



Country Fact Sheets

Zurich' Facilities Whenever insurance coverages in Paraguay are required by "Zurich" clients, the regional office in Buenos Aires, Argentina will ensure the optimal coverage with the appropriate local company in each individual case.

Compulsory Insurances None

Major Insurance Laws Decree-Law No. 17840 of 1947
- regulates the Incorporation, operation and supervision of the insurance companies, insurance contracts and agencies.

Non-admitted Insurance Not allowed, except for marine (cargo) insurance.

Premium Taxes, Stamp Duties and Fees Taxes and charges amount to approximately 13.5%.

Exchange Controls The Paraguayan Guaraní (G) is freely convertible and transferable.

Other Information There are no restrictions for placement of reinsurance abroad, but a tax is charged on net premiums.

The insurance market is partly tariff and non-tariff. Compulsory rates exist for fire, motor and personal accidents.

Policies in foreign currencies are not possible.

Supervisory institution: Banco Central del Paraguay División Contralor de Seguros, Ahorro y Capitalización.

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ZURICH INSURANCE GROUP
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Latin American Presentation

Paraguay

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**Latin American Presentation
Paraguay**

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1. General Country Information

1.1. History

The original inhabitants of Paraguay were the Guarani Indians. When the Spanish arrived in the country they met little resistance and, when Jesuit missionaries began arriving in 1609, a very close relationship developed. The Jesuits introduced them to townships, the so-called "reductions", where they helped to build magnificent churches. Some of the natives were even given a thorough classical education.

When the Jesuits were eventually expelled, the new masters reduced the Indians to servitude and the churches that they had built were reduced to rubble.

Unlike other South American countries, Paraguay achieved independence from the Spanish colonists without bloodshed. However, during the war against the "Tripartite Alliance" (Argentina, Brazil, Uruguay) from 1865 to 1870, the country suffered severe losses. A population of 800,000 before the war was reduced to 194,000, with only 14,000 male survivors. Furthermore, the country lost 156,000 sq km of its territory, as well as its gold reserves. Wars with Bolivia over the Chaco, between 1929 and 1935, further interrupted the process of recovery.

After the Chaco Wars, political disorder characterised the country for a number of years. This period came to an end with the seizure of power by General Alfredo Stroessner in 1954.

1.2. Population

Paraguay has over 3.8 million inhabitants, roughly 40% living in towns. There are two official languages, Spanish and Guarani, and most of the population is bilingual. After 1870, a certain number of European immigrants arrived, whose descendants are still very influential in the social life of Paraguay today. Various religious and ideological communities were among them. The Mennonites, mostly of German descent, are most notable.

1.3. Climate

The climate is subtropical, with well defined seasons. Temperatures vary considerably, although in summer approximate 25C. The autumn is mild but nights are cold. During winter, temperatures can fall to 5C. Temperatures below 0C, however, are rare, and it never snows. From October to April there is often heavy rainfall.

1.4. Geography

Paraguay has no access to the sea. Its area is 406,752 sq km and is bordered by Argentina, Bolivia and Brazil.

To the west of the Paraguay River is the Chaco, a flat and infertile region, which occupies roughly 60% of the country, although is sparsely inhabited.

East of the Paraguay River is the more prosperous part of the country, a rich land marked by gently rolling hills, in which most of the population is concentrated.

1.5. Political Powers

The country's present constitution was established in 1967. Executive power rests with the President, who is elected for a five year term and who - unique in Latin America - can be re-elected immediately. A two-chamber congress administers legislative matters.

Voting is undertaken by secret ballot and is obligatory for all citizens over 18.

1.5.1. Legal System

Paraguay has a positivist legal system, similar to most other Latin American countries. Following the principals prescribed by the Napoleonic Code, legislation is codified and judges apply written law to concrete cases.

Judicial precedent is not binding for a judge in his decisions.

2. Economic Situation

The GNP (annual rate), changed as follows during recent years:

1986	- 0.3 %*
1987	4.3 %

The division of the GNP (for 1987*) into the various branches of industry was as follows:

Agriculture	25.3 %
Mining	0.4 %
Industry, Construction Ind.	22.2 %
Electricity	2.8 %
Transportation	4.6 %
Trade	27.4 %
Other Service Industries	17.3 %

Per capita GNP for 1987 (US \$) was 995

* Preliminary figures

Source: "Banco Germanico de la América de Sud"

2.1. Structure of Economy

Farming employs 50% of the labour force and accounts for 27% of the GNP. Agricultural exports earn over 93% of Paraguay's foreign exchange, with normally about 80% coming from cotton and soya.

