The Colombian surety market has displayed a resilient, yet fluctuating performance over the past decade, reflecting both economic cycles and shifts in public contracting requirements. At the start of the decade, the surety market saw a notable contraction, with a reduction in issued premiums from USD 418 million in 2012 to USD 242 million in 2017. However, this decline was followed by a strong recovery beginning in 2021, when issued premiums surged by 45.14%, reaching USD 366 million. This growth continued through 2023, with issued premiums peaking at USD 444 million. Despite this recovery in issued premiums, earned premiums have not kept pace, declining from USD 188 million in 2012 to USD 124 million in 2023, indicating slow revenue recognition across the industry.

Figure 5.1.4.1- 1
Colombia: Surety Premiums (Volume and Annual Growth)



Source: Author's calculations based on data from Fasecolda (2024b), Statistics of the Insurance and Capitalization Industry.

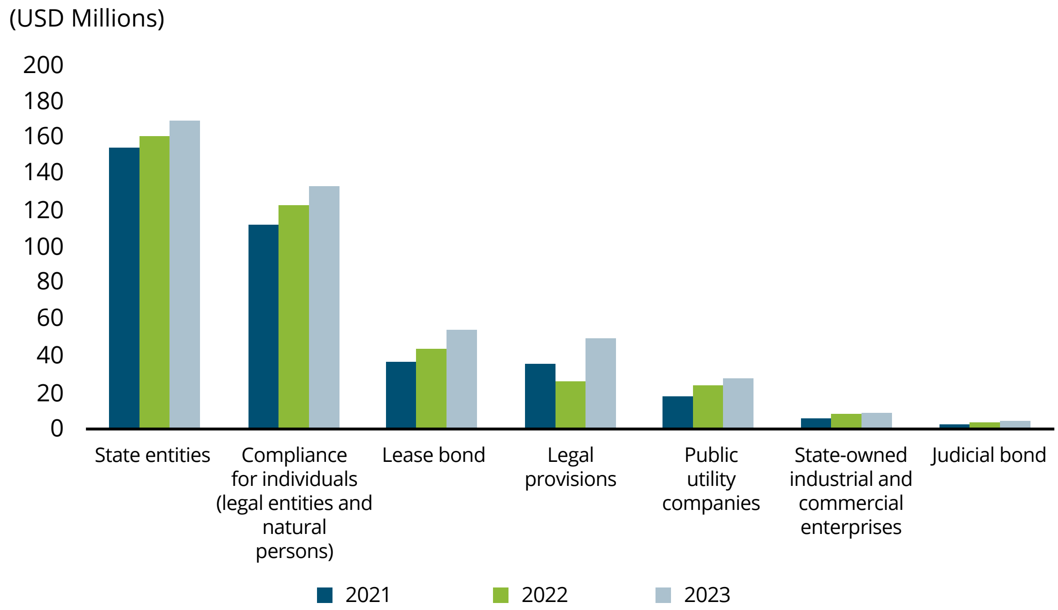
Colombia's surety market has traditionally been driven by public contracts, as government procurement processes typically mandate performance bonds to ensure compliance by contractors. However, over the past decade, the relative share of public contracts within the total surety market has declined significantly—not because public-sector demand has diminished in absolute terms, but because the issuance of surety bonds for private contracts has expanded more rapidly. In 2013, approximately 85% of surety policies were issued in connection with public contracts; by 2023, this proportion had fallen to 38% of total premiums. Nevertheless, surety remains a critical tool for public procurement, with performance bonds still required in 96% of public contracts[6].

In recent years, the largest contributors to surety premiums have been public contracts and compliance obligations for individual customers. The compliance segment had a notable increase in premiums, rising from USD 112 million in 2021 to USD 133 million in 2023. Additionally, lease bonds and legal provisions experienced substantial growth, with lease bond premiums increasing from USD 37 million to USD 54 million, and legal

[6] According to SECOP, the electronic public procurement system, 96% of government contracts have performance insurance as guarantee.

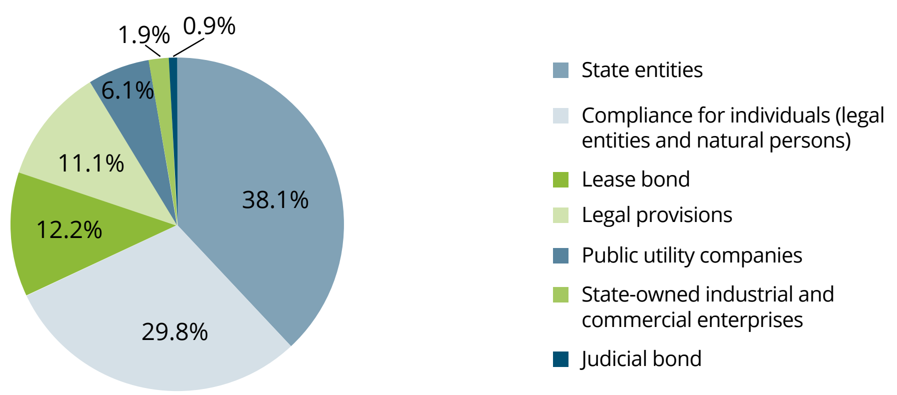
provisions rising from USD 36 million to USD 50 million during the same period. Other markets, such as public utilities sureties, and judicial bonds, recorded slower growth, while premiums from state-owned industrial and commercial firms remained stable. This behavior shows an expanding demand for surety products, especially in compliance-related bonds and private sector contracts.

Figure 5.1.4.1- 2
Colombia: Surety Premiums by Lines of Business (Volume)



Source: Author's calculations based on data from Fasecolda, (2024b), *Statistics of the Insurance and Capitalization Industry.*

Figure 5.1.4.1- 3
Colombia: Surety Premiums by Lines of Business, 2023

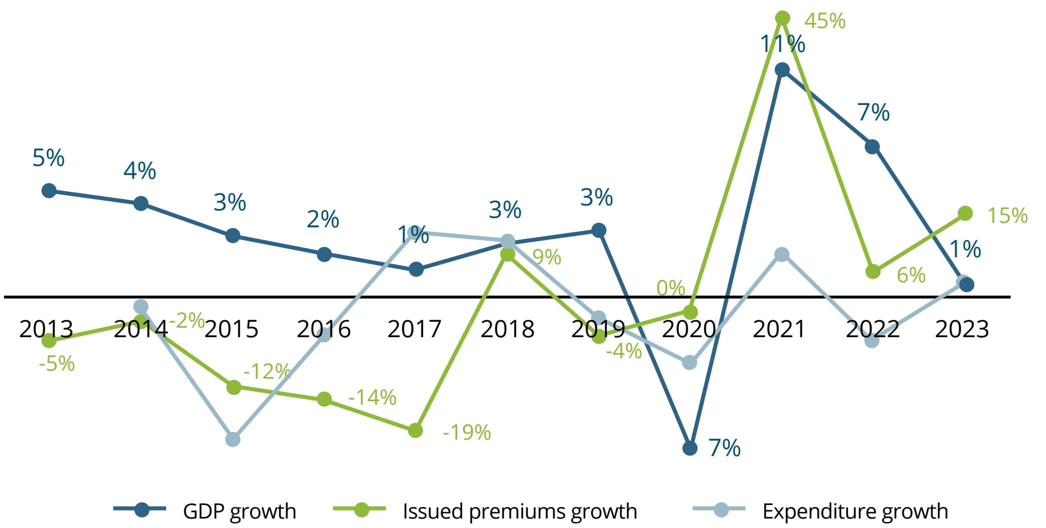


Source: Author's calculations based on data from Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry.*

Economic growth and public infrastructure spending have been key drivers of Colombia's surety market. The correlation between GDP growth and premium increase is clear, with a decrease in premiums from 2015 to 2017 corresponding to a reduction in public spending despite stable GDP growth (the correlation between GDP growth and premium growth is 0.48, while the correlation between expenditure growth and premium growth is 0.36). Between 2018 and 2019, GDP growth rebounded upwards, coming to a sudden stop in 2020 due to the COVID-19 pandemic. In 2021, the post-pandemic economic recovery coincided with a 45.14% increase in surety premiums. This period of economic recovery, combined with an increase in public infrastructure investment, boosted the surety market. Despite slower GDP growth in 2022 and 2023, premium growth remained high, reflecting the market's resilience and the continued demand for surety products, despite changing economic circumstances.

Figure 5.1.4.1- 4

Colombia: Growth of surety premiums vs GDP and public expenditure growth (%)



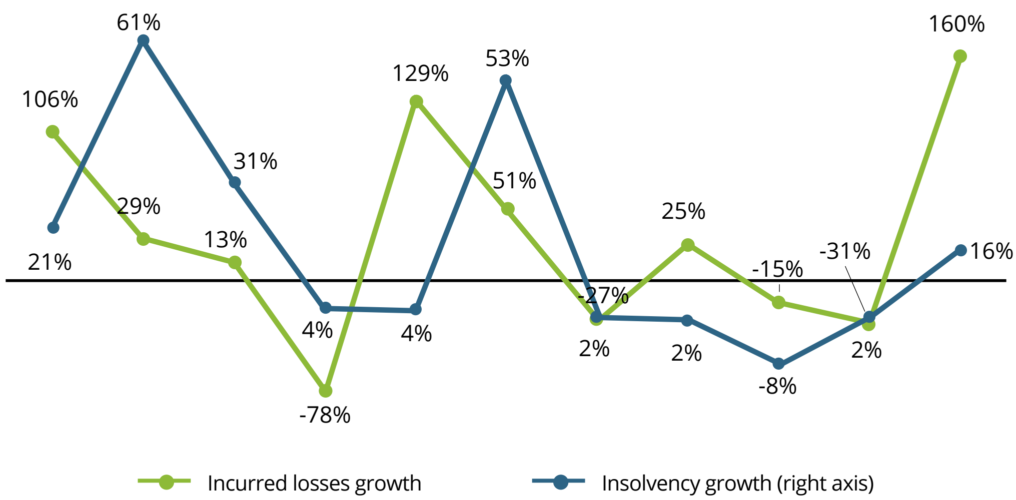
Source: Author's calculations based on data from Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry.*

Over the past decade, Colombia's surety market has experienced significant volatility in terms of profitability, resulting from economic cycles and external challenges. Between 2015 and 2019, operational profitability declined sharply, with technical results dropping by 44% in 2019 and gross loss ratio peaking at 78%. This decline was driven by an economic slowdown that affected infrastructure projects, a surge in business insolvencies, as well as rising intermediary commissions and management expenses, which increased the net combined ratio.

