



## Country Fact Sheets

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**Zurich Facilities**

Aseguradora Suiza Salvadoreña, S.A.  
Apartado 1490  
San Salvador

Tel.: 23 211 11  
Tlx.: 20581 asesuisa  
Telefax: 503-23 16 88

Licensed to write: all lines of insurance, except credit.

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**Compulsory Insurances**

Employee Benefits: Compulsory Salvadorean Social Security program supported by the government, employers and employees.

Provides for:

- old age pension
  - pension for widows and orphans
  - disability pension
  - burial fund
  - medical and hospitalization benefits
  - workers' compensation
  - maternity benefits.
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**Major Insurance Laws**

There are no insurance laws as such in El Salvador. The Code of Commerce contains 157 articles, which regulate the insurance business up to a certain point.

The Monetary Junta is the highest authority in financial matters, including those of the insurance business.

The Superintendency of Financial Institutions must approve all insurance plans and recommends measures pertaining to the insurance business.

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**Non-admitted Insurance**

Non-admitted insurance is not prohibited, except for fire risks.

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**Premium Taxes, Stamp  
Duties and Fees**

The insurance business is subject to the following taxes:

1% on insured sum, on claims, on dividends.

0.5% on premiums.

5.0% on sale of recoveries and on loans if not regulated by particular laws.

0.40 Colon cents per certificate, addenda, etc.

Premium refunds and recuperations are taxed according to a special rate in relation to value.

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ZURICH INSURANCE GROUP

INTERNATIONAL DIVISION

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**Exchange Controls**

The Salvadorean Colon (¢) is freely exchangeable. Foreign Currency is controlled by the Central Bank and is available prior to submittance of special forms. (Fixed official rate since 1985: Col. 5.00 = US\$ 1.00)

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**Other Information**

All classes of business, except aviation, are subject to tariff rating, although the marine cargo tariff is not strictly applied.

Insurance rates, policy forms and conditions are promulgated by the Asociación Salvadoreña de Empresas de Seguro and must be submitted to the Superintendencia de Instituciones Financieras for approval.

Reinsurance can be freely placed. Brokers and agents (nationals) must be registered with the Superintendencia.

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With the compliments of:

ZURICH INSURANCE GROUP  
International Division, Marketing & Information

Prepared April 1989

# **Latin American Presentation**

**El Salvador**

**May / June 1989**

**Latin American Presentation  
El Salvador****Content**

<b>1.</b>	<b>General Country Information</b>	<b>4</b>
1.1.	History	4
1.2.	Population	4
1.3.	Climate	4
1.4.	Geography	5
1.5.	Political Powers	5
1.5.1.	Legal Systems / Legislation	
1.6.	Infrastructure	6
<b>2.</b>	<b>Economic Situation</b>	<b>6</b>
2.1.	Economic Development	6
2.2.	Economic Outlook	7
2.3.	Taxes	8
2.4.	Currency	8
2.5.	Inflation	8
2.6.	Foreign Investment	9
2.7.	International Organisations	9
2.8.	Structure of the GDP (Current Prices)	9
2.9.	Public Finance	10
2.10.	Agriculture	10
<b>3.</b>	<b>Insurance Market</b>	<b>10</b>
3.1.	General Report	10
3.2.	Insurance	11
3.3.	Intermediaries	12

3.4.	Reinsurance	12
3.5.	Statistics	12
3.6.	Underwriting	12
3.6.1.	Property	
3.6.2.	Personal Insurance	
<b>4.</b>	<b>Appendix</b>	<b>13</b>

## **1. General Country Information**

Upon entering the country by air, one is struck by the amazing variety of landscape compared to El Salvador's neighbouring Central American countries; the majestic form and structure of the mountains and volcanoes, the many valleys, plains and rivers.

To the south of the country lie the central volcanic plateau and from the coastal plain rise the symmetrically-planted cotton fields.

To the north, the highlands climb to the Honduran mountains, which are covered by several types of land use systems reflecting the diversity of the region.

### **1.1. History**

El Salvador was discovered by Andrés Niño in May, 1532, and conquered by Don Pedro de Alvarado who had to fight strong resistance from the "Pipiles", commanded by Atlacatl.

Natives called the land "Cuscatlán", and it kept this name until 1786 when the Intendance of El Salvador was established. Together with the other Central American countries, it formed the Kingdom of Guatemala and eventually won independence on September 15, 1821.

