



Country Fact Sheets

'Zurich' Facilities

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Branches in all major towns

Licensed to write all lines of insurance, except credit

Compulsory Insurances

Liability: Liability insurance for public carriers of passengers

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

- Old Age Pension
- Pension for widows and orphans
- Disability Pension
- Burial Fund
- Medical and hospitalization benefits
- Workers' Compensation
- Maternity benefits

The above benefits can be voluntarily extended over and above the Social Security limits but with relatively low sums insured

Major Insurance Laws

Insurance Act 1981

- General Law for insurance institutions, in force since January 1981 (revising part of the former Law of 1935), although not all sections officially regulated so far

Law of 1935

- regulates insurance contracts and requires intermediaries to be duly registered.
-

Non-admitted Insurance

Not allowed, except by special permit from the Ministry of Finance



Premium Taxes, Stamp Duties and Fees

Aggregate value added tax on premium

- Property 15%
- Casualty 15%
- Accident and Health 15%
- Individual Life 3%
- Group Life None

Policy fees vary from 10 to 500 pesos depending on the amount of premium.

Exchange Controls

The Mexican Peso is freely convertible and transferable
Foreign currencies are available at market exchange rates.

Other Information

Since 1983, insurance companies are again allowed to issue dollar policies, but only to cover imported goods

All classes of business, except aviation, are subject to tariff rating, although the marine cargo tariff is not strictly applied. However, for locations with a total PD sum insured exceeding US \$ 100'000 000 local rules do not apply, except for EQ

Insurance rates, policy forms and conditions are promulgated by the AMIS (Asociación Mexicana de Instituciones de Seguros) and must be submitted to the CNBS (Comisión Nacional Bancaria y de Seguros)

50% of all reinsurance must be placed in the country, provided there is local capacity

Brokers and agents must be registered with the Superintendent and must be at least 51% owned by Mexican nationals

With the compliments of

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1. General Country Information

1.1. History

With view to Mexico's interesting history, it would seem quite presumptuous to call the following summary a comprehensive overview.

According to archeological studies, it was during the Ice Age when the first inhabitants migrated to this region via the Behring Strait. The so-called pre-Columbian era saw the birth of numerous sophisticated cultures, such as the Aztecs, Mayas, Olmecs, Toltecs, to cite only a few.

In the year 1519, an expedition, headed by Hernán Cortés, landed in Mexico. With the victory over the Aztec Empire and the occupation of the capital, Tenochtitlán, in 1521, the "Conquistadores" laid the foundation of their colonial rule. It lasted until the "Grito" of 1810, when the priest Miguel Hidalgo called a riot against the colonial authorities. This event marked the beginning of a period of independence which was formalised in 1821 with the declaration of independence and Augustin de Iturbide proclaiming himself Emperor.

The United Provinces of Central America separated in 1823 and, 12 years later, Texas declared its independence from Mexico, joining the United States in 1845. As a result, Mexico went to war against the United States.

The Mexican army was defeated in 1848 and the United States annexed half of the Mexican territory, including Texas, New Mexico, Arizona, California, Nevada and Colorado (names, which still distinctly indicate the states' former affiliation). The Rio Grande became the new border.

Mexico experienced a crisis until 1855, when the country's national hero, Benito Juárez, brought down the clerical regime under its dictator Santa Ana. He secularised the huge properties of the church and abolished all clerical and military privileges. These measures provoked a civil war between clericals and liberals in which British, Spanish and French troops intervened. After French troops had taken Puebla and Mexico, Napoleon III declared the Austrian Archduke, Maximilian, Emperor. After several battles between the rival parties, Maximilian was shot by order of Benito Juárez.

President Porfirio Díaz introduced a long period of stability and peace having take power in 1876. He modified the old colonial structures and succeeded in attracting international capital. As a result, Mexico experienced growth and development, although became dependent on foreign trade. The new situation particularly favoured the few big landowners who possessed some two-thirds of the land.

These circumstances created a climate of economic discontent leading to an armed riot which finally led to dictator Díaz' downfall. National heroes to emerge from this revolution were Francisco "Pancho" Villa and peasant leader Emiliano Zapata. The revolution also produced the "PRI" ("Partido Revolucionario Institucional"), which has provided the President ever since and still controls the country's affairs.

1.2. Population

82 million inhabitants make Mexico the most populated Spanish-speaking country in Latin America. In comparison to the beginning of the century, when the population growth rate amounted to 1.8% p.a., it had increased to 2.9% in 1980. Through various educational campaigns, the government is taking control of this population spiral and hopes to be able to reduce the increase to 1.5% in 1989.

Due to high birth rates and a reduction in the mortality rate, the age group up to 21 years represents 60% of the population, whereas only 30% are of an employable age.

In the 15th Century, immigration, mainly from Spain, was promoted by pointing out the New World's wealth. However, the individual races did not live in isolation and the country now enjoys a plural society.

Regarding economic activities, 30% of the population work in the agricultural sector, 30% of the urban population are industrial workers and 40% are employed in the tertiary sector.

1.3. Climate

A close look at a map reveals that all the bigger cities are situated in the north, this being due to the fact that the climate is best in this part of Mexico.

Southern Mexico, and the Peninsula of Yucatan, with their evergreen rain forests, have a tropical climate with the annual rainy season lasting from June to September and a humid climate during the remaining nine months.

Middle Mexico, and that region to the north of Mexico's high plateau, have a steppe climate, contrary to Baja California, where the desert climate grows briars and cacti. In Mexico, the tree line is at about 4200 m and the snow line at 4750 m altitude.

