



## Country Fact Sheets

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<b>'Zurich' Facilities</b>	<p>Administración de Seguros, S.A. (ASSA Group) Avenida Balboa y Calle 39 Apartado 5371 Zona 5 <u>Panama</u></p> <p>Tel.: 507-27 44 22 Tlx.: 2742 painsco Telefax: 507-27 36 06</p> <p>Branch offices in David, Colón and Chitré.</p> <p>Licensed to write: all lines. In practice, Administracion de Seguros writes all lines except for Life and Health.</p>
<b>Compulsory Insurances</b>	<p><u>Employee Benefits</u> (Workers' Compensation): Under the Social Security System the following are compulsory:</p> <ul style="list-style-type: none"><li>- old age pension</li><li>- pension for widows and orphans</li><li>- disability pension</li><li>- burial fund</li><li>- medical and hospitalisation benefits</li><li>- workers' compensation</li><li>- maternity benefits</li></ul>
<b>Major Insurance Laws</b>	<p>Insurance Law No. 55 of 20 December 1984 (revision of former Law of 1956) - regulates all insurance business in Panama.</p>
<b>Non-admitted Insurance</b>	<p>Not allowed, unless specifically approved by the Superintendency of Insurance.</p>
<b>Premium Taxes, Stamp Duties and Fees</b>	<p>A 2% premium tax is payable on all classes of business. On fire and allied lines a 5% Fire Brigade Tax is charged and on non-Fire general business a 5% tax also applies.</p>
<b>Exchange Controls</b>	<p>The Panamanian Balboa (B) is at par and freely exchangeable to US\$ which are also legal tender. Foreign currencies are available at market exchange rates.</p>

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ZURICH INSURANCE GROUP

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INTERNATIONAL DIVISION

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**Other Information**

The Superintendency of Insurance approves, in the Technical Council of Insurance, the rate manuals and the insurance plans in general (applies mainly to auto and fire).

A maximum of 50% of fire premiums can be reinsured outside Panama. However, the Superintendency may authorize an excess for special cases.

The Superintendency annually renews the licenses of brokers and agents.

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With the compliments of:

ZURICH INSURANCE GROUP  
International Division, Marketing & Information

Prepared March 1989

# **Latin American Presentation**

**Panama**

**May / June 1989**

**Latin American Representation  
Panama**

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## **1. General Country Information**

### **1.1. Historical Background**

The isthmus of Panama was discovered by Rodrigo de Bastidas in 1501. In September of 1510, the City of Santa Maria la Antigua del Darien was founded, the first permanent settlement on the mainland of the Americas. In 1513, Vasco Nuñez de Balboa led an expedition in Panama that discovered the Pacific Ocean. Panama City was founded by Pedro Arias de Avila on August 15, 1519 and in 1531, Francisco Pizarro departed from the city leading the expedition that conquered Peru. Panama was valued as a commercial route from Peru to Spain and enjoyed prosperity until 1671, when the pirate Henry Morgan destroyed Panama City.

Panama remained a Spanish colony until 1821 when it became independent and joined Colombia. In November 1903, after several attempts to achieve pure independence, Panama broke its alliance with Colombia to become a fully independent Republic.

### **1.2. Population**

	Total	Urban	Rural
1985	2,180,489	1,116,746	1,063,743
1986	2,227,254	1,147,837	1,079,417
1987	2,274,448	1,179,838	1,094,609

### **1.3. Culture**

#### **Language:**

The official language of Panama is Spanish. In the principal cities, many people also speak or understand English. Languages spoken by minority groups include Italian, French, Greek, German, Chinese and Hindustani.

#### **Religion:**

The majority of Panamanians are Roman Catholic. There is, however, freedom of worship.

#### **Education:**

Compared to other Latin-American countries, Panama's educational level is high. The illiteracy rate is low. The government invests a large portion of its economic budget in education, and there are three universities in Panama City, with branches of the University of Panama in David and in Colon, public elementary and secondary schools, as well as excellent private schools.

In the canal area, there are two colleges, one with a two-year programme and the other with a four-year programme. There are branches of Florida State University,

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Nova University, the University of Oklahoma and Florida International University in Panama. MBA's and other advanced degrees are available.

### **1.4. Geographic Information**

The Republic of Panama is located in Central America between the Republic of Costa Rica and Colombia. It has a tropical climate throughout the year with two seasons: a rainy season, lasting from May to December, and a dry season from January to April.

Panama's climate is pleasant with sea-level temperatures ranging from 21C to 32C. Average rainfall is 129 cm per year and average humidity is 80%. Nights are generally cool in the highlands, where temperatures range from 10C to 18C.