Although underwriting has improved in Colombia, the surety sector has faced significant challenges related to claims performance. From 2012 to 2015, gross loss ratio declined from 46% to 27%, while technical result rose to 5% of earned premiums. However, rising risk in public projects, as well as planning and management inefficiencies, led to performance issues. The COVID-19 pandemic intensified performance issues in 2020, making technical result negative (-36%) and keeping gross loss ratio at 23%. Government interventions in 2021 and 2022, through infrastructure investment and financial aid, brought the gross loss ratio down to 23% and increased technical result to 33%. Yet, in 2023 economic slowdown returned, with GDP growth at only 0.6%, management expenses surging from 55% to 82%, and technical result falling to 4% of earned premiums. Additionally, insolvency cases rose by 23%, reaching a decade-high level.

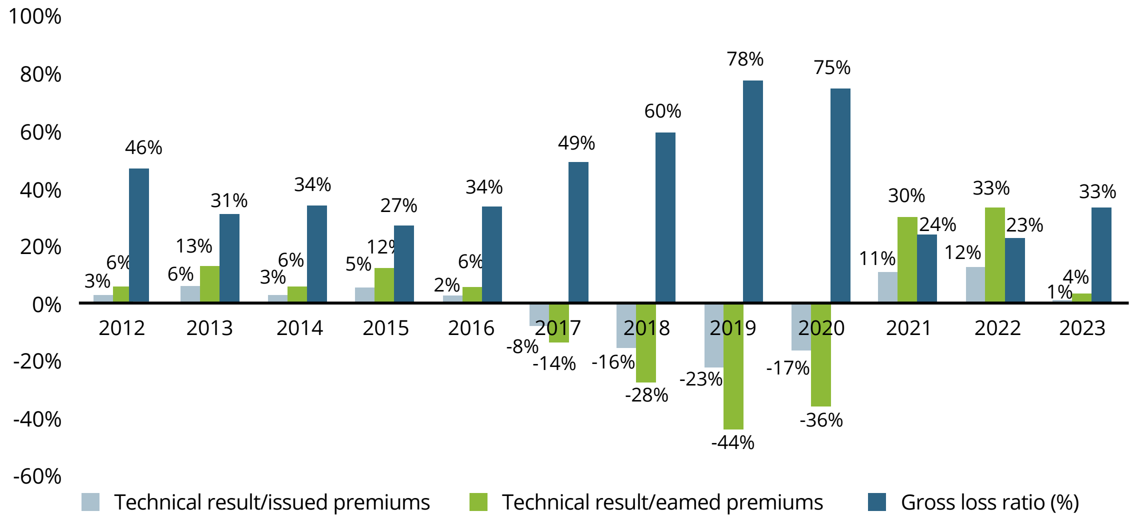
Figure 5.1.4.1- 5

Colombia: Comparative Growth Rates of Incurred Losses and Insolvency



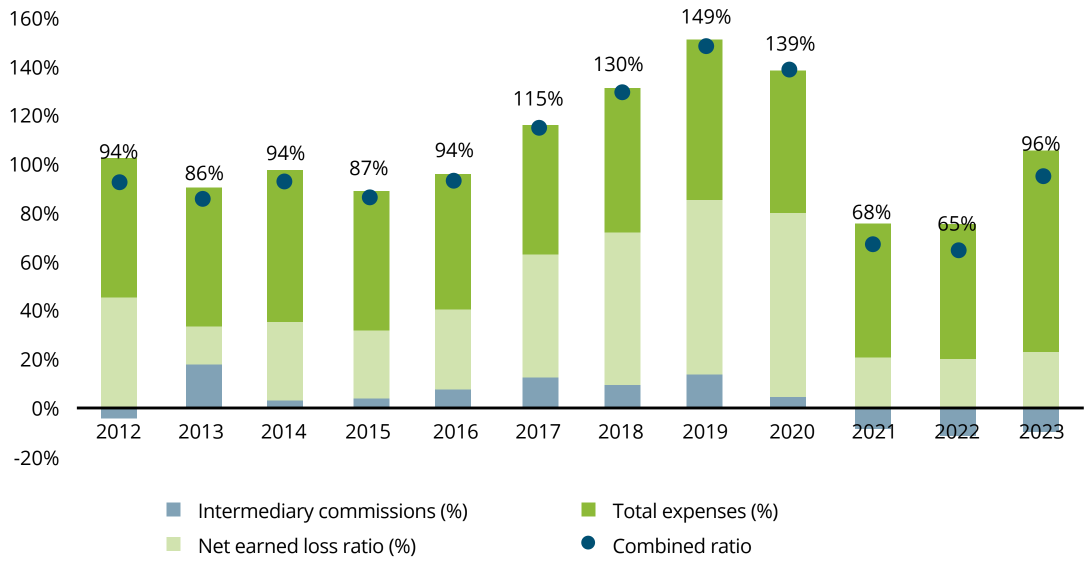
Source: Author's calculations based on data from Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry*, and Allianz (2020, 2024). Allianz data refer to insolvency growth.

Figure 5.1.4.1- 6
Colombia Surety: Gross Loss Ratio and Technical Result



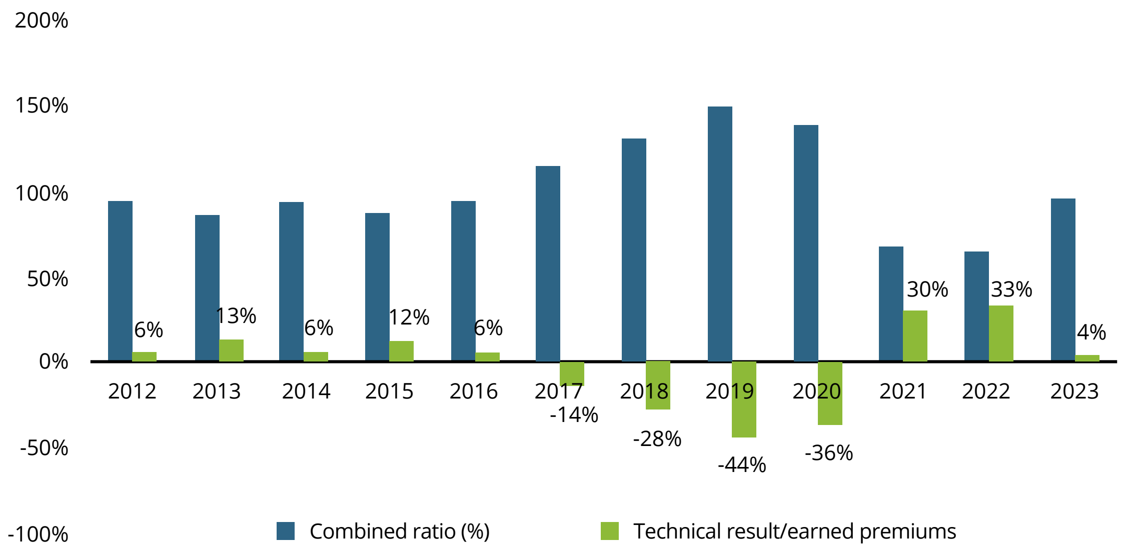
Source: Author's calculations based on data from Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry.*

Figure 5.1.4.1- 7
Colombian Surety: Net Combined Ratio



Source: Author's calculations based on data from Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry.*

Figure 5.1.4.1- 8
Colombian Surety: Technical Result and Combined Ratio

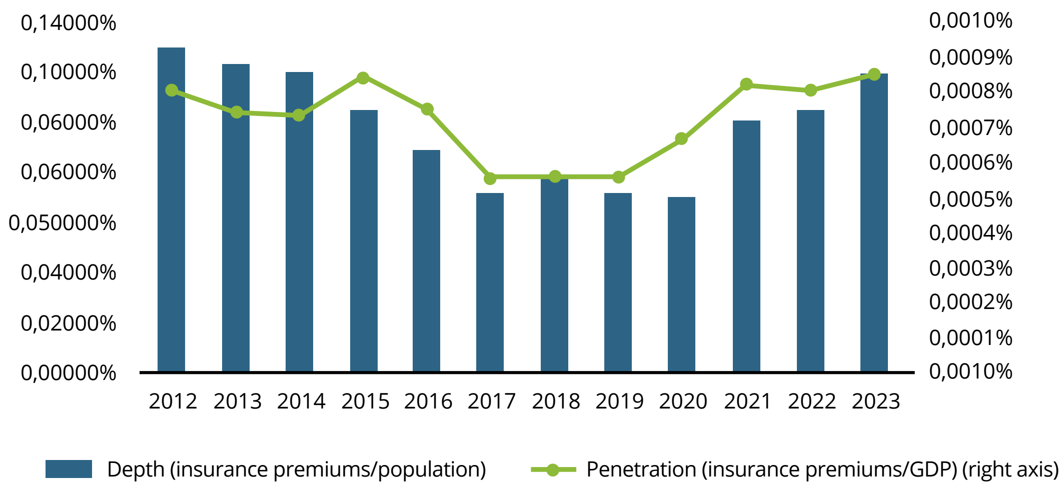


Source: Author's calculations based on data from (Fasecolda, 2024b), Statistics of the Insurance and Capitalization Industry.

While Colombia's surety market is served by multiple insurers, there is still room for more competitors and market development. In 2013, there were 23 insurers active in the surety market; however, in 2024, this number decreased to 21. For 2023, the Colombian market remained moderately concentrated, as indicated by a Herfindahl-Hirschman Index of 13%, suggesting opportunities for market entry by new players or horizontal expansion by existing insurers.