Temperature in comparison to altitude in Mexico

	Height (meters)	Temperature (C)
Tierra helada	3300	10
Tierra fria	1800 - 3300	10 - 17
Tierra templada	800 - 1800	17 - 22
Tierra caliente	800	22

1.4. Geography

The "Estados Unidos Mexicanos" are situated between 14°32' and 32°43' degrees latitude north and cover a territory of 1,958,000 sq km. The border between Mexico and the United States is 2800 km long and represents more than just a spatial

separation. The Mexican dictator, Ponfirio Diaz , summarised this political and historical differentiation in one famous sigh: "Poor Mexico! Sofar from God, so near to the United States!"

Mexico shares the 885 km of southern border with Guatemala and Belize, the eastern border with the Gulf of Mexico and the Caribbean Sea, and the western border with the Pacific Ocean.

1.5. Politics

Mexico is a federal republic ("Estados Unidos Mexicanos") and includes 31 federal states plus one national district (Mexico City).

Power is centralised and controlled by the President, who is elected for a six year term. Although the country is governed according to the principle of a separation of power - Executive, Legislature and Judicature - the President, the "suprema autoridad ejecutiva" has overriding authority.

Since 1929, the "Partido Revolucionario Institucional" has been controlling all levels within Mexico's political structure. The last presidential elections, however, saw the PRI candidate, Carlos Salinas de Gortari, win by the smallest margin ever. In detail, the result read as follows:

- Carlos Salinas de Gortari, PRI 50.36%
- Cuauhtemoc Cardenas, FDN 31.12%
- Manuel Clouthier, PAN 17.07%.

This erosion of authority is also reflected in the two chamber parliament, consisting of 64 "Senadores" (two for each state), elected for six years, and 500 "Dipudados" (members of parliament), elected for a three year term. As well as 60 "Senadores", some 260 "Dipudados" are members of the PRI, 200 of which are elected according to a system of proportional representation.

1.6. Legislation

The "Suprema Corte de Justicia" (Supreme Court) has 21 members who are appointed by the President and must be approved by the Chamber of Senators.

2. Economic Situation

2.1. Economic Structure

A closer look at Mexico's main product, crude oil, reveals that its market share has suffered extreme fluctuations.

Mexico has been an oil producing country since 1880 and was ranked first among all oil producers in 1921. Although, in 1971, it became a net importer during the boom years of "black gold", Mexico regained its place among the world's "big four".

Crude oil has always been the backbone of the Mexican economy. The consequence has been an average real growth rate of 8% p.a., as the trade balance of the crude oil sector rose to US\$ 13,684 billion in 1981, one year before the crisis started. Compared to 1976, with US\$ 9 billion, this figure represented an increase of more than 50%. However, enormous imports in the capital sector meant that the overall trade balance was still in deficit to the tune of US\$ 2.44 billion.

The share of crude oil in total exports attained 75% in 1982. The government was forced to react and turned to austerity measures to slow down the accelerating price spiral. The drastic cut in imports caused a shortage of new production machinery, indispensable products etc., which, in turn, brought the Mexican economy to a virtual standstill until 1984.

The dramatic price drop in the crude oil sector also had its positive effects, as it stimulated economic diversification. Within a few years, the so-called "Maquiladora" or "In-Bond" industry has become Mexico's second most important foreign exchange earner, ousting tourism into third position.

"Maquiladora" companies are wage refinement companies concentrated in special industrial parks situated close to the United States' border. These companies import duty-free raw materials, semi-finished products, etc. to refine them. When re-exported to the United States, only the additional value produced in Mexico, namely the wage costs, are subject to custom duties.

Additionally, there is a dollar inflow, estimated at US\$ 6 billion in 1988, brought into the country by some 12 million Mexicans living legally or illegally in the United States.

Mexico's mining industry occupies an excellent position in the international market and was able to steadily improve this position, despite the antiquity of some of its mines. Mexico's position in world production is as follows:

1st place: silver, fluoride, sodium sulphide,
2nd place: celestine, graphite, antimony,
3rd place: sulphur, zinc, molybdenum, mercury, bismuth,
5th place: lead, barium oxide.

According to price, silver is the single most important mineral, followed by copper, sulphur, zinc, gold and lead. However, this sector is very sensitive to cyclical fluctuations.

2.1.1. Trade Unions

The Constitution of 1917 included the most progressive labour legislation in the world at that time regarding the formation of Trade unions. The price was the indissoluble bond between the trade union and the PRI, making each worker

organised in a PRI union automatically a member of the party in office. It is therefore not an exaggeration to say that the PRI virtually controls the three biggest trade unions, which are:

- CTM ("Confederacion de Trabajaderos Mexicanos")

Founded in 1936, it unites approximately 81% of all organised workers. Since the forties, the party has been headed by Fidel Velazquez. He holds a high government position and it is his task to negotiate wages and abate conflicts between employers and employees. His judgement is also of great importance when high-ranking government members are elected. It is of interest to note that his position has remained unaltered, whereas the President and his staff change every six years.

Members of the Velazquez staff are also represented in the Chamber of Deputies. The "sindicatos" of the insurance industry are also a part of the CTM.

- CNOP ("Confederación Nacional de Organizaciones Populares")

Founded in 1942, it includes all civil servants as they are not, contrary to the CTM, entitled to strike.

- CNC ("Confederación Nacional Campesina")

Founded in 1938, it aims at regulating the "ejidos" system, a form of communal real estate land use which dates as far back as the agrarian reform of the Mexican revolution.

2.1.2. Wages

The national commission for minimum wages (CNSM) decided with the support of the representatives of the employers, as well as with the votes of the land workers' representatives, on an 8% wage increase as of January 1st, 1989. The trade union representatives agreed in protest. Today, the minimum wage in the most expensive areas (e.g. Mexico City and the border cities) is 8640 pesos per day and 7205 pesos in the other regions.