Panama is an isthmus connecting Central and South America. It has an approximate area of 77,082 sq km, including the canal region which borders the Panama Canal for an area of five miles in width on each side. The canal is about 50 miles long and joins the Atlantic and Pacific oceans. The Panama Canal, which had been under the jurisdiction of the United States up to October 1, 1977, was turned over to Panama by the Torrijos-Carter treaties signed on September 7, 1977. The treaties effected the abolition of the Panama Canal Zone as such, and the reversion of full jurisdiction over the area to Panama's Government by 1999. The treaties also provided for continued management and defense by the U.S. and Panama until the year 2000.

### **1.5. Government System**

The three forms of government in Panama are legislative, executive and judicial. The Legislative Assembly ("Asamblea Legislativa") is composed of legislators elected from each electoral district. Legislators are chosen by their parties and elected by direct popular vote.

Parties cannot be based upon sex, race or religion, nor can they promote the destruction of the democratic form of government. Panama is politically divided into nine provinces and the territory of San Blas ("Comarca de San Blas"). Each province is also divided into electoral districts, which are, in turn, divided into precincts. Districts have their own mayor and are represented in the Legislative Assembly by one legislator for every 30,000 inhabitants, plus one for any remainder which exceeds 10,000 people. A legislator is elected for a five-year term, along with two substitutes who serve if the legislator is unable to attend. Legislators must be at least twenty-one years old and citizens of Panama.

Executive power is held by the President and ministers of state. The President and two Vice-Presidents are elected for a five-year term, and cannot be re-elected for a consecutive term. Election is by a majority of direct popular votes. The President chooses the ministers of state, subject to approval by the Legislative Assembly.

Judicial power is vested in a Supreme Court, tribunals and other courts, as established by law. Supreme Court justices are named by a council ("Consejo de Gabinete") composed of the President, a Vice-President and ministers of state. All appointments must be confirmed by the Legislative Assembly. Individual and property rights are

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carefully detailed in the 1972 Constitution (the fourth since 1903), which was amended in April 1983 to provide greater rights to the people.

Panama encourages the development of private means of production. The government provides roads and health facilities, and builds and maintains the necessary infrastructure for economic development. Its role in industry is limited to those areas where private capital is not available and development is considered beneficial to the public welfare.

### **2. Economy**

Due to its privileged geographic position, Panama maintains an economy which is greatly dependent on foreign commerce. The primary export products are bananas, petroleum derivatives, marine products and sugar.

The monetary unit is the balboa, which is at par with the U.S. dollar and used interchangeably. The balboa does not exist at present in denominations over one dollar; U.S. paper currency is used instead.

Panama has felt the effect of the current worldwide recession, but has managed to continue to grow, though at a slower rate. In 1981, it was the only Central American country in which per-capita income did not decrease. The gross national product experienced a real growth in 1981 of 3.6%. Finance and banking, transportation, warehousing, communications and utilities, were the sectors that grew the most.

#### **2.1 General Description - Statistics**

As one of the smallest nations in Latin America, in area and population, Panama overcomes the limitations of its size by reason of its location, which links the northern and the southern hemispheres and provides a transit route between the Atlantic and the Pacific oceans. Panama's economy, as such, has historically been oriented towards domestic and foreign trade and services.

Economic Indicators	1985	1986	1987
- Gross national product at market prices (in 1970) (millions of dollars)	2,008.4	2,076.0	2,126.1
- Tourists entering the country (in thousands)	312.8	319.0	283.0
- Private construction, additions and repairs (Panama, Colon, Chitre and David) (millions of dollars)	143,300	181,669	203,419
- Electrical production (thousands of KWH)	2,456.5	2,586.0	2,671.2
- Free Zone imports (millions of dollars)	1,588.4	1,998.7	2,043.7
- Free Zone re-exports (millions of dollars)	1,779.7	2,198.5	2,285.8
- Registered automobiles in use (thousands of units)	171.5	178.0	240.2
- Telephones in use (thousands of units)	223.4	232.0	182.1



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Economic Indicators	1985	1986	1987
- Private investment (millions of dollars)	251.0	286.4	32.0
- Public investment (in 1970) (millions of dollars)	72.9	65.4	61.3
- Per capita income (in dollars)	2,093	2,143	2,148
- Outstanding government debt (at December 31) (millions of dollars)	5,078.9	5,338.1	5,252.6
- Price level to consumers in Panama City (1975 = 100)	163.2	163.6	165.0
- Economically active population- occupied (in thousands of per- sons over fifteen years old)	627	645	682
- Economically active population- unoccupied (in thousands of persons over fifteen years old)	89	76	90

### **2.1.1. Foreign Trade and Balance of Payments**

Panama is not a member of the Central American Common Market. Panama has, however, signed agreements with countries in Central America whereby certain items may be imported from or exported to these countries without any customs duties being imposed.

The country's principal exports are petroleum products, bananas, shrimp and sugar. Principal imports are fuel and lubricants, machinery and transportation equipment, manufactured goods, and chemical and food products.