On June 12, 1824, the first constitution of El Salvador was promulgated, replacing the former Intendance of El Salvador by the State of El Salvador, with the capital at San Salvador.

### **1.2. Population**

El Salvador is the most densely populated Latin American country, with 234 inhabitants per sq km, and a population of about 4.9 million.

The population growth rate is about 3.5% (1986 figures); if this rate remains unchanged, the Salvadoran population will grow to about 10 million by the year 2000. However, demographic policies have been designed to reduce population growth by 33%.

The people of El Salvador are almost entirely mestizo; with the exception of minorities living in Santo Domingo de Guzman, Nahuizalco, Izalco, Ataco and Tacuba, who have maintained their ethnic creole nature, or are descendants of the indigenous population. The rest of the Salvadoran territory is inhabited by ladinos of Spanish-Indian descent. The official language is Spanish and Catholicism is the predominant religion.

### **1.3. Climate**

The decisive factors causing climatic differences are the relative position of the prevailing winds, the distance from the sea and the altitude.

Temperatures change very little throughout the year. Precipitation is abundant in the months of May to October, although November to April is extremely dry. There are never any very high or low temperatures.

Though the transition periods between the dry and rainy seasons are rather hot and humid, the ocean breezes make the heat and humidity bearable.

#### **1.4. Geography**

El Salvador borders Honduras to the north, Guatemala to the east, Nicaragua and Honduras to the west and the Pacific Ocean to the south. Within the 21,040 sq km of its territory, there are distinctive climatic, geographical, and morphological regions. To the south, for example, lie the coastal plains which are separated by two mountain ranges, the Bálamo and the Jucuarán. In a strip of land running from west to east lies a volcanic chain with scattered interior valleys and the "Fosa Central" (Central Pit).

El Salvador's territory is traversed from east to west by the pan-american and coastal motorways. From south to north, the country may be travelled on two beautiful roads, one of which begins at the El Salvador airport, located 8 km from the Pacific Coast, and the other at the Puerto de la Libertad (Liberty Port). Both of them lead to San Salvador, the nation's capital, and then continue to the Honduran border. In addition, the Military Route, starting in the eastern part of the country, leads to San Miguel and continues through Honduran territory to Tegucigalpa.

#### **1.5. Political Powers**

The government of El Salvador is divided into three sections: the Executive, the Legislature and the Judiciary. Executive power is assumed by the President and Vice-President, the ministers and deputy ministers of state. Legislative power is represented by the Legislative Assembly, and the judicial power by the Supreme Court of Justice, the Court of Appeal and other minor courts.

The country is governed democratically and the President is elected by popular vote for a period of five years.

Since 1980, the country has suffered pressure from left-wing revolutionary groups which are trying to take power by means of violence, a situation which has caused harm to the nation's economy and stagnation to its economic and social development.

##### **1.5.1. Legal Systems / Legislation**

The magistrates and judges, in relation to their juridical function, are independent and exclusively governed by the constitution and laws.

The Supreme Court of Justice contains a legally established number of magistrates who are elected by the Legislative Assembly and presided by the chief magistrate. It is the only court that has the power to declare laws unconstitutional, as regards their form and content, and may do so by the petition of any citizen.

The Commercial Code, which contains the set of laws regulating business activity, is contained in the Legal Codes.

The Labour Code regulates relations between employers and employees. There are several provisions for social services in the labour laws, such as determining the length of annual vacations, public holidays and Christmas bonuses etc.

## **1.6. Infrastructure**

El Salvador's infrastructure was chiefly developed over the last thirty years.

The infrastructure includes a road system, hydroelectric and thermoelectric power plants, irrigation and drainage systems, bridges, airports, housing, and commercial and social service projects (hospitals, schools, etc.). As the country's economy developed, the road system was expanded, with special priority given to the construction of highways and access roads.

The El Salvador airport is considered among the best designed in Central America and the Caribbean.

It must be mentioned that due to the social and political problems that have prevailed in the country since 1980, development of the infrastructure has stagnated due to the constant need for reconstruction.

## **2. Economic Situation**

### **2.1. Economic Development**

The Salvadoran economy has not yet managed to recover from the crisis of 1987 with per capita income remaining at 1964 levels. However, the country has experienced a generous flow of international aid, part of which was been provided to repair damages caused by the earthquake of October 1986.