2.1.3. Currency

For many years, the "peso mexicano" remained at a rather stable rate in relation to the US dollar. Since 1976, the exchange rate has fluctuated and, as a result of the depreciation in 1982, a second exchange rate was introduced. Now there is the "comercial" (controlled rate for the external trade etc.) and the "paralelo" (free rate).

The margin between these rates has been relatively constant, except for 1986 and 1987, when the government had to depreciate the peso to the US dollar in the controlled foreign exchange market in order to reduce the margin.

After the exchange rate peso/US dollar had been frozen in 1988 (a measure by the "Pacto de Solidaridad Economico", PSE, an economic solidarity treaty), the government decided a follow-up measure for the time from 1st January, 1989, until 31st July, 1989. This measure is the so-called "PECE". During this period, the peso is depreciated at an average rate of 1 peso per day.

A similar measure, namely the decision to increase the dollar quotation by 3 pesos per day, taken by the "Banco de Mexico" in February 1987, failed.

Development of Exchange Rate - Peso : US\$

1935	3.60	1982 (Sept.)	70.00
1941	5.40	1983 (Jan.)	150.00
1947	4.85	1984	250.00
1955	12.50	1985	450.00
1976	15.44	1986	923.00
1977	20.21	1987 (Dec.)	2198.50
1982 (Jan)	26.50	1988 (Dec.)	2257.00

2.1.4. Inflation

In 1988, consumer prices increased by 51.7%. The inflation rate, the lowest of the last seven years, was due to the "PSE" ("Pacto de Solidaridad Economico"), whereby wages were frozen for a long time last year.

The accumulated inflation rate was 20% (March 1988/89).

The following table gives an overview on the development of inflation during the last eight "Sexenios" (President's term of office).

- Avila Camacho	(1941 - 1946)	145.0%
- Alemán Valdés	(1947 - 1952)	60.2%
- Ruiz Cortines	(1953 - 1958)	43.9%
- López Mateos	(1959 - 1964)	14.6%
- Diaz Ordaz	(1965 - 1970)	27.4%
- Echeverria Alvarez	(1971 - 1976)	129.7%
- López Portillo	(1977 - 1982)	459,1%
- De la Madrid	(1983 - 1987)	2412.3%
	1986	105.7%
	1987	159.2%
	1988	51.7%

2.1.5. Foreign Investments

Foreign Investments are subject to regulations stipulated by the "Secretaría de Comercio y Fomento Industrial" (SECOFI) and are carried out in close cooperation with Mexican investors.

The maximum share of foreign capital is 49%; 51% of the capital has to be domestic. However, in the course of recent years, these restrictions have been handled more and

more flexibly, and even 100% foreign capital has been accepted, if special attention is paid to the following points:

- Number of newly created jobs;
- Investment in industrial branches, where the domestic industry needs further development;
- Companies working with their own original license;
- Significant contributions to industrial development by means of technology transfer.

The following areas are restricted as regards foreign investments:

- crude oil production;
- financial services;
- basic petro-chemical industries;
- communication.

From a purely financial point of view, foreign investments were more than doubled during the term of office of President Miguel de la Madrid. In 1982, foreign investments amounted to US\$ 10,786 million, whereas in 1988, the accumulated figures totalled an official level of US\$ 24,027 million.

However, these statistics do not only include foreign investments with "fresh" money, but also the re-investment of peso profits, swap-transactions or US\$ liabilities of foreign companies in Mexico. In addition, the total authorised and/or registered investment sum of a foreign investor is entered into the annual statistics, when the application is approved, regardless of the realisation period planned for the investment project. The investments mainly flow into the following industrial sectors: chemical industry, pharmaceutical industry, metal processing, hotel sector and tourism.

Foreign Investment by Country of Origin

(in US\$ million)

Country	1986	1987	1988	1983-88	Total 1988 Value	1988 %
Total	2420.9	3877.2	3100.0	13395.0	24027.0	100
USA	1206.4	2669.6	1202.5	7702.7	14918.7	62.1
GB	104.3	430.9	767.6	1453.5	1754.1	7.3
Germany	218.3	46.9	136.3	722.4	1882.6	6.6
Japan	142.2	132.8	148.8	502.6	1319.1	5.5
CH	34.1	95.2	86.3	434.0	1004.5	4.2
France	316.9	31.2	149.3	626.8	745.4	3.1
Spain	93.7	125.8	34.1	292.4	637.2	2.6
Sweden	24.6	36.7	32.5	189.5	329.7	1.4
Canada	40.6	19.3	23.5	173.1	313.1	1.3
NL/Belg.	10.2	30.3	67.0	160.9	268.7	1.1
Italy	4.0	2.8	--	11.0	41.3	0.2
Others	225.3	255.7	452.1	1086.1	1112.0	4.6

2.2. Government Regulations

2.2.1. Taxes

Laws regarding taxation are laid down by the Mexican Constitution, Article 31, Section IV. The following tax legislation is valid for companies based in Mexico:

1) Profits tax ("Impuesto sobre la Renta")

The margin between the accumulated profits and legal deductions is charged with 37% profit tax. The effective tax rates for 1990 and 1991 will be reduced to 36% and 35% respectively, in order to attain a more competitive tax system.

2) Value-Added Tax ("Impuesto al Valor Agregado", IVA)

The VAT is 15% and charged on :

- Sale of products
- Services (also insurance policies, excluding life)
- Rents arising out of commercial purposes
- Imported goods or services.

In most cases, the tax is charged on the consumer. There are a few amendments to the present tax legislation that ought to be mentioned:

- VAT on luxury goods is 20%.
- During a period of economic stability, the VAT on medicine, books, essential foodstuffs, veterinary and pharmaceutical goods was to be levied at 6%; indeed, in 1989, no tax is being charged on essential foodstuffs and medicine.