Panama's import and export trade is concentrated in the Western Hemisphere. Countries in this hemisphere account for approximately 75% of both imports and exports. The United States is the country's major trading partner, supplying 30% of imports and taking 43% of exports.

Panama's traditional trading deficit is offset by surplus' earned in the service industry. The country has had net deficits in its balance of payments, which have been financed by credit from international sources, assisted by the banking industry in Panama. As Panama does not have its own paper currency or a central bank, the country owns no official foreign exchange reserves.

### **2.2. Regulations**

#### **2.2.1. Exchange Controls**

Panama has not issued paper currency and the U.S. dollar is used as the circulating medium. The balboa is at par with and equivalent to the U.S. dollar. Consequently, there is no need for an exchange control authority.

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There are no requirements for the registration of capital and no tax on the transfer of funds into the country. There are no controls over the repatriation of capital or retained earnings.

The absence of exchange controls and restrictions has generally been an advantage in attracting foreign investments.

### **2.2.2. Labour Relations**

#### Availability of Labour:

The labour force in 1987 was estimated to be:

Employed	681,141
Unemployed	89,331
Total labour force	770,472

#### Employer - Employee Relations:

The relations between employers and employees are governed by the Labour Code, collective bargaining agreements, company regulations and individual employment contracts.

The Labour Code was enacted by Cabinet Decree No. 252 of December 30 1971, and established comprehensive provisions concerning compensation, termination of employment, indemnification, labour contracts, unions and specific regulations for particular occupations. Companies considering doing business in Panama are advised to study the Code, particularly as it applies to their specific industry or type of activity. It is important to consult local legal counsel prior to commencing operations in Panama.

The Labour Code is administered by the Ministry of Labour and Social Welfare, which maintains Labour Courts and inspectors, and which appoints arbitrators in conciliation councils in all major cities.

The Code provides that all companies or establishments with ten or more employees are required to adopt internal company regulations which must be prepared and presented for approval to the Ministry of Labour and Social Welfare by the employer.

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### 2.2.3. Labour Costs Per Area

	Panama & Colon	David & Chorrera	Chitre & Sant (a)	Others
Minimum wage per hr \$	0.78	0.69	0.64	0.59
44 hrs/52 weeks (b)	2288 hrs	2288 hrs	2288 hrs	2288 hrs
Annual salary	1,784.64	1,578.72	1,464.32	1,349.92
Fringe benefits				
21.31 o/o (c)	380.31	336.43	312.05	287.67
Annual labour cost	2,164.95	1,915.15	1,776.37	1,637.59
Monthly labour cost	180.41	159.60	148.03	136.47
Working days (d)	250 days	250 days	250 days	250 days
Actual working hours	2000 hrs	2000 hrs	2000 hrs	2000 hrs
Cost per hours/ annual	1.08	0.96	0.89	0.82

a) Also applies to the banana crop areas

b) The Labour Code allows up to a 48-hr week, without considering overtime

c) Fringe benefits

Social security	10.75%	
Education Ins.	1.25%	
Workers compensation	0.98%	(varies between 0.56% and 2%, depending on the risk factor involved in the work)
One-month bonus	8.33%	(Employers are required to pay workers a yearly bonus equivalent to one month's salary payable in quarterly installments, commonly known as "the 13th month")

d) Yearly working-day profile

365 days - 115 non-working days = 250 working days	
Break-down of non-working days:	
Sundays	52 days
Half-day Saturday	26 days
Vacations	26 days
Holidays	11 days
Total	115 days

Note: Under the Labour Code, an employee is allowed up to 18 days of sick-leave.

### 2.2.4. Social Security

Coverage:

The Social Security Fund is an autonomous government agency. The social security system provides sickness, maternity, disability and old age benefits, widows' and

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orphans' pensions, funeral assistance and compensation for occupational death and injury.

### Payroll Costs:

Employers contribute 8.75% and employees 6.75% of the amount of wages or salaries, with no maximum limit on the taxable amount. In addition, employers pay 0.56% or more of the total payroll to cover the cost of providing compensation for occupational accidents. The percentage charged varies according to the type of industry and the degree of risk involved in the particular occupation.

Employers are required to withhold the 6.75% social security quota on salaries, wages and other compensation from all employees, and to make monthly payments to the Social Security Fund of 15.5% of the payroll reported, plus the applicable percentage in respect of occupational accident or workers' compensation coverage.

### Benefits: \* Old age and disability benefits

All insured workers who have contributed at least 180 monthly quotas, and are fifty-five years of age for females and sixty years of age for males, are entitled to old age benefits. The number of quotas required to be eligible for disability benefits is 36.

These benefits include a pension or disability compensation computed as follows:

1. 60% of the monthly base salary, which is the average monthly salary for the last five years on which the insured paid monthly quotas.
2. An additional 1% of the monthly base salary for each additional year the insured contributed to social security.