Between 2012 and 2023, the Colombian surety insurance market showed relative stability, despite low levels of penetration and depth, with only modest fluctuations over the period. Penetration ranged from a high of 0.00118% in 2015 to a low of 0.00078% in 2017, before recovering to 0.00119% in 2023. Market depth followed a downward trend from 0.00093% in 2012 to a trough of 0.00075% in 2020, before gradually rebounding to 0.00085% by 2023. This suggests that, while the surety line maintains a presence in the market, its development remains limited in scale, pointing to opportunities for broader adoption and strategic market expansion.

Figure 5.1.4.1- 9
Colombia: Surety Penetration and Depth by Year



Source: Author's calculations based on data from Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry*, and DANE (n.d.); data refer to the total population.

Box 6

Analysis of Surety Insurance Products in Colombia

In this study, we reviewed the websites of 21 insurers in 2023, by branch and by company. A total of 132 surety products were identified. These products are presented below, broken down into two major categories: contract bonds and non-contract bonds (commercial surety).

Contract Bonds: Total premiums written in 2023 amounted to USD $454.52 million. Six insurers (Seguros del Estado, Seguros Mundial, Nacional de Seguros, Seguros Suramericana, Seguros Bolivar, and Berkley Seguros) accounted for 77% of the premiums written in the surety insurance segment in Colombia, holding most of the market share. A total of 84 contract bond products were identified in the Colombian insurance market, all of which provide coverage for bid bonds, advance payment bonds, performance bonds, and good execution and maintenance bonds. The following are the main categories of contract bonds observed in the Colombian market:

- **Government Entities (GE):** This product shields public assets involved in government contracts, ensuring contractor compliance. In 2023, premiums for these bonds amounted to USD 172.56

million, an 8% increase from 2022. In Colombia, 17 insurers offer 26 different products in this category, with Seguros del Estado leading with 32% of total premiums. In addition, 31% of all contract bond products are issued for public entities.

- **Public Utility Companies (PUC):** This product protects public utility companies' assets under a specific legal framework. In 2023, USD 27.65 million in premiums were issued for PUC compliance policies, representing a 16% increase from 2022. A total of eighteen insurers (86% of total insurers) offer this type of surety, with information on 19 products identified across 16 insurer websites. Seguros Mundial issued 22% of total premiums in 2023, leading in premium issuance. In the market, 23% of contract bonds are for public service companies.
- **State-Owned Industrial and Commercial Enterprises (SICE):** These bonds safeguard the assets of industrial and commercial state enterprises engaged in private contracts. In 2023, USD 8.45 million in SICE contract bond premiums were issued, a 7% increase from 2022. A total of 14 insurers (67%) offer this surety, with 22 different products available. Seguros del Estado leads with 32% of total premiums issued. In the market, 26% of contract bond products are for SICE.
- **In Favor of Private Entities:** This insurance protects private institutions involved in legal agreements governed by private law, ensuring contractor compliance. In 2023, premiums for private contract bonds amounted to USD 135.72 million, an 11% increase from 2022. Out of 21 insurers reviewed, 20 (95%) offer this surety, with 17 different policies identified on their websites. Seguros del Estado issued 27% of total premiums, leading the market. In the market, 20% of contract bond products are issued for private entities.

Non-Contract Bonds/Commercial Surety: Legal Compliance Insurance (Non-Criminal): This segment includes license and permit bonds, as well as customs and tax bonds, ensuring compliance with legal and regulatory obligations. In 2023, legal compliance policies generated USD 50.76 million in premiums, a 92% increase from 2022. A total of 17 insurers offer this type of insurance, with 17 different products available. Nacional de Seguros leads with 37% of total premiums issued. In the market, 13% of compliance products are for legal compliance. The following are the main categories of non-contract bonds observed in the Colombian market:

- **Customs and Tax Compliance Insurance:** In Colombia, customs and tax compliance is part of the legal compliance insurance segment. Statistics for this type of insurance are reported under legal provisions.

- **Bail Bond, Judicial Bond, or Court Bond (Criminal):** In 2023, USD 4.09 million in premiums were issued for bail bond policies. A total of 14 insurers offer this type of insurance, with 14 different products available. Seguros Mundial leads, accounting for 50% of total premiums issued.
- **Lease Bond:** This instrument ensures tenants fulfill their obligations, including paying lease fees and utilities. In 2023, lease bond premiums amounted to USD 55.30 million, a 28% increase from 2022. A total of 8 insurers offer this type of surety, with Mapfre and Seguros Bolívar offering it as a product for individuals. A total of 8 different products were identified. Seguros Bolivar leads the market with 46% of total premiums issued.
- **Fidelity Bond:** Out of the 132 products reviewed, only 11 (8%) were fidelity bonds, offered by 8 of the 21 insurers reviewed.

5.1.4.2 Credit Insurance Overview for Colombia

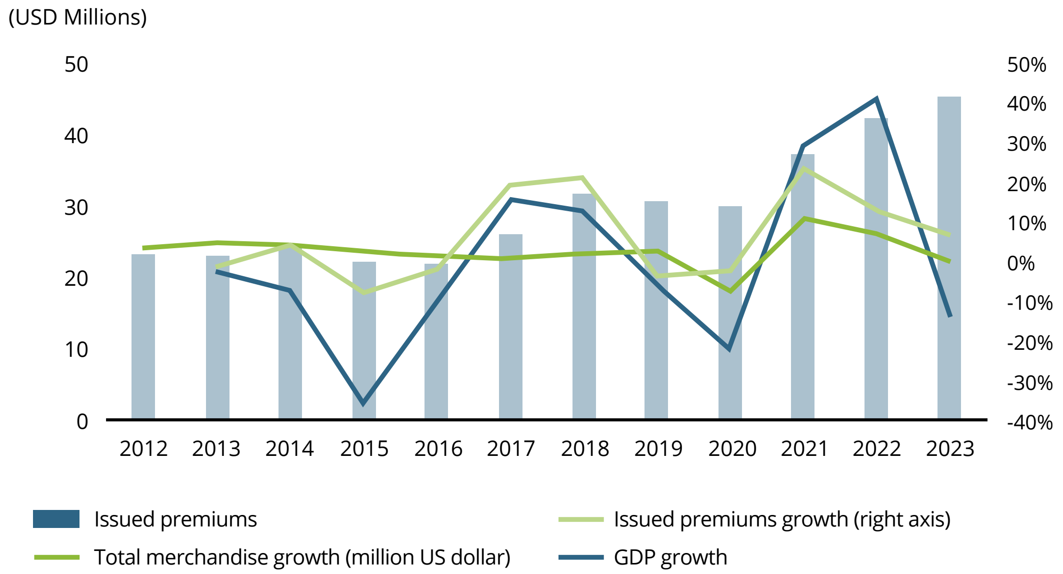
Although credit insurance (CI) was authorized in the 1990s, its importance only became evident in the early 2000s, when Venezuela's rampant commercial payment defaults highlighted the need for protection against credit risk default. For decades, legal prohibitions prevented insurers in Colombia from offering credit insurance, based on concerns that it could stimulate the informal credit market and disrupt the stock market. This restriction, in place since the mid-1960s, also blocked the issuance of bonds and guarantees in local currency. However, in 1992, the Central Bank of Colombia authorized credit insurance issuance through Resolution 21. Nevertheless, it was not until 2003 that the strategic importance of credit insurance in safeguarding Colombian exporters became fully evident, following the introduction of currency controls in Venezuela—Colombia's second-largest trading partner at the time—which led to widespread payment defaults (García Pinto, 2018).

CI in Colombia, though relatively new, has experienced staggering growth over the past decade, establishing the country as a key player in the Latin American and Caribbean (LAC) market. From 2012 to 2023, premiums rose from USD 23 million to USD 45 million—a 93% increase—surpassing the growth of surety premiums and GDP. This expansion, driven by rising trade flows and increasing credit risk awareness, has strengthened credit insurance as an essential risk management tool for Colombian businesses. By 2023, Colombia's credit insurance market was the fifth largest in the LAC region, representing 7% of the market, with an average annual growth of 6.7%, well above the national GDP growth of 3.11%.

CI premiums in Colombia have recorded substantial growth over the past decade, closely following export performance within a fluctuating economic environment. After an initial decline, CI premiums began to recover in 2017, with the most significant surge occurring in 2018. Although growth slowed down in the period leading up to 2020, CI rebounded from 2021 to 2023, reaching a peak growth rate of 24% in 2021, driven by post-pandemic demand and increasing risk awareness.

Colombia's CI market has shifted toward domestic risk management, with growth in local commercial credit insurance far outpacing that of export credit insurance over the past decade. From 2016 to 2023, local commercial credit insurance premiums grew by 134%, while export credit insurance increased by only 21%, leading to a change in market share: local commercial CI rose from 75% to 85% of the total market, while export CI declined from 25% to 15%. This shift is explained by the slowdown in Colombia's exports and an increased focus on managing domestic buyers' credit default risks. As GDP percentage, local commercial credit insurance premiums went from 0.006% to 0.013%, reflecting rising demand for coverage within Colombia. Meanwhile, export credit insurance premiums decreased relative to exports, despite a 56% growth in goods exports (as a proportion of exports, export credit insurance premiums went from 0.017% to 0.013%).