3) Luxury Tax ("Impuesto Especial sobre Producción y Servicios")

Luxury tax is levied on certain products (tobacco, liquor, beverages, petrol, kerosene etc.), services (telephones) and life insurance (3%, but not subject to VAT). The luxury tax lies between 0% and 139%, and is deducted before VAT.

4) Tax on Property (Impuesto al Activo de las Empresas")

In order to reduce tax evasion and fraud, a facultative minimum tax of 2% is levied on the assets of enterprises and natural persons involved in business (1989). This new tax, which is paid on the profit, is later compensated with the ordinary income tax.

5) Transfers to foreign companies

Concerning transfers to foreign companies, the following tax reduction was laid down in the amended tax law :

- a) On interests - reduced from 42% to 35% (also applied on interests which the reinsurer receives on premium reserves deposited)
- b) On technical help - reduced from 21% to 15%

c) Other license fees - reduced from from 42% to 40%

6) Social Contributions

The companies are obliged to grant a contribution for social insurance, for a national fund for house building and for education.

7) Natural Persons

The tax chart for 1989 has been subject to complete amendment :

- a) The highest tax rate was reduced from 50% to 40%.
- b) 45% tax is charged on incomes between approximately 30.2 million to 111.4 million Mexican pesos, in order to slowly reduce the tax advantage of lower tax categories. An income of over 111.4 million pesos is taxed at 40%.

8) Stamp duty

There has not been any stamp duty for a considerable time.

2.2.2. Membership of International Organisations

Mexico is a member of over 200 international organisations, including:

ONU	Organización de las Naciones Unidas (UN)
OEA	Organización de los Estados Americanos (OAS)
GATT	Acuerdo General sobre Aranceles y Comercio
FMI	Fondo Monetario Internacional
BID	Banco Interamericano de Desarrollo
CEPAL	Comisión Económica para América Latina
FAO	Organización de las Naciones Unidas para la Agricultura y la Alimentación
UNESCO	Organización de las Naciones Unidas para la Educación, - las Ciencia y la Cultura
OIT	Organización Internacional del Trabajo
FIDES	Federación Interamericana de Empresas de Seguros

2.3. Production

2.3.1. Import - Export (figures in billion US\$)

Year	Exports			Imports	Balance
	Crude oil	Other	Total		
1973	-	2.1	2.1	3.7	- 1.6
1981	14.5	3.5	18.0	18.0	- 6.0
1982	16.5	4.5	21.0	14.4	6.6
1983	15.2	7.1	22.3	8.6	13.7
1984	16.6	7.5	24.1	11.6	12.5
1985	14.8	7.1	21.9	14.0	7.9
1986	6.3	9.4	15.7	11.8	3.7
1987	8.5	12.2	20.7	12.2	8.5
1988(e)	7.2	14.2	21.4	16.6	4.8

2.3.2. Financial Services

After the nationalisation of 59 private banks, stipulated by President Lopez Portillo on September 1st, 1982, the following state owned financial institutions still operate in Mexico:

- Banco de México (Central bank)
- Banco Nacional de Comercio Exterior
- Banco Nacional de Crédito Rural
- Banco Nacional de Obras y Servicios Públicos
- 20 trade banks
- 15 credit institutes
- 17 banks of development
- 13 Financial and fiduciary companies
- Nacional Financiera
- Financiera Nacional Azucarera (sugar financing)
- 3 insurance companies

2.3.2. Agriculture

Agriculture in Mexico has been rather unsettled in the past few years, with the result that food production was reduced.

An agricultural country, according to the FAO, is a country with one inhabitant per one hectare of cultivated land. In 1987, Mexico had 23 million hectares of cultivated land with a population of approximately 80 million.

The fact that only a 25% share of the 70% of cultivated territory is tilled with modern methods, proves that the agricultural sector in Mexico is rather underdeveloped. The main agricultural products are coffee, soybeans, beans, cardamom, cotton, sorghum, wheat and, of course, maize.

Mexico is not a self-sufficient country. In 1987, one million tonnes of soybeans and 3 million tonnes of maize had to be imported. After a record sugarcane harvest in 1988, the country was able to re-establish self-sufficiency and even export again. Sugar is the most important agricultural industry and the sugar refineries are said to be emerging from red figures again for 1988.

Mexico will need record harvests in 1989 to be able to avoid having to import. 70% of the imports come from the USA, the rest is supplied from Canada, Australia and Argentina.

Coffee, tomatoes and fresh fruit are the goods that are mostly exported.

The agricultural sector contributes approximately 8% to 10% of the GNP.

According to the "Aseguradora Nacional Agrícola", only 32% of the cultivated land is insured, 5.7 million hectares of which is summer tillage and 1.5 million hectares winter tillage. The causes of loss during 1987 were :

- 46% drought
- 26% excessive humidity
- 16% plagues
- 12% various (not defined)

3. Insurance Market

3.1 The Zurich Facilities in Mexico

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Tlx.: 1763530 smdf me
Tfx.: 5-679 58 34

The Zurich is represented in Mexico via its cooperative partner, "Seguros de México" (SEGOMEX). This company was founded in 1935 and is now completely private. After joining the insurance department of the biggest Mexican bank in 1965, it was renamed "Seguros de Mexico Bancomer". For commercial reasons, the name was changed once again in 1978 to "Seguros Bancomer". Finally, in 1984, it regained its original name, "Seguros de México", after re-privatisation of the insurance companies.

3.2. Regulations

3.2.1. Insurance Law

In 1934, Congress approved the "Ley General de Instituciones de Seguros", which was passed one year later and completely amended in 1981. However, the interpretation of some specific articles is still being discussed in the market.

As regards the solvency of insurance companies, a calculation basis does not exist.

Each company is controlled individually by the supervisory authority, who then stipulates whether or not activities may be continued. 1988 saw a company's license being withdrawn for the first time.