The social security law prescribes the geographical districts in which the social security system is mandatory for private persons or enterprises. In those districts, virtually all full-time employees are covered.

### \* Sickness and maternity leave

Employees are entitled to eighteen days annual sick leave with pay. Sick leave may be accumulated for two consecutive years. Female workers are entitled to leave without pay for six weeks preceding the birth of a child and eight weeks thereafter, and to retain their position as employees.

The Social Security Fund generally pays the fourteen weeks' wages to the employee, but in those cases in which the Social Security Fund is not obligated to pay for maternity leave, the employer is required to do so.

### Special Concessions:

The Ministry of Labour and Social Welfare grants special concessions to (1) executives of multinational companies that have Panama as their headquarters and do not perform any economic activities within Panama, and (2) internal auditors of multinational companies who need to perform the internal audits of their subsidiary or

affiliated companies. Certain special requirements must be fulfilled before the Ministry grants these work permits.

Executives working for companies domiciled in the Colon Free Zone are granted a special concession under Law No. 23 of 1977. In accordance with this Law, the Ministry of Labour will issue a work permit to these executives upon receipt of a written request from the General Manager of the Colon Free Zone.

### **2.3. Production**

#### **2.3.1. Basic Resources**

Panama's geographic location and configuration is often considered to be its principal natural resource. Geographic circumstances have historically made the Isthmus a transit zone and have resulted in a concentration of income in the terminal cities of Panama City and Colon, where the economy is based upon trade and services.

Thus, the economy of Panama is dominated by the services sector, which accounts for approximately 62% of the gross national product; agriculture and fishing account for 16% and manufacturing 13%. The major agricultural products are bananas, a leading export, rice and corn, which are staple foods. Shrimps, sugar and beef are also exported.

Mining accounts for less than 1% of Panama's gross domestic product. However, a number of copper deposits have been discovered in recent years, the largest of which is Cerro Colorado, located in the Chiriqui Province near the Costa Rican border.

#### **2.3.2. Natural Resources**

Undoubtedly, the principal natural resource of Panama is its geographic position. However, there are many natural resources which are still under-exploited. These include:

##### **Marine Resources**

Panama means, literally, "land of many fishes", and opportunities exist along its 2,857 km coastline to the Atlantic and Pacific oceans, whereby lobster, corvina, red snapper, calamary, herring and anchovies are the main catch. Its inter-oceanic canal serves as the principal navigation route of world commerce, supported by international ports, such as Balboa and Cristobal, and the new port of Vacamonte.

Although shrimp fishing is well developed, studies have shown that there is room to expand. Many fish species are not commercially fished, which allows for substantial areas for investment or growth.

##### **Forestry Resources**

Panama's tropical climate permits the existence of many forest zones with a great variety of trees, such as mahogany, cedar, oak, white wax taper, bitter etc.

## Mineral Resources

Besides large deposits of copper, Panama has small deposits of bauxite, manganese, magnetite, nickel, lead, zinc, mercury, silver, gold and platinum. These deposits have not been exploited yet, due to the high cost of development. As a result, the government is providing concessions to foreign companies for the exploitation and extraction of minerals.

### **2.3.3. Manufacturing Industry**

The manufacturing industry in Panama is a progressive one, which has been stimulated through customs exemptions and special tax laws, allowing the expansion, installation and operation of new enterprises by national as well as foreign investors.

The largest growth has been in small industries and in producers of consumer goods, such as foodstuffs, shoes, clothing, textiles, etc. Leather goods, paper goods, rubber, plastic and chemicals derived from coal, have also shown substantial growth.

### **2.3.4. Special Industries**

#### a) Banking Industry

##### General Description:

Cabinet Decree No. 238 of July 2, 1970 amended the banking laws and created the National Banking Commission, which is attached to the Ministry of Finance and Treasury. This Decree established three different kinds of banking licenses:

1. General - For banks organised under the laws of Panama and branches of foreign banks transacting business in Panama and abroad.
2. International - For banks organised under the laws of Panama, and branches of foreign banks that only do business abroad.
3. Representative - For foreign banks maintaining offices of representation in Panama but not engaging in the banking business for their own account.

The Decree establishes different capital and reserve requirements, and certain other conditions, depending upon the type of license.

##### Central Bank:

As Panama has not issued paper currency, it does not have a central bank and owns no official foreign exchange reserves. The utilisation of the dollar as its circulating currency has its juridical origin in Law 84 of 1904, which granted to that currency legal circulation in Panama.

##### Commercial Banks and other Financial Institutions:

Panama's banking is predominantly foreign. Its banks provide worldwide commercial banking services and offer good facilities for business throughout Latin America.