The massive hydroelectric scheme undertaken by Brazil and Paraguay at Itaipu, on the River Paraguay, is reported to be the largest of its kind in the world. This project inspired the opening of a steel plant and the development of a local cement industry, which are both state owned. Shipbuilding and the distillation of alcohol are also run by the State.

2.1.1. Foreign Exchange Reserves

Foreign exchange reserves in 1988 are estimated at US \$ 340 million.

Source: "Memoria y Balance de la Federacion de la Produccion, la Industria y el Comercio (FEPRINCO) 1987/88"
"Foro De Economia (CPES)"

2.1.2. Trade Deficit / Surplus

	Exports FOB \$ mn	Imports FOB \$ mn	Trade Deficit/Surplus
1985	315.3	562.8	- 247.5
1986	573.4	735.8	- 162.4
1987*	635.0	861.0	- 226.0

Source: EIU Country Report No. 3 1988

2.1.3. Inflation

Consumer price inflation:

1986	32.0%
1987	32.0%
1987/88	33.9%

Source: "Banco Germanico de la América del Sud"

2.1.4. Economic Problems

Paraguay's economy is hampered by

- The foreign debt
- Growing inflation during 1988
- High unemployment; official statistics speak of 8% but it is said to be around 20%

- Negative prospects for the tourism and construction sector
- Paraguay's diplomatic isolation, which has repercussions on trade relations (e.g. strained relations with the US).

2.2. Government Regulations

2.2.1. Exchange Control Regulations

There are no exchange restrictions in Paraguay. The local currency is the Guaraní.

There used to be a multi-tier exchange rate system; the two lowest rates, PYG 240 and PYG 320, which were used for certain state company imports and for servicing the public debt, were abolished in July 1988.

Servicing the public and foreign debt is now undertaken at an exchange rate of PYG 400 per US \$. Another rate, PYG 550, serves for private sector exports, agricultural imports and foreign loan disbursements.

The free market rate varies considerably from these official rates.

2.2.2. Membership in Economic Groups

Paraguay participates in a number economic organisations, among others ALADI (Latin American Integration Association) and BIRF ("Banco Internacional de Reconstrucción y Fomento" - World Bank).

2.3. Production

2.3.1. Raw Materials

The country suffers from a serious lack of hydrocarbons. Exploration is presently under way in the east of the country and in the Chaco, so far without success.

2.3.2. Manufacturing Industry

Manufacturing is almost completely concerned with processing the country's agricultural produce and, therefore, directly related to the performance of this activity.

2.3.3. Commerce

Principal registered exports in 1987* were:

	\$ million
Soya	122.8
Cotton	101.0
Meat & products	28.1
Timber	25.1
Hides	13.8
Total (including others)	353.4

* Provisional figures

Principal registered imports for 1987:

	\$ million
Machinery	151.9
Fuels & lubricants	102.8
Vehicles & parts	47.9
Beverages & tobacco	41.6
Chemicals	25.9
Total (including others)	509.3

Source: EIU Country Report No. 3 1988

2.3.4. Service Industries

All service industries in Paraguay are in the hands of private individuals.

2.3.5. Agriculture

Agriculture is of vital importance to Paraguay's economy. Traditionally, raising livestock used to be the backbone of the economy, but, as a result of low world market prices, the cool reception of Paraguay's meat in the European market and the permanent smuggling of cattle to Brazil and Argentina, exports of meat are rather stagnant now.

On the other hand, the unofficial "export" to Brazil compensates the cattle ranchers for this loss.

Generally speaking, one can say that the agricultural sector is performing quite well at the moment. Cotton and soya output in the season 1987/88 was very satisfactory, partly due to favourable weather conditions, and amply surpassed the figures of the preceding record year. Cotton production almost doubled from 252,100 tons to

around 500,000 tons, while soya registered an increase of 32.1%. This makes soya first on the list of export revenue earners.

Largely as a result of these developments, GNP growth for 1988 is expected to be around 5%, which is good in comparison with the neighbouring countries.

2.3.6. Exports - Imports

The overwhelming majority of Paraguay's exports originate from the agricultural sector, with cotton and soya being by far the most important single products. Also of importance are timber, tobacco, tung and other essential oils, as well as "quebracho".

Among the imports, machinery, fuels and lubricants stand out as being particularly important.

2.3.7. Major Export Markets

The destinations for Paraguay's major exports in 1987 were:

	% of Total
Netherlands	18.0
Brazil	17.6
Argentina	15.2
West Germany	13.5
Switzerland	6.8

Source: EIZ (The Economist Intelligence Unit, London) Country Report No. 3 1988

3. Insurance Market

Whenever insurance coverages in Paraguay are required by "Zurich" clients, the regional office in Buenos Aires takes care of obtaining the appropriate coverage with the best company for each case individually.