3.3. Statistics

3.3.1. Direct insurance companies

The Mexican insurance market contains 35 private and 3 national insurance companies (one life and two non-life, of which one is concerned with agricultural risks). Market shares are as follows:

- 25% to the three national companies
- 75% to the private sector.

According to legal regulations, national institutions must be insured with national insurers. Accounting for "free business" only, the market is divided as follows:

The five biggest companies write 78% of the "free" premium volume (92% of life and 70% of non-life business).

The association of the Mexican insurance companies, "AMIS" ("Asociación Mexicana de Instituciones de Seguros") divides the market into the following groups:

1) National companies

- Aseguradora Mexicana (non-life)
- Aseguradora Hidalgo (life)
- Aseguradora Nacional Agrícola (non-life)

2) Private companies

Group 1:

- Gruppo Nacional Provincial
- Seguros America
- Seguros de Mexico
- Seguros La Commercial (incl. La Comercial de Chihuahua)
- Seguros Monterrey

Group 2:

- Seguros La República
- Seguros Olmeca
- Seguros Interamericana-Independencia
- Seguros Azteca
- Aseguradora Cuauhtemoc
- General de Seguros
- Seguros Tepeyac

Group 3:

- Seguros Equitativa
- Seguros del Pais
- Seguros Atlas
- Anglo Mexicana de Seguros
- Seguros La Territorial
- Seguros La Atlantida Multiba
- Seguros Progreso
- Compañía Mexicana de Seguros de Crédito

Group 4:

- Seguros del Pacifico
- La Continental de Seguros
- La Peninsular
- Seguros Chapultepec
- Seguros Protección Mutua
- La Latinoamericana
- Seguros La Ibero Mexicana
- Seguros El Potosi
- Oriente de Mexico
- Aseguradora Universal
- Aseguradora Metropolitana
- Compañía de Seguros Veracruzana
- Seguros Constitución
- Seguros del Centro

Reinsurance companies

- Reaseguradora Patria
- Reaseguradora Alianza

Associations in the insurance market are:

- AMIS ("Asociacion Mexicana de Instituciones de Seguros")
- AMARAC ("Asociación Mexicana de Administradores de Riesgers")
- AMASFAC ("Asociacion Mexicana de Agentes de Seguros y Finanzas")

3.4. Membership

3.4.1. Pools

There are two insurance pools for the following lines:

- Aviation (the capacity in 1989 is US\$ 10 million for comprehensive, and US\$ 20 million for liability)
- Product liability abroad (the capacity in 1989 is US\$ 5 million)
- Fire (the capacity for 1989 is a maximum of 15 times the company's retention but equal to, or less, than US\$ 3 million)
- Cotton (the capacity for 1989 is US\$ 2 million)

3.4.2. Foreign interests in the Mexican insurance sector

The local legislation does not permit foreign majority holdings in Mexican insurance companies.

3.5. Reinsurance

3.5.1. Reinsurers in Mexico

The following companies have reinsurance facilities in Mexico:

- SwissRe
- MunichRe
- Mapfre
- Kölnische Rück
- Gerling
- La Nouvelle de Reassurance
- Nordimex (StockholmRe and Sampo Group)
- SCOR
- Skandia
- Taisho Marine and Fire
- Mercantile and General
- Tokyo Marine
- Zurich

3.5.2. Reinsurance in Mexico

50% of all reinsurance must be placed in the country for fire, motor and miscellaneous classes. Reinsurance contracts must be authorised by the National Insurance Commission.

3.5.3. Cessions

The overrider on facultative cessions is normally 7.5%.

3.5.4. Reserves

A premium reserve has to be retained for 12 months as follows:

Fire, earthquake	35%	Marine	38%
Liability	38%	Aircraft	45%

3.6. Intermediaries

3.6.1. Insurance Brokers

The legal basis for insurance brokers is the "Ley General de Seguros" which differentiates between two different broker standards:

- insurance agents, exclusively operating for one insurance company
- insurance brokers, who are free to place their business

The law stipulates the maximum commissions.

4. Property Insurance

4.1. Coverage and Tariffs

In cooperation with the association of Mexican insurance companies, AMIS, the supervisory authority, CNBS, ("Comisión Nacional Bancaria y de Seguros") has elaborated tariffs for fire and automobile insurance, which apply to all companies operating in Mexico.

Individual fire risks where the insurance sum exceeds US\$ 100 million can be regarded as an exception, as the quotation of the international reinsurance market can be taken into consideration. Earthquake risks, however, have to be quoted according to the Mexican tariff.

4.1.1. Fire insurance

All risk coverage is not available in the market. The standard fire policy covers:

- Fire
- Lightning

The following risks can be additionally covered by means of a supplement:

- Explosion
- Aircraft
- Windstorm
- Hail
- Vehicle Impact
- Strike
- Riot
- Civil commotion
- Malicious damage
- Vandalism

- Sprinkler leakage
- Smoke
- Earthquake/Volcanic eruption
- Flood
- Landslide

4.1.2. Fire Business Interruption Insurance

This coverage is required by many industrial companies. The problem of the inclusion of earthquakes is extremely difficult to solve, as the companies do not have automatic reinsurance coverage for this occurrence.

4.2. Catastrophe Exposure

Concerning some of the risks insured under this category, the following regulations should be noted.

4.2.1. Earthquake / Volcanic Eruption

Various regions in the country are exposed to a high earthquake risk (for further details, please refer to the CRESTA statistics), whereby the insured can cover 75% of the total sum insured, keeping a supplementary deductible of 2%.

4.2.2. Windstorm and Hail

In 1988, hurricane "Gilbert" caused terrible devastation in Mexico. The insurance industry estimated the damage at US\$ 100 million.