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There are fifty-two banks operating in Panama with a general license, including forty which are either branches or subsidiaries of foreign banks.

The principal reasons which have contributed to make the extraordinary expansion of the banking system possible are the following:

1. The utilisation of the dollar and the absence of controls on remittances.
2. Competitive interest rates.
3. Favourable fiscal laws that do not tax foreign income or interest earned on deposits with banks in Panama.

There are various government institutions that have been organised for specific purposes, including mortgage financing and loans to small farmers.

### b) Insurance

The regulation of the insurance industry in Panama is the responsibility of the Superintendent of Insurance.

Organisations or individuals that have policies of insurance on properties located in Panama, and persons residing in Panama who insure their lives with an insurance company not authorised to operate in the country, are subject to a fine of double the amount of the premium which, on the same risk, would have been paid to an authorised company. Furthermore, the insurance policy is considered as void and without value.

However, the Superintendent of Insurance may authorise, in advance, contracts of insurance with unauthorised companies when it can be proven that it is not possible to obtain such insurance from an authorised company.

### c) Panama Canal Area

The treaties between the United States of America and the Republic of Panama concerning the area formerly known as the Canal Zone, came into force on October 1, 1979. All business and organisations located in the former Canal Zone are now subject to the laws of Panama, including those related to fiscal and labour matters.

The treaty provided that natural and juridical persons engaged in business and non-profit making activities within the former Canal Zone, as of March 7, 1977, and presently continuing operations in the Panama Canal area, could continue such activities for a thirty-month transition period.

A number of laws affecting business activities in the Panama Canal area have been published and others are pending. This legislation covers taxation, labour, licensing etc. It is advisable for any company or individual with an interest in conducting any form of activity in the Panama Canal area to consult legal advise.

### **2.3.5. Colon Free Zone**

The Colon Free Zone (CFZ, or Free Zone) is an autonomous institution, and is located in Colon on the Atlantic side of the isthmus, near the northern entrance to the Panama Canal. It is a segregated commercial area where wholesale trade is transacted.

Due to Panama's advantageous geographic position and the advantages the CFZ offers to world commerce, which are detailed below, the Zone has been converted since its creation into an international commerce centre of great value to both foreign industries and the national economy.

The CFZ is an isolated area with no resident population and no retail trade. It is located adjacent to an operating port where goods may be imported, stored, modified, repacked and re-exported without being subject to custom regulations. The Free Zone has absolute exemption from import duties. There are no taxes on the export of capital or on the payment of dividends.

Due to the competent and efficient manner in which it is administered, and the annual volume and value of the goods handled therein, the CFZ has become the leading free zone in the Western Hemisphere, and the second-largest worldwide. In June 1982, about 465 commercial firms, which, in turn, represented more than 1,000 enterprises from 100 countries, operated within the CFZ area .

### **2.3.6. Panama, International Finance Centre**

Panama's geographic position, its function as a commercial centre of vital importance, and the growth of the Eurodollars' market opening new frontiers of monetary resource, are some of the most important elements contributing to the growth of Panama as an international banking centre.

Other immediate reasons include:

- Free circulation of the American dollar
- The absence of monetary controls on remittances of capital investments, or foreign exchange
- Tax exemptions on interest earned from foreign time and savings deposits
- Incentives provided by commercial legislation
- Legislative flexibility permitting the installation and operation of national and foreign banks
- Lack of taxes or restrictions on long-term deposits and savings in local banks
- Commercial development



### **3. Insurance Market**

#### **3.1. Our Local Cooperative Partner**

Administración de Seguros S.A.  
Avenida Balboa y Calle 39 Panama City,  
P.O.Box 5371  
Panama 5, Panama

Telex: 2472 "Painsco"  
Facsimile: (507) 27-3606

"Administración de Seguros, S.A." (Grupo ASSA), is an insurance management company formed from merging the portfolios of three Panamanian owned insurance companies in 1971:

Compañía Panameña de Seguros, S.A.,  
Compañía General de Seguros, S.A.,  
Compañía Interamericana de Seguros, S.A..

All three companies have more than 40 years experience. Most recently, the ASSA Group, as it is known, formed a fourth company:

ASSA Compañía de Seguros, S.A..

This company is wholly owned by the shareholders of the other three, and will eventually absorb all of the portfolio. ASSA provides all the underwriting, claims and engineering services for policies issued on behalf of the four companies.

ASSA writes all non-life insurance lines and has 27% of the market. It also has a controlling interest in "Metropolitana de Seguro de Vida, S.A", the fourth largest life insurer in Panama.

The Group has three branch offices strategically located throughout the nation:

- a) David            The second largest city in the western part of the isthmus. ASSA is the only company with an autonomous branch in David, that is, policy issuance, claims and other services are not referred to the home office, as is the case with the other companies located there.
- b) Colon            The office is located inside the Colon Free Zone area.
- c) Chitre            To service the central provinces.