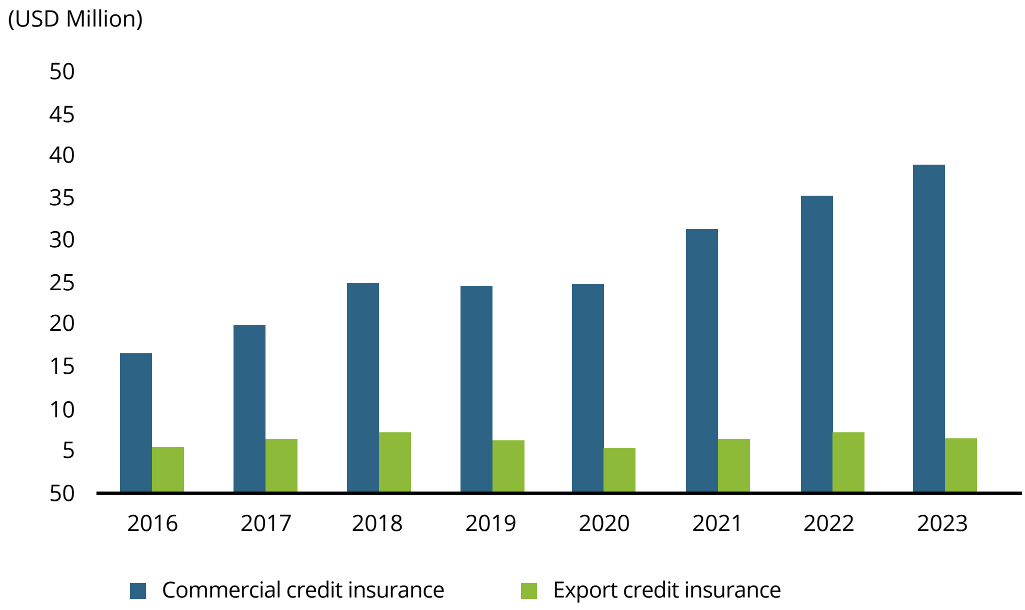
Figure 5.1.4.2- 1
Colombia: CI Premium Trends (Volume and Annual Growth)



Source: Author's calculations based on data from Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry*, and World Trade Organization (2024). WTO refers to merchandise trade growth.

Figure 5.1.4.2- 2

Colombia: Local and Export Credit Insurance Premiums



Source: Author's calculations based on data from Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry.*

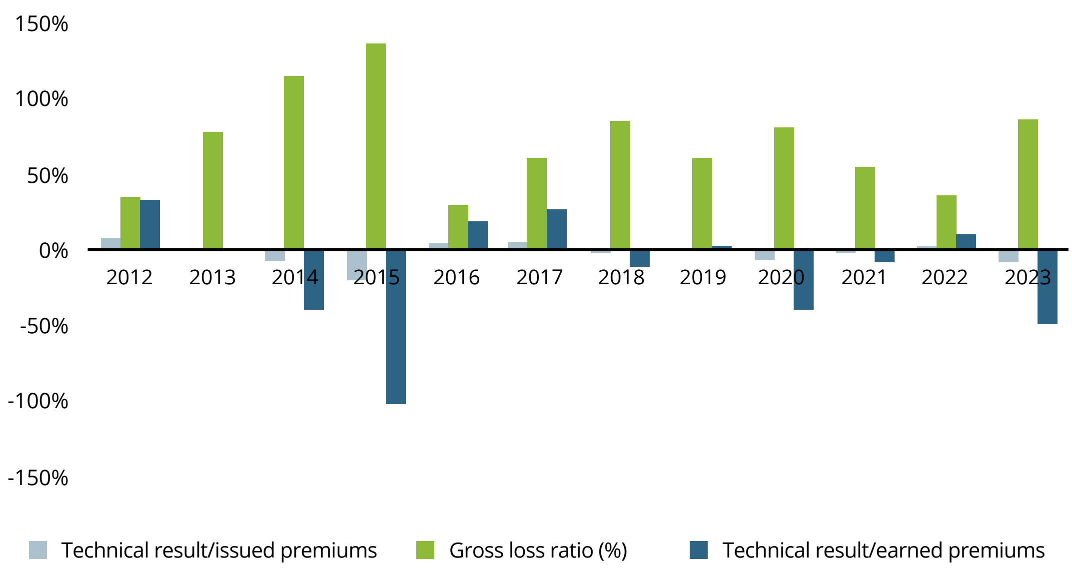
Colombia's CI sector has faced persistent profitability challenges over the past decade, achieving only minimal positive technical results in 2013, 2016, 2017, 2019, and 2022. Most of the decade—particularly the periods 2013-2015, 2018, 2020-2021, and 2023—was marked by financial strain. This underperformance declined to its lowest point in 2015, when gross loss ratio surged to 136.39% and technical results decreased to -102.46%. Similarly, 2023 was another difficult year, with earned technical results falling to -48.9%, underscoring ongoing hardship in the sector.

Profitability in Colombia's CI market has been consistently limited by high combined ratios, exacerbated by increasing operational costs. Combined ratios rarely fell below 70% over the past decade, peaking at critical highs of 143% in 2014, 208% in 2015, and 153% in 2023 due to high loss ratios. This behavior may be partially explained by rising management and personnel expenses, which increased from 46% and 36% in 2012 to 86% and 80% by 2023, respectively. Between 2016 and 2019, the combined ratio experienced a brief recovery, declining to 73% in 2017, driven by lower expenses and loss ratios. Nevertheless, profitability weakened again after 2018, with ratios consistently exceeding 97%. In 2023, the combined ratio peaked at 153%, due to a 94% net earned loss ratio and rising total expenses, highlighting the sector's management challenges.

The performance of CI loss ratios has been closely linked to economic conditions, especially rising insolvencies. Between 2012 and 2023, business insolvencies in Colombia grew by a staggering 383%, increasing from 294 cases to 1,420 cases per year. This increase in insolvency cases correlates with higher gross loss ratios in credit insurance, as defaults drove claims. In 2014 and 2015, when insolvency growth was at its highest, gross loss ratios spiked up to 114.29% and 136.39%, respectively. Conversely, in years with lower insolvency growth, such as 2016 and 2019, loss ratios were considerably lower, underscoring the direct impact of insolvency on claims. Indeed, the correlation between gross loss ratio and insolvency growth between 2013 and 2023 was 0.69.

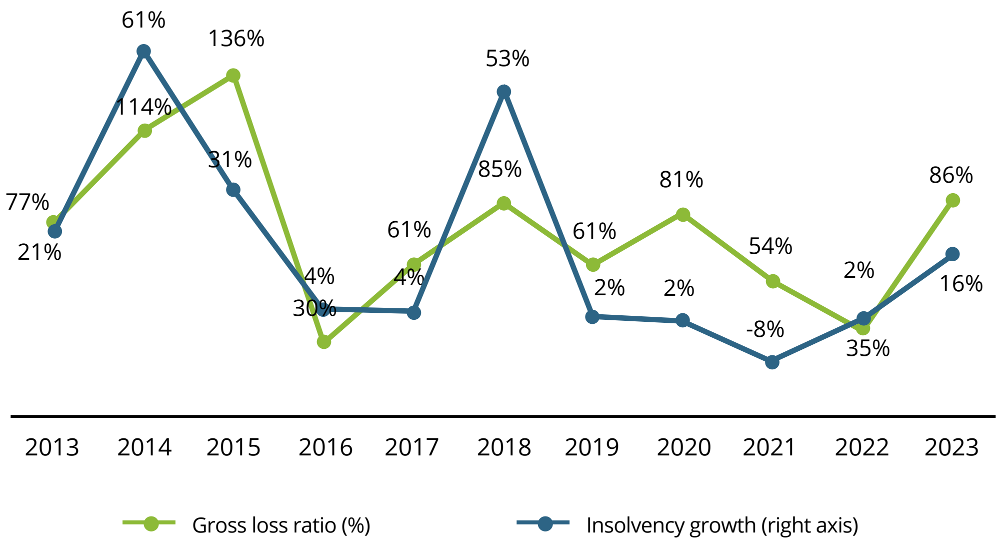
Given the market's persistently high combined ratios and rising loss ratios, ceded premiums for CI in Colombia have recorded steady growth from 2012 to 2023. Starting at 75.4% in 2012, ceded premiums gradually climbed to 83.7% in 2023. Since 2015, ceded premiums have consistently remained above 79%, highlighting an increased reliance on reinsurance. This trend suggests that insurers are increasingly offloading risks to reinsurers as a strategy to mitigate exposure, indicating a cautious approach in managing potential losses within Colombia's CI market over the past decade.

Figure 5.1.4.2- 3
Colombia: CI Gross Loss Ratio and Technical Result



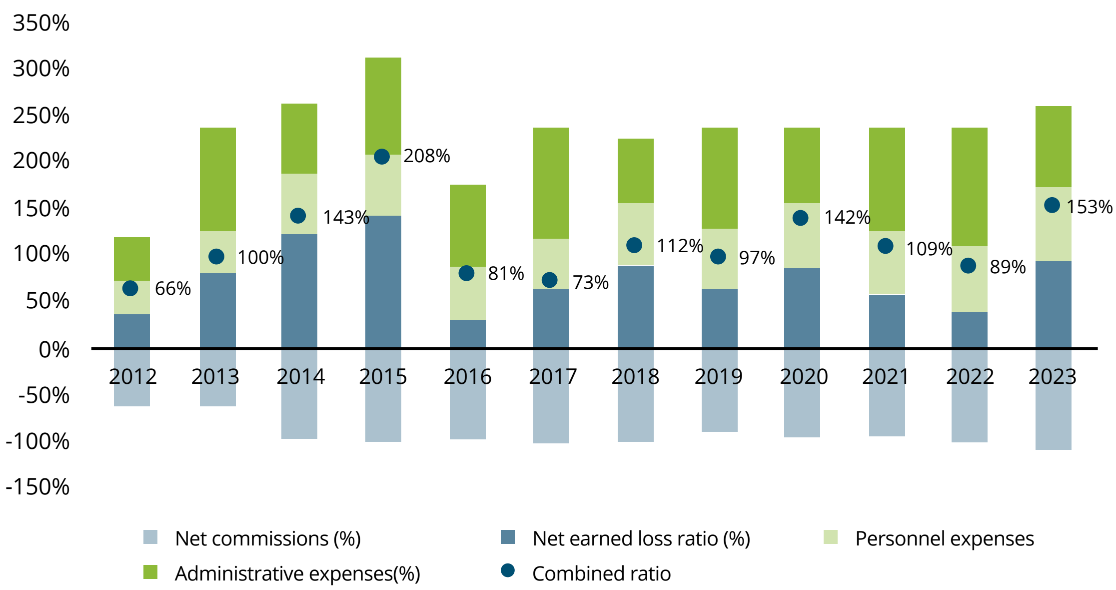
Source: Author's calculations based on data from Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry.*