Coverage contains an automatic deductible of 1%, with a minimum amount of approximately US\$ 2,500 (this amount is expressed in days multiplied by the minimum wage).

4.3. Political Risks

Coverage contains an automatic deductible of 1%, with a minimum of approximately US\$ 2,500.

4.4. Aircraft / Vehicle Impact / Smoke

Coverage includes an automatic deductible of 1% with a minimum of US\$ 2,500.

4.2.3. Flood

Coverage includes an automatic coinsurance clause of 80% and a supplementary deductible from this amount of 1% with a minimum US\$ 5,000.

5. Future

5.1. Mexico's Political Future

With the closest election result in the history of Mexico, Carlos Salinas de Gortari was recently elected president. He obtained 9.6 million of the 38 million votes, although only 50% made use of their franchise. His party only holds a small absolute majority in Congress. The election clearly showed that it is becoming increasingly difficult for the PRI to overcome its opposition.

Gortari has taken action to overcome the power of the syndicates, and has been able to mobilise considerable support for his policies, winning the trust and support of the people; a factor that can only help to stabilise the political and economic climate within the country.

5.2. Economic Outlook

Recession seems to have been overcome and the time is now ripe to realise a number of important objectives:

- commercial reactivation of the domestic market,
- improve price stability,
- strengthen real incomes,
- invite foreign investors,
- adapt tax policies.

Crude oil is Mexico's most important foreign currency earner and, therefore, its price plays a major role in the country's development. Although Mexico was a net importer in the seventies, it is now one of the biggest oil producers in the world and has enough reserves to keep this position in the future. This oil wealth, however, also has its negative effect on the economic situation. For example, the price per barrel was still US\$ 30 in 1985, whereas in the present budget (1989), the government does not expect more than US\$ 10 per barrel. This has caused a drop in its relative importance for the GDP to 7.5%.

Other sectors have become more important, for example, the "Maquiladora" or "In Bond" industry, has grown to be the countries second most important currency earner.

As regards inflation, enormous success has already been achieved and the inflation rate was reduced from 159% in 1987 to 51.8% in 1988.

5.3. Outlook for the Insurance Economy

The new fire tariff, which contains premium decreases averaging 25%, and the fact that the economy is recovering fairly slowly, will probably result in a stronger competitive pressure. Real premium growth will therefore remain at a comparatively low level. Adjustment of the adverse automobile insurance (loss rate in 1987 165% and in 1988 120%) by means of increased premium rates should, however, improve the companies' results.

Another subject under constant discussion is the question, whether the market should be open to foreign insurance companies. It is presently being discussed by the government with GATT (General Agreement on Tariff and Trade) authorities, and is a subject that will be followed closely in the future.

Overview of Perils Insured Against in Basic Fire Policy

Mexico

a	Fire	b	Sprinkler Leakage
a	Lightning	b	Collapse
b	Explosion	b	Smoke
b	Aircraft	c	Sonic Boom
b	Windstorm	b	Molten Material
b	Hail	c	Radioactive Contamination
b	Vehicle Impact	b	Earthquake
b	Strike	b	Volcanic Eruption
b	Riot	b	Flood
b	Civil Commotion	b	Snow Pressure
b	Malicious Damage	b	Landslide
b	Vandalism	c	Tenants & Neighbours Liability
c	Sabotage	c	All Risk available (local form)
c	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

Comparison Tables

Mexico

Spain

May/June 1989

Comparison of Fire Insurance Coverage

MEXICO

Fire

Excludes loss or damage caused by:

- a) Fermentation, inherent vice
- b) Acts by authority except those to avoid a conflagration
- c) War whether declared or not
- d) Fraud or bad faith by the insured
- e) Direct damages to the apparatus by electrical energy
- f) Theft during the loss
- g) Money and/or securities

Lightning

Covered by general policy

Explosion

Covered by endorsement.

Excluding:

- a) Damages to the own pressurised vessels.
- b) Explosions due to vandalism acts.

Aircraft

Covered by endorsement, collision of aircraft or objects falling therefrom, collision of vehicles, smoke.

Excluding:

- a) Damage by smoke to chimneys or industrial appliances.
- b) Smoke emanating from the insured's chimneys

Windstorm

Covered by endorsement. Material damage due to the nature of such meteorological phenomena.

Excluding:

- a) Flood
- b) Growing crops
- c) Buildings under construction
- d) Contents of buildings without sufficient preventive maintenance

Hail

See "Windstorm".

Vehicle Impact

See "Aircraft".

SPAIN

Fire

Excludes loss or damage to property caused by:

- a) Heat or fermentation
- b) Electrical disturbance
- c) Spontaneous combustion

(However, a fire following the above-mentioned accidents would be covered)

Lightning

Covered by standard policy

Explosion

Covered by standard policy

Aircraft

Damage by falling aircraft or parts thereof covered by "Extended Coverage".

Windstorm

Covered as an extension to the Fire Policy "Extended Coverage"

Hail

Part of "Extended Coverage".

Vehicle Impact

Damage caused by physical contact of road and rail vehicles. Exclusions:
- Damage caused by vehicles of the insured, the user of the insured premises or their em-

MEXICO

Strike

Covered by endorsement. Damages caused by any worker or due to repressive measures by the authority or any act of vandalism.

Exclusions:

- a) Petty theft, robbery or pillage
- b) Depreciation, delay or marketing loss
- c) Lacking, scarcity or reduction of energy
- d) Changes of temperature or humidity
- e) Any consequential damage

Riot

See "Strike".

Civil Commotion

See "Strike".

Malicious Damage

See "Strike".

Additionally excluding:
explosion, breakage or bursting of steam apparatus or machinery revolving parts.

Vandalism

See "Strike".

Sabotage

Is not covered specifically, however, "Strike" covers "Malicious Damage" whether caused by employees of the insured or not.