#### **3.2. Regulations**

##### **3.2.1. Insurance Law**

Decree Law No. 17 of 1956, or the Insurance Law, was enacted to regulate activities of insurance companies operating in Panama. On December 1984, a new law was passed. Among the major changes were the following:

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- a) The minimum paid-in capital was increased to \$ 1,000,000.
- b) Non-life companies must submit their plans for approval to the Superintendent of Insurance.
- c) Unearned premium reserves for non-life companies were reduced from 50% to 35% of net premiums written.
- d) Uncollected premiums for over 90 days may not appear in the balance sheet.
- e) The authority of the Superintendent of Insurance was enhanced.

### 3.2.2. Insurance Supervision

The Superintendency of Insurance, a department of the Ministry of Commerce and Industry, is headed by the Insurance Superintendent. The Superintendent's responsibilities include reviewing and approving petitions to operate within Panama and ensuring that insurance companies and brokers meet the requirements of the Insurance Law dealing with minimum capital, guarantee deposits, reserve funds, investments and the filing of official reports.

To assist the Superintendent in the enforcement of the law, the Technical Insurance Council was established in 1970. The council consists of the Minister of Commerce and Industries (or his representative), two business executives appointed by the executive branch from national and foreign insurance companies (one from each), the Social Security Actuary Chief, and a representative from the Syndicate of Insurance Brokers, also appointed by the executive branch.

### 3.3. Statistics

#### 3.3.1. Local Direct Non-life Insurers (\*)

##### Gross Premiums Written 1987

1. ASSA Group	28,052,035
2. Compañía Internacional de Seguros	17,005,812
3. Aseguradora Mundial	7,701,655
4. Compañía de Seguros Chagres	7,701,645
5. Compañía Nacional de Seguros	7,665,933
6. Pan-American de Panama	5,643,544
7. Compañía de Seguros La Previsora	5,073,022
8. Compañía Colonial de Seguros	4,964,326
9. Western Insurance Co.	4,275,797
10. Interoceánica de Seguros	3,857,099
11. Compañía Universal de Seguros	3,099,127
12. Compañía Istmeña de Seguros	2,385,972
13. Real Panameña de Seguros	1,010,277
14. Cigna, Cia de Seguros Panama	859,940
15. Afianzadora y Reafianzadora Iberoamericana	394,379
16. Aseguradora Comercial de Panama	296,380
17. Aseguradora La Unión	240,664
Total	\$ 99,527,607

(\*) There are no state owned insurers in Panama

**3.3.2. List of Professional Reinsurers operating in Panama**

1. Alpha, Cia. de Reaseguros, S.A. (Storegrand)
2. Kansa Reinsurance (Latin America), S.A. (KANLA)
3. CIGNA Re
4. Taisho Marine and Fire Insurance Co.
5. Transatlantic Reinsurance Co.
6. Reaseguradora Iberoamericana, S.A.
7. Reaseguradora Nuevo Mundo, S.A.
8. Renasa Reinsurance Corp.
9. Saudit Egyptian American Reinsurance Co.
10. Reaseguradora Relat Internacional S.A.
11. Latinoamericana de Reaseguros, S.A.
12. Reaseguradora del Istmo S.A.

**3.3.3. Associations / Organisations**

- Panamanian Insurers Association
- Panamanian Reinsurers Association
- National College of Insurance Agents
- Panamanian Chamber of Insurance Brokerage Firms
- National Association of Insurance Lawyers

**3.3.4. Statistics for 1987 (in ,000 \$)**

Line	Premiums Written	Incurred Losses	Ratio
Fire & allied perils	28,239	15,148	53.6%
Automobile	35,797	21,992	61.4%
Marine cargo	11,691	5,561	47.6%
Marine hull	7,321	2,154	29.4%
Bonding	6,571	2,453	37.3%
Other	17,340	6,131	35.3%
	106,959	53,439	50.0%

**3.4. Intermediaries**

In order to operate as an insurance broker in the Republic of Panama, a broker's license must be obtained from the Superintendence of Insurance and Reinsurance. Most of the main international brokers are represented by a local correspondent:

Sedgwick Group	Corp. Continental de Corretaje
Alexander Stenhouse	Corp. Continental de Corretaje
Fred S. James	Corp. Continental de Corretaje
Corron & Black	Corp. Continental de Corretaje

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Marsh and McLennan	Ford, Sosa & Morrice
Rollins Burdick and Hunter	Ford, Sosa & Morrice
Johnson and Higgins	Ducruet, Sasso & Greene
Frank B. Hall	Kam And Asoc.
Citicorp Insurance Broker	Financiera de Seguros

The normal commission arrangement for business referred by an international broker is that the local broker keeps 70% of the commission and exports 30% to the international brokers. The standard brokers' commissions by line of business are as follows:

Fire (property)	25%
Auto (casualty)	15-20%
Marine cargo	10-15%
Surety	5%

For special accounts (international), with policies which have special conditions (all risks) on fronting arrangements, brokers will agree on special (lower) commissions.