3.1. Insurers

Some 35 insurance companies were operating in the Paraguayan market in 1985/86, several of them also being active as reinsurers.

3.2. Regulations

3.2.1. Insurance Laws

Decree-Law No. 17.840 (1947) regulates the incorporation, operation and supervision of insurance companies, insurance contracts and agencies.

3.2.2. Insurance Supervision

The market is supervised by a special section within the Central Bank, that is, the "Banco Central del Paraguay, Division Contralor de Seguros, Ahorro y Capitalizacion".

3.2.3. Requirements

The minimum capital required for authorisation to operate is US\$ 150,000 (can be 100% foreign capital or mixed). Authorisation to operate must be obtained from the supervisory authority and applications must be accompanied by incorporation papers, information about the liens of insurance the future insurance company intends to deal in, insurance plans, models of policies etc., and for agencies or branch offices of foreign companies, the balances and company reports for the previous five years.

New local companies may be founded only in the form of joint-stock companies.

3.2.4. Non-Admitted Insurance

According to Art. 44 of Decree-Law No. 17.840, insurance for risks located in Paraguay may not be effected abroad, the only exception being marine cargo insurance.

3.3. List of Direct Insurers

The insurance market was divided among the following companies in Paraguay (in 1985/86) as follows:

Rank	Company	Market Share (%)
1	La Consolidada	7.37
2	Mundo	5.51
3	Fenix	5.03
4	La Paraguaya	4.96
5	Aseguradora Paraguaya	4.42
6	Central	4.34
7	La Rural	3.98
8	América	3.96
9	Seguros Generales	3.57
10	Nane Reta	3.56
11	Alianza	3.46
12	El Comercio	3.44
13	Yacyreta	3.11
14	Universo	3.08
15	El Sol	2.94
16	El Productor	2.66
17	American Home	2.52
18	Planeta	2.46
19	Grupo General	2.45

Rank	Company	Market Share (%)
20	Atalaya	2.39
21	Seguridad	2.23
22	Real Paraguaya	2.21
23	Garantia	2.04
24	Intercontinental	1.98
25	La Agricola	1.91
26	Nanawa	1.83
27	Cristal	1.79
28	Rumbos	1.77
29	Hartford Fire Chaco	1.47
30	La Independencia	1.45
31	La Previsora	1.41
32	Patria	1.15
33	La Continental	1.11
34	Proteccion	0.96

3.3.1. Cashed Premiums / Paid Losses 1985/86 (Guaranties)

Line	Premium	%	Losses	%
Life	353,360,967	3.20	89,032,849	2.67
Fire	3,770,638,962	34.16	391,867,559	11.76
Marine	927,786,192	8.41	176,710,931	5.31
Personal Accidents	216,861,713	1.96	18,701,015	0.56
Car Passengers Accidents	41,720,958	0.38	1,760,173	0.05
Passengers Accidents (Paid Transport)	66,343,332	0.60	53,598,416	1.61
Motor	3,850,815,572	34.89	2,238,479,922	67.20
Liability	9,089,236	0.08	758,700	0.02
(Violent) Robbery	152,577,552	1.38	127,489,786	3.83
Glass	8,560,436	0.08	422,535	0.01
Aviation	468,641,378	4.25	92,492,299	2.78
Miscellaneous Risks	978,461,543	8.87	137,376,081	4.12
Guarantee	188,976,510	1.71	2,314,487	0.07
Technical Insurance	2,730,952	0.02	0	0.00
Total	11,036,565,303	100.00	3,331,004,753	100.00

3.3.2. Statistics

The annual market statistics ("Análisis Estadístico Consolidado") are not published by the supervisory authority, but by the Association of Insurance Companies. However, the most recent issue published is the one for the period 1985/86, so that up-to-date statistical information on Paraguay's market is, unfortunately, not yet available.

3.4. Intermediaries (Agents, Brokers)

Art. 32 - 36 of Decree Law No. 17.840 refer to the incorporation and operation of insurance agents.

3.5. Reinsurance

3.5.1. Reinsurance Scene

Reinsurance cessions abroad are possible without any restrictions. A tax of 8% on net premiums is applied.

Compulsory cessions do not exist.

Policies on a coinsurance basis are not very common. In general, one insurer writes a policy for the full sum required and cedes the amount exceeding this by means of facultative reinsurance.

3.5.2. R/I Commissions under Treaties and Facultative Business

Standard commissions for facultative cessions are:

- | | | |
|---|-----------|--------------|
| - | Fire: | 35% - 40/42% |
| - | CAR / EAR | 25% |
| - | Marine: | 20% |
| - | Rest: | 25/30% |

3.5.3. Associations and Institutions

The "Asociacion Paraguaya de Companias de Seguros" represents the country's insurance companies and, among other functions, undertakes detailed market analyses.