Terrorism

Coverage not available.

Sprinkler Leakage

Covered by endorsement. Damage caused by accidental leakage of: sprinklers, tanks, water pipes, extinguishers, any fire protection equipment.

Exclusions:

- a) Protection against fire in process of installation or repairing
- b) Tanks and pipelines not for fire protection equipment
- c) Installations belonging to the public water supply service
- d) Leakage arising from wear and tear and deterioration of the equipment

SPAIN

Strike

Part of "Extended Coverage" if it is an illegal strike. Legal strike covered by the "Consortio". See note 1).

Riot

Covered by the "Consortio". See note 1).

Civil Commotion

Covered by the "Consortio". See note 1)

Malicious Damage

Part of "Extended Coverage"

Vandalism

Part of "Extended Coverage". Can be added by endorsement.

Sabotage

Term "Sabotage" as such not used for coverages, but in certain circumstances coverage exists.

Terrorism

Covered by the "Consortio". See note 1)

Sprinkler Leakage

Part of "Extended Coverage"

MEXICO

Sprinkler Leakage(cont'd)

- e) Losses or damages to the extinguisher and/or the extinguishing system as such.

Collapse

Only covered within the scope of "Earthquake", "Windstorm", "Hail" and "Flood".

Smoke

See "Aircraft".

Sonic Boom

Coverage not available.

Molten Material

Can be added by endorsement.

Radioactive Contamination

Coverage not available.

Earthquake

Coverage available by endorsement of direct damage caused by earthquake and/or volcanic eruption.

Exclusions:

- a) Foundations, containing walls, soils and lots
- b) Wall paintings or fresco paintings
- c) Damage caused by nuclear fusion
- d) Damage by flood or sea swell
- e) Damage due to vibration or natural movement of the subsoil

Only up to 75 % of the sum insured for fire is covered.

SPAIN

Collapse

Coverage not available

Smoke

Covered if sudden and accidental escape from a heating/boiling unit, furnace or drying

Sonic Boom

Coverage in respect of damage caused directly by sonic boom resulting from sonic boom waves of an aircraft. Part of "Extended Coverage".

Molten Material

Coverage in respect of damage of destruction caused by sudden and unexpected escape of molten material.

Exclusions:

- Damage, destruction or loss of the actual escaping material
- Costs incurred in the discovery of the point of escape.

Part of "Extended Coverage". Can be added by endorsement.

Radioactive Contamination

Coverage not generally available.

If atomic reactor or nuclear material is used coverage is available by the Atomic Pool.

Earthquake

Covered by the "Consortio". See Note 1).

MEXICO

Volcanic Eruption

See "Earthquake".

Flood

Insuring by endorsement the temporary and sudden cover of soil by water.

Exclusions:

- a) Sown fields or growing crops, drainage systems, and underground installations, buildings completely or partially built over water.
- b) Rain, snow or hail unless they cause flooding.
- c) Lack or insufficiency of the drainage system
- d) Sinking or downfalls
- e) Leakage of fire protection equipment
- f) Damage by underground water
- g) Natural action of sea tide

Up to 80 % of the sum insured for fire is covered.

Snow Pressure

Coverage available by endorsement under "Hail".

Landslide

This is not specifically covered.

Tenants' and Neighbours' Liability

Coverage under civil liability insurance, except if damage is caused by natural phenomena.

Water Damage

May be covered under "Hail". Coverage available for water damage caused by accidental breakage of pipelines or equipment, obstruction in rain drainage due to accumulation of hail.

Tsunami

Is not specifically covered.

Leakage

Is not specifically covered.

SPAIN

Volcanic Eruption

Covered by the "Consortio". See Note 1)

Flood

Covered by the "Consortio". See Note 1)

Snow Pressure

Coverage not available

Landslide

Coverage not available

Tenants' and Neighbours' Liability

Coverage available.

Water Damage

Coverage available under the "Extended Coverage" endorsement.

Tsunami

Coverage not available.

Leakage

Coverage available by special endorsement.

MEXICO

SPAIN

Leakage (cont'd)

Coverage in respect of damage or destruction caused by sudden and unexpected leakage of the contents of pipes, tanks and containers.

Exclusions:

- Damage caused by the leakage of water or heating oil.
- Damage to pipes, tanks and containers caused by wear, tear, gradual deterioration, rust and corrosion.
- Costs incurred in discovery of the point of leakage.

Sprinkler leakage part of "Extended Coverage".

Deductibles /Limits of Indemnity

- 1) Earthquake and/or Volcanic Eruption
2% in excess of the sum insured for endorsement, equivalent to 75% of the sum insured for fire.
- 2) Hurricane and Hail
1% in excess of the real value of the insured property, with a maximum of approx. US\$ 2,500.
- 3) Strikes, riots, civil commotion
1% in excess of the real value of the property insured, with a maximum of approx. US\$ 2,500.
- 4) Aircraft
1% in excess of the real value of the property insured, with a maximum of approx. US\$ 2,500.
- 5) Flood
1% in excess of the sum insured equivalent to 80% of the sum insured for fire, with a maximum of approx. US\$ 5,000.

Taxes and Fees

- 15% in excess of the premium for government tax (I.V.A.)
- Policy issuance fees

Deductibles/Limits of Indemnity

1. Fire/B.I.
Generally no deductibles or limits of indemnity (can be agreed individually).
2. Extended Coverage
Generally 10 % of damages minimum Ptas. 25.000, maximum Ptas. 250.000

Note 1) - Consorcia

Government Pool covering special risks. Must be included in fire policies by adding a special rate to be paid by the insured.

Taxes and Fees

Additional surcharge 9,30 % plus 3.650 Ptas.
Fire brigade 5,00 % on premium
D.G.S. 0,50 % on premium
Consorcio - Rate range from 0,092 o/oo to 0,25o/oo applicable on amounts insured.

