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Résumé de l'article

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Mexico's Insurance Market *

by

Barry Leigh Weissman
and
Sarah Cavanaugh

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As Mexico enters the global economy, improved trade relations provide excellent opportunities for insurance development. Mexico's financial and insurance sectors are attempting to eliminate the historical protectionism that has over-regulated the Mexican insurance industry for half a century. Insurer solvency has been controlled by the Mexican government through stringent underwriting policies, tariff rates and restricted entry into the marketplace.

In Mexico, insurance was controlled by the banking sector for many years. President José Lopez Portillo (1976/1982) nationalized all assets and stocks of the banks. Under the current President Carlos Salinas de Gortari, attempts are being made to move the economy away from its protectionists past and into the global market.

President Salinas has opened Mexico's financial institutions to foreign investment and has facilitated the integration of financial consortiums. The Mexican government has enacted a new legislative programme governing the country's financial system. Both Mexican and foreign companies will take advantage of the new opportunities

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in Mexico that allow for reprivatization. Insurance was among the first financial services to be deregulated.

Revised Regulations

With few exceptions, foreign insurance companies have been limited to the reinsurance business in Mexico. The revised regulations in Mexico permit foreign insurers to own up to 49% of insurance companies and banks. Management, however, must remain in national hands. The deregulation process will also benefit policyholders by allowing the elimination of tariff rates on property/casualty policies. Insurers will be required to meet a minimum capital requirement set up each year by the country's finance minister. Fewer Mexican companies are expected to stay in the market, but the remaining companies will be stronger.

Under the new reform, insurers must establish reserves equivalent to 75% of paid-up capital as opposed to the existing 50%. Reserves will provide for fluctuations and daims ratios, and will be set at 3% and 10% of net premiums for life and non-life insurers (compared to 1% and 8% previously).

Insurers will also draw up their own policies and set their own rates. The rates will be submitted to the Insurance Commissioner for approval. The authorities will have 30 days to propose modifications, after which the insurer is free to sell policies without official approval.

The regulatory authority will be the National Commission of Insurance and Bonds. Authorization must be obtained by the Secretary of Finance to establish a new insurance company. Companies currently operating in the insurance market will have one year to apply for authorization. Applications must contain a complete description of the activities the company expects to develop and a certificate must be deposited at the Nacional Financiera equal to 10% of the company's paid capital.

A general register of foreign insurers is to be created. Companies must be solvent and well-established in their countries of operation. Foreign reinsurers will be allowed to establish representatives in Mexican territory.

It is expected that foreign investors will view Mexico as a powerhouse for trade, investment and development. As a result of the free competition in the Mexican insurance market, only the most competitive Mexican companies will survive. The solvency margins of the Mexican insurers will improve because of the influx of foreign capital as foreign insurers take equity positions in Mexican industries. The insurance market in Mexico will harden as a result of competitive pricing.

The current economic recovery in Mexico is helping to change the nation's insurance market. Not only is the Mexican government deregulating insurance, it is also deregulating many industries and restructuring the foreign debt. Property/casualty rates will decline with the implementation of deregulation and, as a result, some Mexican insurers will suffer.

Open Market

Mexico's insurance rates will be controlled by the free market. The all-risk policy that is typically issued in the United States can now be issued in Mexico because of deregulation.

Under the new rules, property damage and business interruption resulting from earthquake shock may be covered under local insurance contracts. In the past, property contracts would only cover 75% of earthquake shock property damage. Business interruption resulting from earthquake shock could not be insured under local Mexican insurance contracts.

Recently, trade chiefs and business leaders from Mexico, Canada and the United States attended a forum in Acapulco on trilateral free trade. The closed-door forum was organized by the Conference Board, which is a non-profit, private business research company based in New York. The forum was attended by American Tracte Representative Carla Hills, Canadian International Tracte Minister, John Crosbie and Mexican Commerce Minister, Jaime Serra Puche.

Mexico and the United States had agreed last year to pursue a bilateral trade pact. American President George Bush, Canadian Prime Minister Brian Mulroney and President Salinas announced on 5 February 1991 that Canada would be included in the trade talks. Before the United States can enter into formal negotiations, the Bush administration must receive congressional approval. The Bush administration is moving towards fast-track authority. Under the fast track, Congress will be able to vote up or down on any agreement, but will not be able to amend it.