### **3.4.1. Reinsurance Scene**

The Panamanian government, in a continued effort to develop its service-oriented society, took the advice of the 1974 Conference on the "Panama International Reinsurance Centre". Having a basically unaltered flexible corporation law dating back to 1927, it issued the Reinsurance Law of 22nd December of 1976, which boosted the number of companies devoted to the activity and, on December 20 1984 passed Law 56, which updated the previous law and also revised the Insurance Law.

Major highlights of the current law are:

1. Total exemption from taxes on earnings from reinsuring foreign risks.
2. Minimum initial capital of \$ 250,000.00, even though a 2/1 ratio of premium not retained and equity is required.
3. Only reserves resulting from the acceptance of total risks must be invested in Panama.
4. Availability of residence and work permits for up to five foreign reinsurance executives and technicians.
5. Annual audited financial statements to be presented within one year.
6. Brokerage and administration are also regulated.
7. The new law expands criteria on portfolio transfers and liquidation.

### **3.4.2. Reinsurance Commissions by Line**

- a) Fire & allied perils. Treaty commissions vary from 42% to 48% plus 7% tax (which includes the fire brigade charge of 5%). Facultative reinsurance commissions average 35% plus 7% tax.
- b) Casualty and marine cargo. When treaties are proportional, commissions vary from 25% to 35% plus 2% premium tax. Facultative commissions can average 22% plus 2% tax.

- c) Surety bonds. Treaty commissions fluctuate from 20% to 28%, plus 2% tax, and facultative average 17.5% plus 2% tax.
- d) Engineering and all risks property business is mostly facultative, and commissions are agreed on a case by case basis, depending on whether there is a broker or the business is placed direct.

### **3.4.3. Reinsurance Cessions**

The Insurance Law states that no more than 50% of fire insurance premiums can be ceded abroad, but the market has interpreted this to be based on the full year premium, thus permitting a company to cede more than 50% of any one risk as long as the total cessions of a year's portfolio do not exceed the 50%.

## **4. Property**

### **4.1. Fire and Allied Perils**

This is the only line of business subject to a tariff regulations by the Superintendence of Insurance, which has to approve any special rates for loss protection or any other reason. Because of competition, there are some violations from the tariff, which is considered one of the highest in the region.

Industrial "all risks" coverages are available on a selective basis and do not fall under the tariff rating structure.

Basic Coverage:

Against direct damage by fire and/or lightning, water and other efforts to suffocate the fire.

Additional Perils:

Covered by endorsement:

- a) Explosion
- b) Earthquake
- c) Hurricane, windstorm
- d) Vehicle impact, falling aircraft
- e) Extended coverage (all of above)
- f) Flood
- g) Flood (broad form, which includes water damage)
- h) Strike, riots and civil commotion
- i) Malicious damage
- j) Debris removal
- k) Loss of profits or business intemption, or loss of rent
- l) Theft following SRCC
- m) Unearned premium

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### Limitations:

- a) Actual cash value unless a replacement value endorsement is included.
- b) Coinsurance clause (80%)

### Conditions:

- a) Automatic reduction of sum insured after paid losses, unless unearned premium endorsement is included.
- b) Cancellation - by the insured any time subject to short rate premium return - by the insured with 15 days notice and pro rata
- c) Fraud
- d) Arbitration

### Underwriting Considerations:

- a) **Earthquake:**  
The isthmus of Panama is bordered by two faults. One on the very far west which fades into the Pacific, and the other that runs north-east to become the Caracas fault. Almost 80% of the property insured is in the central part of the isthmus, that is, in the provinces of Panama and Colon (where the Panama Canal crosses), where the earthquake exposure is minimal. The nearest epicenter is recorded about 500 km from these two provinces.
- b) **Hurricanes, floods:**  
Never has a major hurricane come close to the Isthmus of Panama.
- c) **Civil Commotion.**
- d) **Business interruption:**  
Less than 5% of the fire policies carry this coverage. The ones that do, are mostly on an agreed value per month basis.
- e) **Protection:**  
Panama is very humid almost all year round. Fire protection is basic; fire extinguishers and fire hoses. There are very few sprinkler systems, and no HPRR risks. The construction code is very strict, anti-seismic and based on the California Code.

## **5. Casualty**

### **5.1. Automobile**

There is no compulsory auto insurance in Panama. Only about 60% of the licensed vehicles are insured. Rates and policy wordings are not subject to regulation, but competition keeps them similar.