Whenever the risk is located close to a water source there are specially increased rates for Consorcio.

General Liability Insurance Coverage

MEXICO

Structure

General Civil Liability policy based on Mexican legislation containing general and particular conditions and certificates.

The basic coverage is Activities and Real Estate. Additional coverage can be included separately.

Coverage

The insurance company promises to pay the damage as well as the injuries and consequential moral damage that the insured causes to third parties and if he is legally liable.

List of Information

There are applications-questionnaires for Commercial Risks, Construction Companies, Hotels, Industries, Pharmaceutical, Veterinarian and Cosmetic Risks, Chemical Industries, Pollution Risks.

Definitions

The policy includes definitions of Scope of Insurance, Exclusions, Policy Territory, Bases of Premium Calculation, Deductibles, Payments in the Case of Loss, Worsening of Risk, etc.

Supplementary Payments

The policy considers up to 50 % in addition to the insured sum for defense expenses including: premiums for judicial bonds, as well as legal expenses and costs.

SPAIN

Coverage

Covers the legal liability of the insured arising out of the operation products, can also be included designated in the policy for:

- Bodily Injury including death and other impairment of health (bodily injury)
- Damage, destruction or loss of property (property damage)

Unless otherwise agreed, the General Liability Insurance shall also cover the liability of the insured:

- 1) As owner, lessee or tenant of building which are part of the insured's enterprise.
- 2) Arising out of use of motor vehicles and cycles provided that they are used in the insured's business (only subsidiary liability complementary to motor insurance).
- 3) Pollution only if sudden and accidental.

Schedule

Essential part is the exact and comprehensive description of the activities and the manufacturing programmes of the insured enterprise.

Definitions

There are definitions of persons insure, obligations of the insured during the policy period, bases for the premium calculations, consequences of breach of policy conditions, claims, handling etc.

Supplementary Payments

Expenses of the insurer for costs (e.g. lawyers' and experts' fees and court costs) shall not be counted as indemnities in respect of the sum insured. If liability claims exceed the sum insured, the costs shall be divided proportionally.

For a claim occurring in the United States or Canada, all costs, however, shall be taken into account within the limit of indemnity.

MEXICO

Limits of Indemnity

Established on the face of the policy as the sole and combined limit for damages to persons and property.

The insured sum may be automatically reduced by the amount paid for the loss during the life of the insurance, however, on the request of the insured, said sum may be reinstated.

Period of Insurance

Policies are normally issued for a one year period. Renewal must be made under a new application by the Insured.

Policy Territory

Mexican Republic, except for Export Products Civil Liability, trips and work abroad coverage worldwide, including the US/Canada.

Deductibles

Set in accordance with the coverage, stated as a percentage of the claim with a minimum and maximum amount, applicable to both personal and property damage.

Cancellation

By the Insured at any time, the company has the right to charge the corresponding short-term premium.

By the company, notifying in writing 15 days in advance and charging the premium pro rata.

Available Extensions of Cover

- 1) Explosives
- 2) Loading and unloading
- 3) Civil liability Finished Products and Jobs
- 4) Civil Liability for damage abroad
 - Trips abroad
 - Jobs abroad
 - Exportation of products
- 5) Lessee's Legal Civil Liability
- 6) Assumed Civil Liability
- 7) Independent contractors.

SPAIN

Limits of Indemnity

Within the limits of indemnity, legal costs and lawyers' fees are not included. These costs are paid additionally.

No claim payable after the exhaustion of policy limits. All occurrences resulting from a single cause are deemed one occurrence.

Period of Insurance

Twelve months with tacit renewal.

Policy Territory

Standard coverage is limited to Spain. Worldwide coverage can be included by payment of an additional premium.

Deductibles

On property damage claims a deductible is generally applied.
(Minimum Ptas. 10.000).

Cancellation

A policy may be cancelled by either party following each claim covered under the policy.

Coverage shall close 15 days after receipt of the cancellation notice.

Available Extensions of Cover

Special risks subject to the payment of additional premium:

- 1) Product Liability - Bodily Injury or Property Damage occurring within the geographical limits and caused by the insured's products. Limit of Indemnity per occurrence and in the aggregate any period of insurance.
- 2) Tenant Legal Liability.
- 3) Contractual Liability (written contracts).
- 4) Contingent Motor Vehicle liability (non-owned vehicles used for and on behalf of the business).
- 5) Employer's liability.

MEXICO

Exclusions

- 1) Contractual Liability
- 2) Use, possession or property of ships, air or land vehicles.
- 3) Damage arising from fraud
- 4) Damage suffered by relatives or family members, who live with the insured
- 5) Inconsistency, sinking or settling of the soil
- 6) Damage caused by war or belligerent acts
- 7) Liability attributable to the insured according to the Federal Labour Law or the Social Security Law
- 8) Professional liabilities
- 9) Damage to the product itself
- 10) Recall from market
- 11) Experimentation products or jobs
- 12) Nonobservance of consumption instructions
- 13) Aircraft or parts thereof
- 14) Genetic damage
- 15) Damage due to sewage water, garbage, residual substances
- 16) Exemplary or punitive damages

SPAIN

Exclusions

- 1) Liability claims arising from damage due to risks not corresponding to the activities described.
- 2) Property in care, custody and control of the insured.
- 3) Performance of contract.
- 4) Non-accidental pollution contamination.
- 5) Radioactive contamination and nuclear assemblies.
- 6) Financial loss not directly resulting from bodily injury or property damage covered by the policy.

Product liability

- 7) Illegal distribution or marketing of products.
- 8) Products recall (can be included by endorsement).
- 9) Product guaranty.
- 10) Claims due to genetical alterations.
- 11) Liability arising out of products during test phase.