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GLOBAL PENSION SCHEMES IN SPAIN AND LATIN AMERICA
How Governments and Insurers are responding to the Global Ageing Problem

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THE SETTING

In the Spanish and Latin American markets, pension schemes are shared between the public and private sector to a different degree according to the country in question, but generally speaking there is a definite tendency toward privatisation.

Chile, first, and then Mexico, Bolivia, El Salvador and more recently Nicaragua have become wholly privatised markets in the context of pension schemes. Colombia, Argentina, Peru and Uruguay are private markets, too, although they have kept public schemes for the elderly. Spain and Brazil have classical public schemes with various different supplementary private programs.

PROBLEMS AND TRENDS

Ageing and demographic changes are going to pose a serious problem for public schemes based on a pay-as-you-go system in future. Ageing is also a major cause for concern among private insurers in terms of life annuity programmes and mortality tables. Currently, public systems, as mentioned before, are responding to this situation and are tackling it in different ways: (a) trimming economic benefits; (b) putting men and women on the same level; (c) requiring more subscription-paying time for the same rights; (d) bolstering supplementary private schemes with substantial tax reductions for individuals and corporations; (e) setting up special funds to reduce the vulnerability of the pay-as-you-go system and (f) promoting private health care insurance, amongst other measures.

Public systems as they stand in countries such as in Brazil and Spain are not expected to disappear or give way to completely private systems. Public opinion would be clearly opposed to a decision such as that, and no party or politician would be prepared to tackle the situation that it would engender.

Private organisations, and insurance and financial institutions mainly, obviously have a more important role to play in this context, with only two main causes for concern: (a) mortality tables in life annuities and (b) matching assets and liabilities in countries where there are no developed capital markets. Ageing is becoming a growing problem as it is not taken into account or defined sufficiently in current mortality tables, and advances in health research are stretching life expectancy to hitherto unknown limits.

CHALLENGES FOR LIFE INSURERS

- New pension trends provide a great opportunity for life insurers in Spain and Latin America in the following fields, both for individuals and corporations: (a) up-dated products to help people set up supplementary saving funds and special life insurance programs (long-term life insurance, widow´s and orphan´s insurance, pension funds, etc); (b) post-retirement annuity programs; and (c) health care programs and services in cooperation with other institutions.

- These opportunities cannot be put into effect without making changes to classical business models, mainly by (a) defining and up-dating products to adapt to new needs with the help of actuarial departments focused on future prospects; (b) adapting the distribution network to cater for those needs and customers; (c) creating units or subsidiaries for developing new product services (long-term investment, health care assistance, pension fund administration, etc).

  In short, new life insurance companies should be clearly oriented towards saving, long-term products and supplementary services for the retired.

- A global approach is not foreseeable in the medium term except for special "products" offered to multinational corporations and partial international investment policies in some countries such as Mexico, Chile and Spain. Local strategies (products, distribution networks, investments...) will prevail for the time being.

- Insurance companies are expert in dealing with risks and assuring a minimum rate of interest in the long run. These are their main advantages compared with banks and mutual funds. Furthermore, the ageing concern puts non-insurance organisations into a different situation in terms of coping with long-term mortality tables. Legislation could also prove very helpful in providing additional tax benefits in long-term products or, at least, avoiding disadvantages with other similar financial products, as has in fact happened, unfortunately, in some countries.

On the other hand, for decades insurer institutions have been closer-at-hand to people in terms of solving problems that have to do with their families and property. The "personal touch" that insurers can offer can also be a great advantage, particularly when insurance cover is supplemented with services such as assistance and prevention programs.

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