Figure 5.1.4.2- 4
Colombia: CI Gross Loss Ratio vs Insolvency Growth



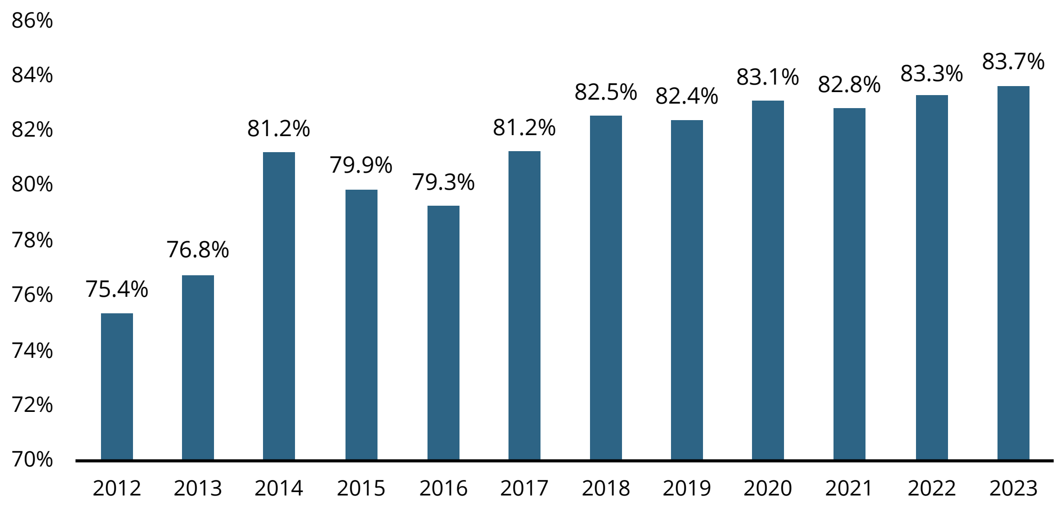
Source: Author's calculations based on data from Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry.*

Figure 5.1.4.2- 5
Colombia: CI Net Combined Ratio



Source: Author's calculations based on data from Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry.*

Figure 5.1.4.2- 6
Colombia: CI Ceded Premiums

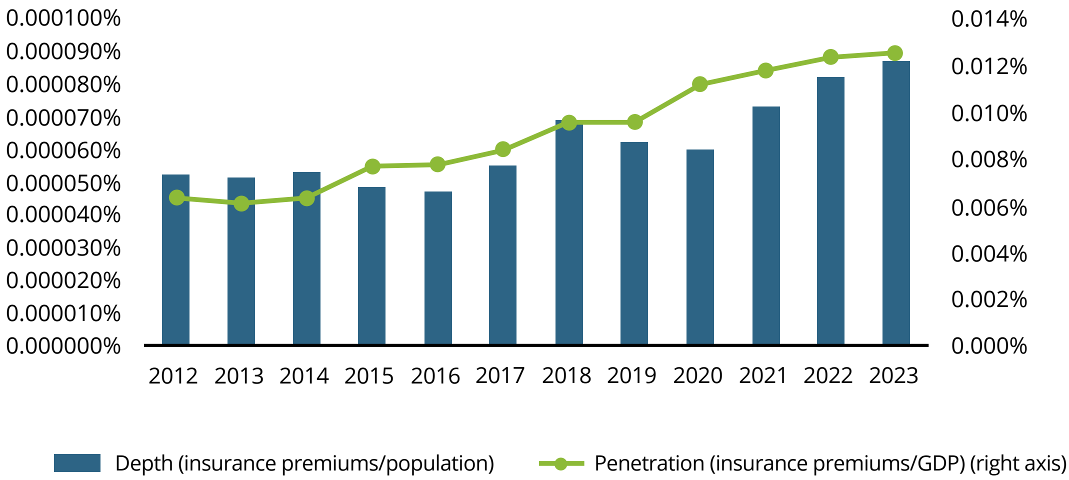


Source: Author's calculations based on data from Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry.*

The Colombian CI market is moderately concentrated and characterized by limited competition, with a small number of key players holding a dominant position. From 2012 to 2023, the number of authorized CI providers remained unchanged, with only five companies offering both export and local commercial credit insurance. The CI market's Herfindahl-Hirschman Index (HHI) is 39.83%, implying a high concentration level: Solunion—the main insurer—controls over 55% of the market. Other major players are Segurexpo (27%) and Coface (12%). Such concentration restricts competition, potentially affecting pricing, innovation, and overall market dynamics in Colombia's CI sector.

Between 2012 and 2022, both the penetration and depth of CI in Colombia showed modest but sustained growth. On the one hand, the penetration rate remained low in absolute terms but rose gradually from 0.0064% in 2012 to 0.0125% in 2023, reflecting a slow yet consistent expansion of CI within the Colombian market. On the other hand, insurance depth—measured as per capita premium volume—experienced slight fluctuations over the period but ultimately increased from 0.0000525% to 0.0000872%, suggesting incremental progress in the integration of CI by individuals and businesses. This behavior indicates a very slow expansion of the CI market; however, the overall low penetration level points to significant room for growth. As Colombian businesses increasingly recognize the importance of CI in coping with economic uncertainties, there is substantial opportunity for growth through tailored products, enhanced awareness, and access simplification, positioning CI as a critical tool for supporting both domestic- and export-oriented businesses.

Figure 5.1.4.2- 7
Colombia: Credit Insurance Penetration and Depth



Source: Author's calculations based on data from DANE (n.d.) and Fasecolda (2024b), *Statistics of the Insurance and Capitalization Industry.* Figures from DANE (n.d.) refer to the total population.

5.1.4.3 Key Challenges Facing Colombia's Surety and Credit Insurance Markets

The surety and credit insurance markets in Colombia face a series of structural challenges that pose significant obstacles to their development. Key among these are the persistent technical and financial imbalances, low market penetration, limited product diversification, and weak underwriting practices.

The performance of Colombia's surety and credit insurance segment is strongly influenced by the country's challenging macroeconomic conditions. In 2024, low GDP growth, persistent inflation, and high investment uncertainty weakened overall economic activity, while the insurance industry also encountered internal pressures such as rising loss ratios and operational costs. In this context, claims in certain branches have increased significantly, particularly due to a higher incidence of government-related fraud and the imposition of severe economic sanctions following legal disputes. This situation is further complicated by claims from public institutions, which often lack familiarity with contractual and legal procedures, leading to delays and disputes (Fasecolda, 2022b, 2024). At the same time, corporate insolvencies have risen—especially among contractors covered by surety bonds—amplifying claims risk and eroding the quality of insurers' technical portfolios.

Surety and credit insurance markets in Colombia experience challenges in competition and penetration, constraining their ability to scale up. In the surety segment, despite the presence of 21 active insurers, the market exhibits moderate concentration and low penetration, indicating substantial growth potential. The challenges are more pronounced in the credit insurance market, a highly concentrated segment: Only five insurers operate in the segment, with one controlling over 55% of the market. This dominant position limits competitive dynamics, hinders product innovation, and constrains pricing efficiency and accessibility, particularly for SMEs.

Surety and credit insurance markets in Colombia are constrained by limited product diversification and segmentation, reducing their ability to respond to evolving business needs and economic risks. In the surety segment, although the industry offers a portfolio of 132 guarantee types, coverage remains heavily concentrated in conventional contractual bonds. Non-contractual surety lines, including judicial, tax, customs, and leasing guarantees, are still emerging. Similarly, credit insurance products lack adaptation to firm size, risk profile, and sector characteristics. While both domestic and export credit insurance are available, coverage is concentrated in a limited set of industries, weakening the products' systemic impact. This imbalance is notably evident in export credit insurance, whose market share declined from 25% to 15% between 2016 and 2023, despite a 56% increase in goods exports. Penetration remains notably low in non-traditional exports, despite their higher risk exposure.

A widespread lack of awareness among users significantly undermines the effectiveness of both surety and credit insurance as risk management tools in Colombia. In the case of surety insurance, limited understanding among public and private contracting entities regarding coverage scope, legal obligations, and claims procedures leads to frequent disputes, operational inefficiencies, and reputational risks, specifically in large infrastructure projects, where arbitrary claims are often filed outside the regulatory framework. Similarly, in credit insurance, the low product awareness, especially among SMEs, limits adoption. Many businesses are unfamiliar with key elements such as exclusions, claims handling, and the broader value of the product, which includes credit monitoring, financial analysis, and preventive advisory services. In both lines, this knowledge gap restricts proper usage and diminishes the strategic role these instruments can play in supporting financial stability and contractual performance.

Surety and credit insurance in Colombia face structural challenges stemming from weak underwriting practices and deficient pricing models, threatening the long-term sustainability of these strategically important lines. In the case of surety, technical deterioration has recently coincided with declining premium rates, loosening underwriting standards, and increasing exposure. Between 2017 and 2023, insurers recorded persistent technical losses, and despite some recovery in 2021–2022, 2023 marked a renewed downturn amid a 23% increase in business insolvencies. Rather than reinforcing risk selection, the market has responded by prioritizing volume, exacerbating imbalances. In credit insurance, the situation is more acute: The line has shown structurally low profitability, with combined ratios consistently exceeding sustainable levels. High reliance on investment returns and the cession of over 80% of premiums to reinsurers reflect weak underwriting practices and insufficient internal risk retention. Moreover, the strong correlation between rising corporate insolvencies and spikes in claims underscores the segment's vulnerability to macroeconomic volatility. Strengthening underwriting rigor, pricing, and risk-adjusted growth strategies is critical to restoring financial balance and resilience in both segments.

In addition, the surety insurance sector in Colombia has encountered other specific regulatory and operational challenges that compromise its sustainability and responsiveness within the current economic environment.

The low execution of public investment and a slowdown in new business generation have increased commercial pressure on insurers, who are encouraged to prioritize policy issuance over sound technical risk assessment. This is particularly concerning given the sector's high dependence on public infrastructure spending. Although surety bonds in favor of the private sector have gained some share, public procurement remains dominant. In this context, the main challenge is to safeguard technical discipline and preserve underwriting independence from purely commercial targets (Fasecolda, 2022a, 2022b, 2024).