Trade Agreement

The North American Free Trade Zone would create the world's largest open market, consisting of 360 million people with a combined output of U.S.$6 trillion. Most of the economic strength and the majority of the people corne from the United States. Mexican wage rates are one-seventh of U.S. wage rates. This may lead to american companies relocating their business operations to Mexico, since the free trade pact will allow them to send products into the United States without tariffs.

The Free Trade Agreement (FTA) would open domestic insurers to foreign participation. It is hoped that the foreign capital attracted by these measures will allow Mexico to introduce new technology needed to increase the efficiency of the local insurance industry and to allow a reduction in premiums. An open insurance market is expected by 1992.

The Mexican insurance industry is an important potential market for U.S. insurers seeking to expand international operations. Industrial consumers in Mexico are beginning to demand better insurance prices. Mexico's decision to join the General Agreement on Tariffs and Trade is another step towards becoming part of the global economy.

Foreign Companies

The Mexican insurance industry must prepare for the future. The entry of foreign companies into the Mexican insurance industry must be limited until domestic companies are able to compete fully. The reforms will allow Mexican insurers an opportunity to participate in Mexico's economic growth.

Mexico's wages have been kept low by the frequent peso devaluation. The *maquiladoras* (Mexico's second largest foreign income eamer) process imported materials and components into exportable products that are destined for mainly U.S. markets. Mexico's 2,000 mile northem border area bas been edging out other countries, mainly the United States, as a low-wage job locale for unskilled workers.

Depending on the type and size of *maquiladoras,* construction typically takes 15 months. The U.S. multinationals' investment must be protected through the construction and post-construction phase. The contractors' all-risk policy protects all parties against losses arising from either direct damage or third-party liability. Policy limits and conditions that are adequate for a Mexican contracter may be insufficient for a U.S. multinational. The policy premiums and losses must be paid in the same currency in which a policy was written. It is expected that U.S. multinationals will purchase insurance directly in Mexico. These matters must be resolved before the F fA goes into full force.

Mexico's outlook for the future seems positive as a huge growth potential in the industry appears to be unravelling with the tripartite tracte agreement.

A 43% interest in Mexico's seventh largest insurance company, Seguros la Republica, was acquired by Commercial Union (CU), the UK composite insurance group for nearly U.S.$1 lm. CU is the first major international insurance company to establish a stake in the insurance business since President Salinas' government reforms liberalized foreign ownership rules in 1989. A 57% majority interest remains privately owned by Mexico.

José Manuel Martinez, Chairman and Chief Executive Officer of Spain's largest insurance group, Corporation Mapfre, stressed that Mexico has great development potential and is open to foreign investors. In 1990, Mapfre acquired a 49% stake in Seguros Tepeyac, a Mexico City insurer.

Potent Inducement

Sorne third world countries fear the ultimate effects of the tripartite trade agreement. Malaysia is calling for a dynamic east Asian bloc as it is worried that a North American Free Tracte Zone will harm the economics of third world countries.

Negotiations on Mexico's oil industry have been ruled out as the oil reserves are constitutionally protected. Mexico has one of the world's largest oil reserves. Now that the Middle East oil supply to the United States is being interrupted, Mexico has a definite advantage in trade negotiations with the United States.

As 1991 is an electoral year in Mexico, President Salinas' tough economic policies are largely dependent on the outcome of the trilateral trade negotiations. Through acquisitions, alliances or expansion of their operations, insurers worldwide have moved into one another's territories. Their motives are controlled by their chance to profit from the deregulation of developing markets and the developing markets need to acquire expertise.

510 For property/casualty insurers, a potent inducement to go worldwide is the multinational corporations' need for standardized insurance coverage worldwide. Contracts providing coverage for one or more types of risks in all countries in which the companies operate are the only way for large insurers to expand. It is expected that within the next decade approximately 12 elite underwriters will dominate insurance worldwide. Insurance companies' commercial clients are widely becoming international and need coverage the world over.

The Mexican Insurance Association, Associacion Mexicana de Institucionas de Seguros, and the Insurance Regulatory Commission will play important roles in Mexico's entry into the global economy. The current economic restructuring in Mexico will be a key factor in promoting the financial strength of Mexican insurance companies as well as opening the door to standardized insurance coverage worldwide.