Preliminary reports indicate a 2.6% increase in the gross domestic product. This has largely been due to success in construction, agriculture and industry. Nevertheless, increasing fiscal and trade gaps indicate that this growth was only really achieved by increasing El Salvador's economic dependence on international aid. The drop in world coffee prices contributed substantially to the worsening of the trade balance.

As for economic policies, the government focused efforts on short-term solutions without considering solutions that might lead to a sustained recovery.

The most important indicators in the Salvadoran economy for 1987 were:

- a) Average inflation was reduced by 7% points to 25%.
- b) Trade balance attained a record deficit of US\$ 402 million.
- c) Financial accounts worsened dramatically due to the fall in coffee prices.
- d) The drought during July and August caused substantial damage to the cotton and grain crops.



- e) Reconstruction of housing damaged by the earthquake increased local cement production by 25%. Indeed, the private sector, assisted by payments from insurance claims, led the way to recovery of the construction sector.
- f) Except for fiscal austerity, the most successful measure was the government's monetary policy.
- g) Restrictions to private investment had a negative overall effect

## **2.2. Economic Outlook**

Despite a moderate recovery of international coffee prices, as well as a larger crop in 1988, the country's economic outlook is uncertain.

The election of mayors and representatives in March 1989, introduced an important change in the distribution of power in favour of the opposition parties. The political change might have a positive effect on private investment, as it will attach more importance to short and medium-term economic recovery.

According to official forecasts, the economy will grow 2-3% in 1988; particularly dynamic sectors are construction (14%) (backed by international aid), followed by industry (3%) and agriculture (2.5%).

Financial accounts, however, have worsened substantially due to a decrease in tax revenues caused by declining coffee prices. The total government deficit (including the extraordinary budget and excluding donations) represented 4% of the 1987 GDP, a figure which is comparable to 1986. The overall deficit in the public sector rose from 2.2% in 1986 to 3.5% in 1987 (without donations). This, however, affected the economic plan for 1987 less than predicted, since the public sector deficit was expected to be 5.1% of the GDP.

It is important to note that the austerity policy in public spending was carried out by means of a significant reduction in real and financial investment by the federal government. This type of spending was reduced by 29% in real terms in 1987.

Along with the cut in public spending, tax reforms contributed to keep the erosion of financial accounts in check.

The trade balance amounted to a record deficit of US\$ 402 million. Exports rose by US\$ 182 million to a total of US\$ 573 million (almost half the 1979 exports, a fact attributable to a 44% drop in international coffee prices). Moreover, the lack of sufficient incentives to coffee growers blocked a stronger recovery in coffee exports, as cutting back on cultivation seemed to be a more favourable option.

Imports rose by US\$ 40 million to US\$ 975 million, this being largely due to the depreciation of the colon against the currencies of El Salvador's main trading partners.

Despite the discouraging situation regarding the country's export business, some significant advances were made. Regional business grew by 22% (the first recovery since 1979), providing the county's industrial sector with an important stimulus.

The "Tela" Agreement (signed by Guatemala, Honduras and El Salvador), which permits the application of different Central American currencies, as well as the free negotiation on payment modes between business partners in the area, has also facilitated business on the Central American isthmus.

Some non-traditional exports, such as fruits and vegetables, enjoyed significant growth in 1987. However, these exports are, as yet, far from making a dent in the trade imbalance.

The US\$ 545 million of international aid (including family aid) obstructed a worsening in the balance of payment, allowing a US\$ 50 million net increase in foreign reserves for 1987.

From the preceding commentary it is quite evident that there is a definite need for structural change, enabling the production of export goods to increase without having to increase the overall production of goods.

### **2.3 Taxes**

This sector may be divided into direct and indirect taxes, the first including taxes assessed according to income and property, and the latter including taxes determined by excise tax laws, which differ according to the type of products and services.

Incomes of more than 12,000.00 Salvadoran colons are subject to income tax ranging from 3.346% to 60%, according to the taxable income. The maximum of 60% applies to incomes of more than 250,000.00 colons.

Ownership of property of more than 150,000.00 colons value is subject to property tax. There are also municipal taxes which apply to property and income, such as those spent on roads, public services, public lighting and transportation.