One of the most significant structural challenges in the surety insurance market is the growing legal uncertainty resulting from regulatory voids, normative changes, and interpretative ambiguities. These conditions distort the market, weaken institutional trust, and generate competitive asymmetries (Fasecolda, 2022a, 2022b, 2024):

- Since the early 2000s, the lack of effective regulation has allowed the operation of non-supervised entities—known as afianzadoras (guarantee companies)—that offer products functionally equivalent to surety insurance without being subject to prudential regulations (e.g., solvency, technical capital, and reserve requirements). Organized as simplified stock companies (SAS), these entities operate outside the financial supervisory framework, generating systemic risks, unfair competition, and reduced protection for public-sector contracting entities.
- Decree 403 of 2020 extended the statute of limitations for fiscal liability claims from five to ten years. This regulatory change has material actuarial implications, forcing insurers to maintain reserves over longer periods, affecting pricing structures, and compromising the sustainability of products targeted at the public sector.
- In the area of customs guarantees, a series of interpretative and regulatory changes has worsened legal uncertainty. In 2020, DIAN's Concept No. 100202208-027 redefined the insured event as an issuance of an administrative sanction rather than the material breach of obligations. This interpretation was upheld by the Unification Ruling

of June 29, 2023, and further reinforced by Decree 920 of 2023, which expanded DIAN's sanctioning powers. These developments have undermined risk-based underwriting models, increased unpredictability, and led several international reinsurers to withdraw from the Colombian market. Consequently, the issuance of customs-related policies has contracted significantly.

- **The surety segment has also been directly impacted by structural weaknesses in public procurement and by high-profile corruption scandals.** Cases, notably Centros Poblados (MinTIC), Hidroituango, and the Cartagena Refinery, have revealed systemic vulnerabilities in project planning, contract execution, and oversight by public agencies. These failures have increased both the frequency and severity of claims, negatively affecting technical results and eroding trust in the government's ability to manage large-scale infrastructure projects. This problem has deepened in recent years, reflecting gaps in risk prevention and contractor evaluation mechanisms. In response, Fasecolda developed SISCONC, a centralized platform that supports both public entities and insurers in risk assessment and policy management by identifying high-risk contractors and facilitating data-driven underwriting decisions in the surety and credit lines (Fasecolda, 2024).

- **Finally, specifically in the case of La Previsora, the state-owned insurer that offers surety insurance, market presence remains marginal, with less than 2% of the national share.** This limited share underscores persistent challenges related to competitiveness, market positioning, and brand differentiation, especially when compared to private insurers and specialized surety providers. Strengthening La Previsora's role is essential to reinforcing the strategic function of public insurers in segments that are critical to national development, such as public infrastructure and government contracting.

6

KOREA'S GIS VS COLOMBIA'S GIS - COMPARATIVE ANALYSIS

KOREA'S GIS VS COLOMBIA'S GIS - COMPARATIVE ANALYSIS

6.1 Legal Frameworks

Korea's GIS operates under a robust and cohesive legal framework. In the insurance industry, *the Insurance Business Act* describes guarantee insurance as a licensed line of non-life insurance and allows insurers to cover loss incurred by contract or legal non-performance. This is bolstered by supervisory regulations mandating robust capital reserves and transparent claims procedures for solvency and market stability purposes. Beyond insurance law, GIS appears throughout economic policy, procurement, and contract-related regulations that recognize guarantee insurance as an alternative to cash deposits. These provisions establish a legally sound environment in which guarantee insurance is considered a valid financial instrument in all sectors. Regulatory oversight is consolidated under the Financial Supervisory Service, and insurers are afforded clearly delineated rights, including statutory subrogation for recoveries. This legal clarity serves as a foundation for the widespread use of GIS in infrastructure, SME finance, and public-private projects.

In the case of Colombia, although the legal bases for guarantee insurance are in place, they are less systematic and more fragmented. Surety bonds are necessary for public contracts, with statutes governing the insurance industry authorizing their issuance. However, instead of being differentiated as a compact financial category, GIS in Colombia is regulated via a disparate legal framework shared by various insurance statutes, procurement rules, and sectoral provisions. The lack of a common enabling legal instrument for cross-sectoral application prevents guarantee insurance from becoming a significant tool of financial and development policy. Finally, tools to enforce these mechanisms, from recovery rights to inter-agency data sharing, remain undeveloped, ultimately undermining legal certainty and market confidence.

6.2 Institutional Frameworks

Korea's overall guarantee system consists of the Seoul Guarantee Insurance (SGI), the Korea Credit Guarantee Fund (KODIT), and the Korea Housing & Urban Guarantee Corporation (HUG). Despite being subject to diverse legal frameworks, they all operate under a coherent policy framework with strong government oversight and well-defined roles. SGI offers more contractual and infrastructural guarantees and acts as a commercial insurer and a public policy instrument backed by the Korea Deposit Insurance Corporation, facilitating government procurement, infrastructure, and SME support as a key piece of economic growth strategy.

Among Latin American countries, Colombia is a unique case with La Previsora S.A., a surety and credit insurer that is 97% publicly owned, similar to Korea's SGI. Unlike other countries in the region, the Colombian government insurer issues contractual guarantees and assumes performance risk, suggesting active public participation in the surety market. But despite this institutional advantage, Colombia's system operates through fractured networks. Moreover, La Previsora holds a market share of less than 2%, while private insurers and FNG were regulated separately, with limited coordination. No other single institution has the broad mandate or institutional support that underpins Korea's integrated strategy.

Korea demonstrates seamless coordination between market operations and policy objectives, with SGI's quasi-public status enabling guarantees consistent with national development goals, including fiscal stimulus and crisis response. Colombian private insurers are profit-oriented and less inclined to underpin guarantee structures for high-risk or developmental purposes unless assured regular profits. This "linkage" of market and policy objectives is a core strength of Korea's system; its absence in Colombia limits the role of guarantees in national development and crisis response. While La Previsora represents a strategic asset comparable to SGI, Colombia lacks policy coordination mechanisms, thus constraining the effectiveness of guarantees despite its unique potential in the Latin American context.

6.3 Upstream and Downstream GIS Enablers

The strength of Korea's upstream data infrastructure, along with the integrated credit-information ecosystem enabled by specific legal frameworks, has been central to Korea's success with GIS. Korea Credit Information Services (KCIS), the central credit bureau that provides credit data to insurers, including SGI, is both permitted and mandated under *the Credit Information Use and Protection Act.* This facilitates an in-depth analysis of credit scores, debt levels, defaults, and historical claims. SGI has developed its own proprietary database over decades of underwriting. These particular data assets improve pricing accuracy and facilitate early identification of moral hazard. Active legal protections on the proper handling of data include *the Real Name Financial Transactions Act* and the *Personal*

Information Protection Act. This strong upstream foundation enables smoother downstream operations, such as precise, fast underwriting, accurate pricing, and rapid claims enforcement. Korea's digitalized tax and financial systems allow the user to estimate even thin-file SMEs using surrogate data. Insurers can quickly identify high-risk applicants, which helps prevent financial abuse. Cross-institutional coordination contributes to avoiding repeated claims, and score prediction also keeps default rates low. In the case of default, accurate data accelerate asset tracking and subrogation, resulting in better recovery outcomes.

However, Colombia faces challenges and constraints in both its upstream and downstream enablers, notably data access and enforcement. Credit scores have been assigned through credit bureaus, namely *Datacrédito and CIFIN*, but this has seldom been done in conjunction with GIS. SISCONC, operated by Fasecolda, provides information on contractor performance, but its use and coverage remain limited. Microenterprises and SMEs do not have an official credit history, exacerbating the risk assessment challenge. Insurers, regulators, and public institutions are not required to share standardized data. As a result, this fragmented system increases information asymmetry and GIS cost. Underwriting tends to be conservative, resulting in higher premiums and less access, and even more so for informal or newer contractors. On the enforcement side, insurers do not generally have the same level of contractor data, making recoveries slower and limiting the impact of subrogation. In addition, the absence of a centralized claims registry and the lack of legal interoperability negatively affect GIS performance.

6.4 Market Structure and Role in Infrastructure

Korea's guarantee insurance market is mature and centrally structured around SGI, which is dominant across the economy's major sectors. Today, SGI is Korea's only large-capacity guarantee insurer, a hybrid public-private institution closely aligned with government policy priorities. SGI's ample capitalization and favorable reinsurance treaties position it to assume the type of large-scale project risks that smaller private insurers may be unable or unwilling to assume. Its centrality ensures system stability, while sector-specific institutions and financial cooperatives expand the scope of GIS coverage. SGI is vital in infrastructure development, with its guarantees enabling broad participation in government procurement, but it is particularly important for SME contractors lacking the collateral or credit history required in traditional bank guarantee processes. Korean procurement laws practice this model by placing insurance guarantees at the same level as bank guarantees and promoting contract and financial coverage through public-private partnerships (PPPs) and state-led projects. A well-integrated system ensures that guarantee instruments embrace both risk mitigation and industrial development functions, duly engaging local insurers in national infrastructure projects.

By contrast, Colombia's guarantee insurance market is more fragmented and has structural constraints to support large-scale infrastructure, even though surety products are offered by private insurers. Guarantee insurances are typically managed as a secondary line of business. Unlike SGI, Colombia does not have one large guarantee insurer with a broad mandate. Instead, the market is made up of several domestic and foreign insurers, with about 5 to 15 writing surety at any given moment. In 2023, Colombia's surety premiums approximated USD 444 million, among the largest in Latin America, due to high demand stemming from its ambitious infrastructure agenda. Yet, domestic insurers were left with only 55% of the market share, a decline that reflects an increasing dependence on foreign insurers, given the constraints in domestic capacity. Large projects, especially PPP projects involving highways and energy, often require high coverage limits, extended tenors, and strong credit ratings, exceeding the capabilities of many Colombian insurers. Hence, developers often seek international surety providers or bank guarantees. Often, local insurers are excluded from these opportunities due to less desirable contract terms or insufficient risk capital, reducing their reach in the market and weakening the development of local expertise in infrastructure finance.