Basic Coverage:

- a) Third party bodily injury
- b) Third party property damage

Coverage includes defense costs. Because of lack of awareness of civil rights, liability limits average 10/20/10. The lowest available is 5/10/5. The highest liability award has not exceeded \$ 100,000.00.

Limits of 100/300/100 are readily available, and even higher if needed.

Optional Coverage:

- a) Medical payments. Reimbursement of medical payments for occupants of the insured vehicle (private passenger only). The basic liability coverage excludes passengers. The basic limit is \$ 500.00 per passenger and can go up to \$ 5,000.00 per passenger.
- b) Collision. Based on actual cash value. Deductible averages about 4% of insured value for private passenger, and can up to 10% for commercial vehicles.
- c) Comprehensive. Any other physical damage to the insured vehicle except collision and the normal exclusions (confiscation, war risks etc.) This coverage is available for private passenger automobile only. The deductible is around 1.5% of insured value.
- d) Fire and theft. Available for commercial vehicles.

## **5.2. Workers' Compensation**

Compulsory under the social security system.

## **5.3. General Liability Insurance**

Panama's legal system is based on the Napoleonic Code. A lack of awareness means that professional liability insurance, for example, is non-existent.

Product liability insurance is available but no losses have been recorded.

## **5.4. Various**

### **5.4.1. Burglary / Theft**

Of all crime insurance, burglary has the highest loss ratio. Despite strict underwriting measures, experience is getting worse. Fortunately, the volume is insignificant and still does not make a major effect on overall results.

#### **5.4.2. Surety**

After a bad experience during the mid-seventies, the Insurer's Association created a tariff which is not regulated by the Superintendency of Insurance, but applied by all in the surety business. The loss ratio has been kept under 10% for the last decade.

The present economic situation has seen the construction industry hit in its all-time low. Practically the only construction activity is in the Panama Canal Area, where the surety must appear in the U.S. Treasury List.

The ASSA Group has an approved capacity of \$ 2,000,000.00 per contract. For excess capacity, fronting arrangements must be made.

#### **5.4.3. Engineering Insurance**

Most of the wordings are based on the Munich Re form. This line was developing very satisfactorily until the economic stand-still of the last two years, particularly CAR.

Machinery Breakdown has also slowed down.

Renewing lines like electronic equipment insurance has been no real problem.

### **6. Marine Cargo / Aviation**

Marine cargo is the third most important line in premium volume, mainly because of the activities of the Colon Free Zone, which moves about US\$ 5 billion of imported goods from all over the world to be re-exported.

The market is open, that is, there is no tariff and competition is very fierce, especially in the Free Zone. The claims service is inefficient. There are various surveying firms (Lloyd's agents, Toplis and Harding, besides the local firms).

#### **6.1. Marine Hull**

Limited to small fishing vessels and private yacht insurance. The premium volume accounts for less than 5% of the total property and casualty market.

#### **6.2. Aviation**

Commercial aviation is fronted locally and placed in the international aviation markets. Private and industrial aid aircraft are heavily reinsured abroad as well. As all other casualty lines, there are no restrictions on reinsurance ceded.



## **7. The Future**

Panama's economy has suffered the consequences of the current political situation. However, less than two years after it started, the country's political and economic crisis has already peaked and turned around favourably. The toll can not be denied: more than 20% decrease in the GNP, double-digit unemployment, lost revenue and restrictions. Additionally, political problems within the country have led to an atmosphere of distrust, causing many foreign investors to leave this attractive finance and banking centre.

On the positive side, we are at least now seeing some consensus on the reasons that caused this crises; indeed, many view the current situation optimistically, believing that the banking business is not yet lost and that as soon as the political situation improves, money will flow back into the country.

## Overview of Perils Insured Against in Basic Fire Policy

### Panama

- |   |                  |   |                                     |
|---|------------------|---|-------------------------------------|
| a | Fire             | b | Sprinkler Leakage                   |
| a | Lightning        | c | Collapse                            |
| b | Explosion        | b | Smoke                               |
| b | Aircraft         | c | Sonic Boom                          |
| b | Windstorm        | c | Molten Material                     |
| b | Hail             | c | Radioactive Contamination           |
| b | Vehicle Impact   | b | Earthquake                          |
| b | Strike           | b | Volcanic Eruption                   |
| b | Riot             | b | Flood                               |
| b | Civil Commotion  | c | Snow Pressure                       |
| b | Malicious Damage | c | Landslide                           |
| b | Vandalism        | c | Tenants & Neighbours<br>Liability   |
| c | Sabotage         | b | Theft during Loss                   |
| c | Terrorism        | c | All Risks available (local<br>form) |
|   |                  | a | All Risks (fronting)                |
- 
- |   |                                       |
|---|---------------------------------------|
| a | Perils covered in a standard policy   |
| b | Perils can be added by endorsement    |
| c | Perils cannot be added by endorsement |