Another item that deserves mention are customs duties. Legal residents of the country pay tax on income earned in the country according to a special tax table. There are two tax incentives for corporations which are determined by the Export Promotion Law and the Tourism Development Law. Insurance companies pay direct taxes on income and property with indirect taxes often being passed on to policyholders.

### **2.4. Currency**

The official currency of El Salvador is the colon, and the official exchange rate has been five colons for one US dollar since 1985. Until 1985, the exchange rate had remained at two colons and fifty cents to one US dollar for over 50 years.

### **2.5. Inflation**

The average inflation rate for 1987 was 25%. This was due to short-term economic measures taken by the government, which did not help to promote a sustained recovery. Current inflation is approximately 33%.

**2.6. Foreign investment**

The Caribbean Basin Initiative, with its plan for economic assistance and customs duties, has been an attempt to promote the development of the 28 countries involved by combining foreign and local investments, and allowing economic assistance and investment opportunities for North American companies.

Eximbank, an agency which is independent of the United States government, provides financial aid to foreign export companies investing in El Salvador.

The Private Investment Corporation (OPIC), another agency which is independent of the United States government, provides a variety of services to promote investment, such as research funds, credit for various types of investment, local guarantees for projects, insurance coverage for investments and expropriations as a result of war or revolution.

This added up to 368 million colons in 1986 of loans from foreign sources to commercial and mortgage banks.

**2.7. International Organisations**

El Salvador participates in the following organisations:

- The International Monetary Fund
- The World Bank
- The Inter-American Development Bank
- The Central American Bank of Economic Integration
- The Organisation of American States
- The UN
- UNESCO
- FAO
- The International Coffee Organisation

**2.8. Structure of the GDP (Current Prices)**

	1980	1971
Agriculture	26.6%	27.0%
Industry	20.6%	23.8%
- Manufacturing	15.3%	19.2%
- Construction	3.3%	3.0%
- Electricity	1.9%	1.5%
- Mining and quarries	0.1%	0.1%
Commerce	24.8%	21.7%
Transportation	3.7%	4.9%
Housing	4.7%	3.7%

	1980	1971
Finance	3.6%	2.3%
Service	16.0%	16.6%

## 2.9. Public Finance

The government's principal source of revenue, according to 1986 statistics, is indirect tax (63.1%), followed, in order of importance, by the direct tax (15%), foreign donations (13.3%), assessments and miscellaneous (8.6 %), which together account for some 3,259 million colons.

Government spending, however, rose to 4,082.10 million colons in 1986, broken down into:

Wages and salaries	37.4%
Servicing the debt	15.5%
Transfers	21.5%
Other	10.9%
Real investment	14.7%
	100.0%

## 2.10. Agriculture

Accounting for 56.1% of the exports in this sector, coffee holds a very strong position in the structure of agricultural exports. It is followed by cotton with 8.1% of exports, and sugar with 1.2%. These figures relate to 1980 and production has slowed down since this time. Other export products are sesame seed, natural balsams etc.

The volume of agricultural production for 1984/85, in thousands of quintals, was coffee 3,562, cotton 1,737, corn 11,462, beans 1,056, rice 1,377, maicillo 3,054 (similar to millet) and sugar 5,817.

## 3. Insurance Market

### 3.1. General Report

There are 15 authorised insurance companies in El Salvador, most of them working in life and non-life, with the exception of three companies exclusively writing life policies and two companies exclusively writing non-life policies.

The first company to be founded in El Salvador and Central America was "La Centro Americana" in 1915, although "Panamerican Life" had operated prior to this date as an agency.

There are also two new companies that work purely in surety lines.

Companies Authorised to Write Insurance	Year of Authorisation
1. La Centro Americana	1915
2. Panamerican Life Insurance Company	1928
3. Compañía General de Seguros	1955
4. Seguros e Inversiones	1962
5. American Life Insurance Company	1963
6. Aseguradora Suiza Salvadoreña	1969
7. Aseguradora Agricola Comercial	1973
8. La Seguridad Salvadoreña, Cia. de Seguros	1974
9. Union de Seguros	1974
10. Seguros Desarrollo	1975
11. Aseguradora Popular	1975
12. Cia. Anglo Salvadoreña de Seguros	1976
13. Seguros America	1984
14. Seguros del Pacifico	1985
15. La Auxiliadora	

It was not before imports increased that business and industry saw the need for the reliable form of protection that insurance offers.