3.6. Underwriting Per Line of Business Tariff/Non-Tariff Situation

Rating: Paraguay is fundamentally a mixed market. Strictly observed tariffs controlled by the supervisory authority exist for fire and extended perils, motor insurance, personal accident and passengers' third party. The remaining lines are free from tariffs.

3.6.1. Compulsory Lines

There are no obligatory covers.

4. Property Insurance

4.1. Property Insurance Standard Fire Coverage

The basic fire policy includes fire, lightning and explosion. A number of additional risks are available by endorsement, such as:

- Windstorm
- Aircraft
- Hail
- Vehicle impact
- Smoke
- Sprinkler leakage
- Strike, riot and civil commotion
- Vandalism and malicious mischief
- Flood (not due to rain)
- Earthquake (there is, however, no demand for this risk)

Considerable rebates are granted for fire protection installations, for instance 10% for hydrants and hand extinguishers, and 45% for sprinklers (double supply).

Most policies are issued on a depreciated value basis.

For large scale claims, independent loss adjusters are hired who are paid by the insurance companies.

4.1.1. All Risks

This type of policy does not exist in Paraguay.

4.1.2. Business Interruption

There is no tariff for this coverage. Rates are based on the fire rates for contents and the indemnity period is usually 12 months.

4.2. Catastrophe Exposures

Earthquakes do not occur in the country and the exposure to other catastrophes is small. Consequently, there is no demand for this type of insurance.

5. Accident

5.1. Motor

The most common coverage is a combination of a liability and physical damage automobile policy (this does not include passengers liability, which can be added by endorsement).

Deductibles are not allowed.

5.1.1. Fleets

Discounts of 5% for 10 and of 10% for over 20 vehicles are awarded.

5.2. Workers' Compensation and Employers' Liability

This branch cannot be written by insurance companies in Paraguay, since it is handled by the National Pension Fund.

5.3. Liability (General and Products)

5.3.1. Coverage

This line covers the insured's legal liability for damage caused to third parties (bodily injury and property damage) within the period and the territory established by the policy. The coverage includes those persons the insured is legally liable for. Family members of the insured or persons working for him are not considered to be third parties. Unless otherwise agreed, damages caused by riot or strike, liability risks in connection with aircraft, watercraft or motorcraft, and objects under the care, custody or control of the insured, are not covered.

Other exclusions are:

- Fines
- Contractual liability exceeding the insured's legal liability
- Fraud or damage caused intentionally
- War, civil war or other types of internal commotion

Products liability is written as part of the general liability policy. So far, there have been practically no large claims in Paraguay for either general or for products liability.

5.3.2. Legal Base

Legal liability is regulated in Paraguay's Commercial Code.

5.4. Various

5.4.1. Burglary / Theft

Interest in crime coverage is growing. Burglary and theft policies are mainly sold for private dwellings and shops. Insurance of cash in transit has had a relatively good loss experience, yet this line is not written very often.

5.4.2. Bonds

There are a number of companies specialised in this field. The following coverages are available:

- Individual bond
- Name schedule bond

- Position schedule bond
- Banker's blanket bond
- Machinery breakdown

Coverages for machinery breakdown, as well as business interruption as a consequence of machinery breakdown, are theroretically available, yet there is virtually no demand for this insurance by local firms.

5.4.3. Surety

Fidelity insurance sells relatively well.

6. Marine, Aviation and Transit Marine Cargo

It is not required that marine cargo insurance must be placed with a local insurer. Insurance in foreign currencies within Paraguay is permitted when the beneficiary resides abroad.

6.1. Aviation

This risk is written by various companies, which offer coverages for hull, aircraft liability and products liability.

7. Future

7.1. Politics

On August 15, 1988, General Alfredo Stroessner inaugurated his eighth consecutive term of office, after having been re-elected for another five years. However, in early 1989, after thirty-four years of rule, Stroessner was deposed in a coup. His successor, General Andrés Rodríguez, was spurred into action as militants tried to maneuver him into retirement or into the figurehead post of defense minister.

7.2. Social and Economic

The contribution of the hydro-electrical plants of Itaipu and Yacyreta to the GNP is still small (approx. 3%), but it is hoped that the export of energy will be a significant source of income in the future. It is also less susceptible to climatic variations than agriculture. Paraguay's greatest problem is its foreign debt.

It is estimated that the repayment of debt will use up about 70% of all of the country's export revenues in 1988. In view of this situation, a rescheduling of the foreign debt seems probable.

* Source for all insurance information (unless otherwise indicated) was:
"Asociacion Paraguaya de Companias de Seguros Analisis Estadistico Consolidado 1985/1986"

Overview of Perils Insured Against in Basic Fire Policy

Paraguay

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