6.5 SME Support

Korea's GIS plays a critical role in SME support by providing various guarantee instruments, including performance, payment bonds, and CI products, all tailored to the needs of SMEs. About 89% of SGI's policyholders are either SMEs or individuals, reflecting a strong commitment to inclusive economic participation. SMEs in Korea have benefited from better access to financing, minimization of collateral requirements, and enhanced competitiveness through easier access to procurement opportunities. While default risk management continues to be an issue, Korea's GIS has effectively supported SMEs' profitability, even in the absence of direct financial support or aid from the government.

SMEs are a critical part of Colombia's economy as well, but they still encounter high financing barriers. Although a wide range of guarantee products is offered by various insurers, their scope is narrow, and the alternative forms of required guarantees are also limited, especially for micro and startups. Guarantee expansion is constrained by several systemic issues. The absence of robust credit histories and reliable financial statements for many SMEs complicates underwriting, while the incentives and risk-sharing arrangements to make insurers serve higher-risk firms are also weak, so insurers have little interest in serving the market. These barriers limit SME participation in public procurement and their access to commercial credit, thereby generating exclusion. While some regional and mutual guarantee programs are in place, they remain fragmented and limited in size. SMEs encounter a substantial financing gap and a limited diversity of products, underscoring the need for a more integrated approach and a broader range of products, as well as more efficient data infrastructure and targeted government action to enhance the guarantee ecosystem.

6.6 Financial Inclusion and Risk Mitigation

Korea's guarantee system acts as a financial inclusion tool and as a buffer against systemic risk. SGI is instrumental in providing those without extensive credit histories or collateral options access to services such as housing leases, personal loans, and even mobile phone payment guarantees. By assuming the risk associated with these obligations, guarantee products facilitate the inclusion of underserved populations in the formal financial system. Simultaneously, these instruments distribute credit risk throughout public and private institutions, dispersing concentrated defaults. Moreover, guarantee institutions absorb some of the shock in economic downturns, allowing credit to keep flowing without a direct government bailout. This dual role makes Korea's GIS both a social safety net and a financial stabilizer.

Unlike Korea's robust guarantee system, which diffuses credit risk and buffers financial flows during crises, Colombia's limited and narrowly applied guarantee structure may unintentionally concentrate risk. Since GIS is not widely available across financial institutions or sectors, the benefits of risk-sharing are minimal, limiting their role as a mechanism for broader financial inclusion. Consequently, underserved individuals, including those without collateral or formal credit histories, continue to face exclusion from key financial and service markets. In times of economic stress, the lack of institutionalized guarantee buffers makes it more likely that the state needs to step in early through budget reallocation or emergency credit programs, especially in sectors like infrastructure and SME finance. Such a reactive approach reinforces fiscal vulnerability and constrains the economy's capacity to absorb shocks. Although designed to function as a systemic stabilizer, Colombia's current guarantee framework risks becoming an additional source of fragility within the country's financial architecture.

7

POLICY RECOMMENDATION FOR BUSINESS INVIGORATION THROUGH GIS

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7.1 Regulator Role

Colombia's GIS encounters profound structural constraints that limit its scalability, credibility, and alignment with national development priorities. As outlined in previous sections—namely, institutional fragmentation, absence of a central anchor entity, weak data integration, inconsistent enforcement, and limited product innovation—these weaknesses prevent the sector from fulfilling its potential as a financial stability and development tool. Regulators, therefore, have a critical role to play in addressing these challenges through a coherent, forward-looking public policy agenda.

1. Establishing a Unified and Explicit Legal Foundation for GIS

Colombia's insurance regulatory framework—spread across the Commercial Code, the *Estatuto Orgánico del Sistema Financiero* (Organic Statute of the Financial System, EOSF), and consumer protection laws—does not define guarantee insurance as a distinct financial category. While surety bonds fall under general insurance regulation, no holistic GIS statute exists. This fragmentation creates uncertainty regarding enforceability, product standardization, and the role of GIS in public procurement and financial policy.

The Commercial Code contains concepts such as "warranties" (Art. 1061) that can be linked to guarantee obligations, yet the absence of an explicit legal definition leaves the system exposed to inconsistent interpretation. This ambiguity has been aggravated since the early 2000s by the rise of unregulated guarantee companies, which issue guarantee-like products without prudential oversight, creating a shadow market that undermines consumer protection and weakens the credibility of formal insurers.

Korea offers a relevant comparative model: Its Insurance Business Act clearly defines guarantee insurance as a specialized non-life category with specific operational requirements. Colombia does not need to create an entirely new legal code but rather strengthen and unify its existing multi-layered framework. This can be achieved through targeted amendments to the Commercial Code and EOSF to:

- Explicitly define guarantee insurance as a distinct financial instrument
- Clarify rights, obligations, and enforcement mechanisms
- Eliminate regulatory loopholes by requiring afianzadoras to obtain licenses and submit to prudential oversight

A consolidated legal foundation—following the Korean experience—would elevate GIS from a peripheral product line to a mainstream financial instrument for public procurement, credit enhancement, and risk pooling across sectors.

2. Improving Institutional Coordination

Unlike Korea's SGI, which operates under a clear legal mandate with strong policy backing, Colombia lacks a dedicated institution responsible for GIS policy, standardization, and inter-agency coordination. Regulatory and operational responsibilities are distributed across multiple ministries, insurers, and procurement agencies, producing fragmentation and inconsistent practices.

Regulators should designate a lead institution, either an existing entity with expanded functions or a newly created coordinating body, to oversee:

- national GIS policy and standards;
- product and contract harmonization;
- interaction with procurement agencies;
- market supervision; and
- capacity-building for insurers and public entities.

La Previsora, despite being a state-owned insurer, holds a market share of less than 2%, underscoring the absence of a genuine institutional anchor. A central coordinator would strengthen technical capabilities, improve claims management, and build public trust, ultimately enabling GIS to support infrastructure delivery, MSME credit expansion, and public investment efficiency.

3. Strengthening Data Infrastructure and Mandating Data-Sharing

Colombia's GIS ecosystem suffers from fragmented data flows, inconsistent standards, and limited interoperability. Credit bureau information (Datacrédito, CIFIN) and specialized platforms like SISCONC offer partial visibility, but they do not provide a unified, standardized data system across insurers, ministries, and procurement agencies. This contributes to risk mispricing, higher underwriting costs, and information asymmetries.

The introduction of the **Open Finance Framework**—first issued by the Financial Regulation Unit in December 2024 and reinforced by the Ministry of Finance in June 2025—represents a transformational opportunity. The framework mandates all financial sector entities, including insurers, to share data using standardized APIs.

Regulators should extend Open Finance Framework protocols to the GIS domain by:

- incorporating guarantee, contract, and claims data into the standardized data-sharing architecture;
- creating a **national digital registry of guarantees and claims**, enabling real-time validation, transparency, and interoperability; and
- ensuring adequate data protection through reinforced supervisory capacity.

Integrating GIS into the Open Finance Framework ecosystem would improve underwriting accuracy, accelerate claims processing, reduce fraud, and enhance trust across public and private actors.

4. Expanding Use of Alternative Data to Support Thin-File SMEs

Most Colombian SMEs, especially micro-enterprises, lack formal credit histories, creating an obstacle for GIS underwriting. Korea's experience demonstrates the value of surrogate data, such as utility payments, tax compliance, supplier invoices, logistics records, and mobile wallet activity.

Regulators should explicitly authorize the use of alternative, verifiable data for GIS underwriting. This would broaden financial inclusion, reduce dependence on traditional credit scores, and enable insurers to build risk models tailored to MSME realities.

5. Clarifying Subrogation Procedures and Improving Enforcement

Although Colombian law recognizes subrogation rights, practical enforcement remains slow, fragmented, and costly. Lengthy judicial processes, weak inter-agency coordination, and the absence of streamlined administrative routes delay recovery and increase insurer losses.

Regulators should prioritize procedural reforms, notably:

- Establishing clear judicial and administrative pathways for subrogated claims
- Improving coordination between courts, procurement entities, and insurers
- Adopting electronic enforcement tools and digital asset tracking

Improved enforcement would shorten recovery timelines, reduce litigation costs, and strengthen the GIS market's overall financial sustainability.

6. Promoting Product Diversification and Regulatory Innovation

Colombia's guarantee market remains narrow, with heavy concentration in traditional contract bonds despite the existence of over 130 guarantee types. Non-contract surety products are limited, and credit insurance offerings are not sufficiently adapted to the needs of SMEs or sector-specific risks.

Regulators should promote product innovation by leveraging Colombia's existing supervisory and regulatory sandboxes (established in 2018 and 2020). These mechanisms can accelerate the testing and deployment of new GIS products, including:

- lease guarantees;
- R&D and innovation grant guarantees;
- digital personal loan guarantees;
- supply-chain and invoice-based performance guarantees.

Procurement and fiscal regulations must also be updated to ensure that these new instruments are recognized as valid guarantees in public and private contracting.

7.2 Role of Public Financial Institutions

Public financial institutions in Colombia, such as FNG, FDN, and La Previsora, play a uniquely strategic role in scaling the national guarantee system and reducing structural barriers to finance. For Colombia, building a credit market that is both inclusive and resilient requires these institutions to go beyond direct lending and act as catalysts for the expansion and diversification of guarantee-based instruments. Doing so will require adjustments to institutional mandates, operational capacity, and legal frameworks, yet the long-term benefits of financial inclusion, investment mobilization, and economic resilience would be substantial.

1. Fostering Public-Private Co-Guarantee Models

Colombia's public financial institutions should lead the development of co-guarantee schemes that share risks between the public and private sectors. For example, the FNG could partner with private insurers to co-guarantee SME loans, with each assuming a defined share of the loss on an individual loan or portfolio basis. This would reduce concentration risk, expand underwriting capacity, and encourage private-sector participation in underserved segments, including startups, rural producers, and youth-led enterprises.

For infrastructure finance, the FDN could issue partial guarantees or counter-guarantees, complementing private surety insurers. This hybrid model would lower capital requirements for private insurers entering long-tenor and complex infrastructure projects, while enabling public funds to crowd in private capital rather than replace it. These arrangements mirror successful co-guarantee models from East Asia and Europe, where public institutions act as market stabilizers in high-risk or countercyclical segments.