El Salvador is one of the few countries in the world where legislation relating to the establishment of insurance companies does not exist. There have been some uncoordinated attempts to regulate the insurance industry, although this legislation, introduced in 1903 and 1923, is no longer relevant today. Indeed, it is necessary that the legislation must be updated to meet the current requirements.

Today, El Salvador's Commercial Code contains 157 articles which deal with insurance contracts and general provisions. However, definitions do not match the spirit of the insurance industry, and much of the legislation is based on foreign law.

### **3.2. Insurance**

Insurance companies are authorised to write any type of policy, although some restrictions are provided by the conditions of the insurance policies themselves.

The insurance market in El Salvador is not extensive since the country's economic development has not been able to develop as strongly as it might have.

In non-life insurance, growth is dependent upon a re-evaluation of assets, inflation and, to a lesser degree, capital investment.

There is very low recognition of the need for life insurance.

It is very much left up to the insurance companies to promote the idea of buying insurance.

### **3.3. Intermediaries**

There are two types of insurance agents: captive and independent. The captive agent is under contract to the insurance company, earning commission on sales according to the type of policy and, also, receiving fringe benefits as provided by current laws; the independent agent can do business with any company.

### **3.4. Reinsurance**

There are no restrictions on reinsurance, but, in practice, only those amounts are accepted which are authorised by proportional reinsurance contracts. The principal activity is insurance, and reinsurance is generally written in order to keep premiums from leaving the country.

### **3.5. Statistics**

Local reinsurance is practised among the companies affiliated to the "Asociación Salvadoreña de Empresas de Seguros".

Due to the absence of legislation, there are no overall statistics that realistically reflect the situation in the market. However, each company compiles their own statistics and banking and financial institutions try to compile reports reflecting the developments in the insurance market.

In 1986, net premiums paid rose to 246,857,017.00 colons, losses and claims accounting for 171,508,168.00 colons. Broken down, life accounted for 83,024,934.00 colons, accident and hospitalization for 16,234,918.00 colons, property 142,164,335.00 colons and sureties 5,432,830.00 colons. For the claims and losses, life accounted for 20,499,084.00 colons, accident and hospitalization for 9,092,550.00 colons, property damage for 141,463,186.00 colons, and financial risks for 453,348.00 colons.

### **3.6. Underwriting**

#### **3.6.1. Property**

Fire and Allied Perils

Including business interruption, fire and allied perils produce the largest premium income followed by automobile lines.

In 1984, strike coverage was discontinued, as well as coverage for uprisings, malicious damage and acts of vandalism, due to increasing disturbances in the country and pressure on reinsurers. However, figures published by insurance companies indicate that these lines can be profitable and, indeed, this type of business was once again accepted in January 1989.

Automobile:

Due to numerous thefts of vehicles, losses are worsening. Rates and deductibles (fixed according to the type of vehicle) had to be increased by 20%.

Transportation:

Within property business, 25% of all premium income is taken from the various transport lines, followed by other minor types of insurance, such as broken glass, fidelity, aviation (small airplanes), liability and theft; there are very few policies issued for engineering business.

### **3.6.2. Personal Insurance**

The premium income from life insurance represents 26% of the national total. Unlike group policies, individual policies pay the highest premiums, representing 56% of all personal insurance premiums.

Medical and hospitalization insurance is increasingly overtaking personal accident insurance.

## **4. Appendix**

This report cannot be considered as final, since when it was put together recent statistics were not available. However, at the last minute, data was made available to us concerning money and banking, foreign commerce, public finance, production and prices, as well as official economic indices published by the Federal Reserve Bank of El Salvador. For insurance, our information is supported by statistics put together by the Banking Commission. An updated report will follow.

## **Overview of Perils Insured Against in Basic Fire Policy**

### El Salvador

a	Fire*	b	Sprinkler Leakage
a	Lightning	b	Collapse
a	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	b	Landslide
b	Vandalism	c	Tenants & Neighbours Liability
b	Sabotage	c	All Risk available (local form)
b	Terrorism	c	All Risk allowed (fronting)

- a Perils covered in a standard policy
- b Perils can be added by endorsement
- c Perils cannot be added by endorsement

\*Unless endorsed, does not cover fire following explosion, windstorm, earthquake and volcanic eruption.