2. Establishing a Unified and Centralized Guarantee Insurance Entity, and Strengthening La Previsora's Role

Unlike Korea, Colombia lacks a centralized guarantee insurance institution similar to the SGI, which has played a critical role in consolidating the guarantee market, standardizing products, and supporting national development priorities. Although La Previsora is Colombia's state insurer and a key player in surety insurance, its market share remains below 2%, reflecting limited competitiveness, underdeveloped technical capacity, and weak strategic positioning relative to private firms.

To address this gap, public institutions, namely the FDN, the FNG, and La Previsora, could be merged, operationally integrated, or coordinated under a single national GIS. Such a system would:

- unify standards and reduce market fragmentation;
- strengthen underwriting capacity for large infrastructure projects;
- expand guarantee access for MSMEs and municipal governments;
- reduce reliance on foreign insurers for major national projects; and
- build national expertise in risk assessment, claims management, and project monitoring.

A scaled public guarantee institution would also allow Colombia to align GIS instruments with national priorities, such as infrastructure, innovation, smart agriculture, and export diversification, while achieving economies of scale similar to those enabled by SGI in Korea.

3. Diversifying Guarantee Instruments to Address Market Gaps and Expand Inclusion

The Colombian guarantee market remains heavily concentrated in traditional contractual bonds, with limited development of non-contract surety lines or specialized guarantee products. This restricts the system's ability to reach underserved sectors and to support broader development objectives.

Drawing from SGI's diversified portfolio, Colombian public institutions should lead efforts to introduce new guarantee categories, including:

- rental housing guarantees, addressing rental market access and household mobility;
- R&D and innovation grant guarantees, supporting technological upgrading;
- customs and tax guarantees, addressing current legal ambiguity that limits uptake;
- export performance guarantees for non-traditional exports, particularly for SMEs;
- microenterprise and informal-sector guarantees, facilitating the transition to formal credit markets; and
- digital loan guarantees, leveraging Open Finance Framework data and alternative data sources.

Public institutions can act as pioneers in these product lines, using their development mandates to absorb initial risk, demonstrate viability, and crowd in private insurers once track records are established.

7.3 Proposed Roadmap: Strategic Steps for Successful GIS Implementation in Colombia

For Colombia, a sustainable GIS that is scalable and resilient combines legal, institutional, and market reforms. The following are the strategic steps for the effective implementation of GIS.

1. Set up the GIS development task force

The GIS reform process needs to be led by a high-level task force. This intersectoral task force, comprising the Ministry of Finance, financial regulators, financial public institutions, private insurers, and multilateral development bank (MDB) advisers, will ensure intersectoral coordination in the drafting of new legislation, regulation adjustments, and market broadening. Progress will be measured based on concrete milestones and timelines.

2. Provide a legal and regulatory roadmap

Given the current regulatory fragmentation and the parallel market created by unregulated *afianzadoras*, Colombia requires a clear path toward improving its legal framework. Instead of generating a new legal framework, the roadmap should prioritize incrementally enhancing the existing multi-layered insurance-law system by stipulating specific modifications of the Commercial Code or the *Estatuto Orgánico del Sistema Financiero* (EOSF) that define GIS as a distinct financial instrument. This roadmap should focus on creating clear licensing requirements aimed at formal prudential supervision over unsupervised *afianzadoras*, along with data-sharing protocols, standardized enforcement actions, and rules for product development. Gradual implementation of these changes will ensure regulatory consistency and predictability for market players and remove unfair competition from the unregulated sector.

3. Promote capacity building and knowledge sharing

Capacity-building projects must complement the GIS strategy. This should include training guarantee entity staff in rigorous risk assessment, proper pricing models, and efficient claims management to address the persistent technical losses and declining underwriting standards observed in the market, as well as broadening knowledge-sharing programs with international experts. There is also a plan for a series of workshops and exchanges with major international insurers, including SGI in Korea and Asociación Panamericana de Fianzas (PASA), which will be held to empower GIS employees and local institutions with the tools and expertise needed to strengthen underwriting discipline, improve product diversification, and build sustainable guarantee insurance operations that can effectively serve both public and private sectors.

4. Execute pilot programs in promising sectors

Pilot guarantee programs should be rolled out in promising sectors, with a focus on technology, green energy, and regional infrastructure. These pilots will provide valuable insights into the Colombian market's challenges and will demonstrate how a new GIS can work. Successful pilots can be scaled to more extensive sectors, while lessons learned can also help refine offerings in the future.

5. Monitor and adapt for sustainability

Tracking of key indicators, such as guarantee volumes, default rates, and participation of SMEs on a regular basis, is essential for GIS success. The task force must elaborate annual reports to ensure transparency and accountability. It should be flexible enough to allow for GIS implementation or outreach adjustment, as appropriate. Monitoring these feedback loops will not only allow Colombia to undertake a pivotal reform but also to understand how to make it work in the long run and to adjust it as required.

In conclusion, Colombia should define strategic guidelines to make effective use of GIS, including legal authority, institutional empowerment, market activity stimulation, and permanent feedback to be improved. Collectively implemented, these actions will provide a guaranteed insurance scheme that has the potential to scale up to cover a large territory and continue to be stable during periods of economic volatility, thus helping to reinforce Colombia's financial system so as to enable inclusive growth and innovation.

Guarantee insurance in Colombia can be used strategically to ensure that private sector growth is aligned with public development outcomes. It creates mutual benefits, whereby businesses benefit from risk reduction while society gains from the resulting economic activity and stability. For this reason, through the recommendations and lessons proposed in this research, Colombia could take advantage of GIS as a valuable tool to achieve a more inclusive, innovative, and resilient economy, which will significantly contribute to its progress towards the SDGs and national development objectives.

7.4 The Role of MDBs in Supporting GIS Growth in LAC

Based on the lessons from Korea and the case study in Colombia, MDBs have the potential to serve as critical partners in advancing a GIS in the LAC region and aligning it with broader development objectives.

MDBs are uniquely positioned to accelerate the growth of the guarantee market in LAC by deploying their technical expertise, financial resources, and worldwide networks. The following approaches highlight key ways MDBs can support and enhance GIS in LAC.

1. Technical consulting for legal and institutional reforms

MDBs can assist countries in LAC to develop comprehensive regulation frameworks that integrate international best practices. Instead of starting from scratch, this involves supporting countries in enhancing existing insurance legal frameworks by providing advisory services on how to formalize GIS as recognized financial products within current regulatory structures.

Some of the areas where technical consulting will be important are as follows:

Legal framework development: Helping promote amendments to commercial codes and financial laws that clearly classify surety insurance as a unique tool with its own features.

Institutional design: Advising on the establishment or enhancement of good practice anchor institutions modelled on Korea's SGI and involving governance arrangements for balancing policy purposes and commercial sustainability.

Risk management frameworks: Offering guidance on sophisticated credit scoring techniques and data pooling, as well as sharing processes and enforcement instruments to improve operational efficiency.

This assistance should draw on best practices while taking into account each country's specific legal and institutional circumstances.

2. Financial support and risk-sharing mechanisms

In particular, MDBs are well placed to provide financial resources and products that reduce risk and enable the scaling up of guarantees. There are various ways to provide strategic financial support:

Capitalization support: MDBs could support the creation or enhancement of national guarantee institutions through direct subordinated debt provision, equity investment, or credit lines, enhancing their ability to take on risks.

Counter-guarantee facilities: Establishing reinsurance pools or counter-guarantee instruments whereby MDBs share risk with private insurers. Such facilities can tap into international reinsurance markets and strengthen the credit rating for local guarantee institutions.

First-loss coverage: Offering first-loss coverage for pilot programs or new products, allowing local institutions to test out innovative guarantee products but with limited downside risk.

These instruments reduce the private sector risk and have commercial potential for guarantee insurance markets to attract additional investment flows.

3. Knowledge transfer and capacity-building

MDBs can help catalyze systemic knowledge sharing that responds to common knowledge gaps on guarantee insurance across LAC. This implies using MDB networks to connect regional institutions with successful international models.

Peer learning programs: Convening workshops/training, study tours, and technical exchanges with entities like Korea's SGI, other successful guarantee insurance providers around the world, or Asociación Panamericana de Fianzas (PASA).

Professional development: Contributing to education and training programs for guarantee insurance professionals, including programs on advanced underwriting skills, risk evaluation techniques, and claims handling practices.

Market education: Promoting information and awareness of guarantee insurance benefits and applications among potential users, particularly SMEs.

The knowledge transfer would cover not only technical skills and expertise, but also strategic knowledge about how guarantee insurance can promote overall development purposes.

4. Innovation through pilot programs

MDBs can help catalyze market development through project finance for pilot programs that demonstrate the value of guarantee insurance for underserved sectors. These pilots need to be tailored to countries' market needs while generating evidence for wider dissemination.

Sector-specific programs: Designing customized guarantee schemes for renewable energy projects, agricultural value chains, or digital economy companies that illustrate the application of guarantee insurance in fields other than the one in which it is traditionally used: construction bonds.

Integration of technology: Supporting pilots with different new data sources, digital platforms, and automated underwriting to contribute to removing access barriers and reducing guarantee insurance costs.

Financial inclusion focus: Developing applications for micro and small enterprises, informal sector businesses, or women-owned enterprises, showcasing the potential of guarantee insurance to help achieve inclusive growth.

Successful pilots can act as models for market scale-up and provide hands-on experience for local institutions.

5. Strengthening public-private partnerships

MDBs can support partnerships between public guarantee institutions and private insurers to develop hybrid models that maximize the strengths of both sectors and broaden market capacity.

Co-guarantee models: Facilitating mechanisms in which public insurers charge for their services to cover baseline exposure, while private insurers assume residual risks, thus ensuring risk sharing and market formation.

Blended finance instruments: Develop structures that blend MDB resources with private capital to support guarantee insurance operations, in particular for high-development segments that may not yet be commercially viable.

Market platform investment: Investing in common platforms such as credit bureaus, standardized documentation systems, and digital platforms that serve market-wide needs.

Such arrangements can accelerate market growth while helping ensure that guarantee insurance meets both commercial and development objectives.

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