INSURANCE: LIFE, HEALTH, PROPERTY AND CASUALTY

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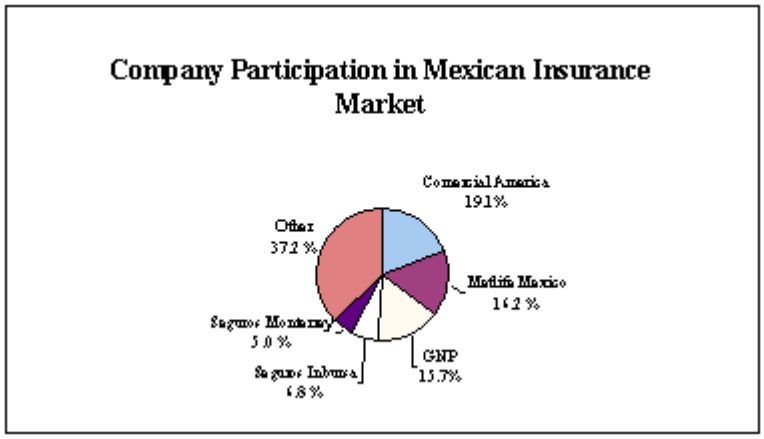
The total size of the life, health, property and casualty insurance sector in Mexico was calculated to be greater than US$2 billion at the end of 2003, and is expected to surpass US$3 billion by the end of 2004. In March 2004, property and casualty represented more than 48 percent of the insurance market; life represented 37.4 percent, and health approximately 13 percent. Yet insurance has experienced low penetration in Mexico, representing only 2 percent of the total GDP of Mexico, much smaller than the insurance market in the United States as well as in other Latin American countries such as Brazil and Chile. Nevertheless, the Mexican market provides significant opportunities for insurance companies to sell property and casualty, life, and health insurance products. Insurance is in its infancy in Mexico, however, so to be successful, U.S. companies must be willing to invest the time and resources to educate the end-users new to insurance, and adhere to strict oversight and regulation.

MARKET CHARACTERISTICS

Market Profile

The United States, as a NAFTA country, has a unique advantage over third country insurance firms because, as of 2000, U.S. companies can participate with 100 percent involvement, and implement innovative services already available in the United States. As of July 2004, 84 private insurance companies operate in Mexico, 36 of which are foreign-owned. The United States is the largest foreign supplier of insurance services with a share of more than 40 percent of the total market.

The five largest insurance companies comprise 62.8 percent of the total market share, a slight increase in market share from 2002 (62.3 percent).1[1] With 19.1 percent of the market, ING Comercial America is the leading insurer in Mexico. After the merging of Aseguradora Hidalgo and Seguros Genesis, MetLife's market share grew from 3.8 percent in 2002 to becoming the second-largest insurer with 16.2 percent of the market. Grupo Nacional Provincial follows with 15.7 percent, Seguros Inbursa has 6.8 percent, and Seguros Monterrey New York Life has 5.0 percent.



SOURCE: "*Boletin de Analisis Sectorial: Seguros, Pensiones, Fianzas," Comision Nacional de Seguros y Fianzas.* April 2004.

In 2003, insurance companies in the Mexican market reported a 55 percent net rise in profits to about US$805 million. Despite increased profits in 2003, total direct premiums fell by 9 percent, from MX$129 billion to MX$118 billion pesos, the first drop in 10 years. Yet, much of the decrease in premiums was in life insurance, which suffered losses due to new regulatory laws and a re-classification of a product, which resulted in a previous life insurance product no longer labeled as an insurance product. Regardless of the drop in premium sales, the total amount of premiums received has doubled since 1996. In the first trimester of 2004, premiums surpassed MX$34,798.2 million pesos, only two percent of which were directed to re-insurers. This sum represented a 12.8 percent growth from the first trimester in 2003.

END USERS

At least 70 percent of the end users are located in the States of Nuevo Leon, Puebla, Guerrero, Veracruz, Jalisco, Tamaulipas, State of Mexico, Quintana Roo, Mexico City, Queretaro, San Luis Potosi, Sonora and Sinaloa. Insuring one's self and one's possessions, with the exception of one's automobile, is not common in Mexico, and many Mexican nationals perceive insurance as an expense, not an investment. Yet, this mentality is changing, and more Mexican nationals are interested in the insurance market. Education is key, however, to reaching Mexican end users successfully.

BEST SALES PROSPECTS

Insurance is still in its infancy in Mexico and in order to be successful, U.S. companies must market an innovative product that are affordable, or offer affordable payment plans, and competes with current products. Moreover, U.S. companies must be willing to invest a considerable amount in education, and be patient. While significant growth has occurred in the insurance market and is expected to continuing growing in the near future, the growth represents less than 3 percent of the total GDP of Mexico. There are

roughly 30 million potential end-users in Mexico but U.S. companies must be prepared to educate Mexicans on the benefits of insurance policies, and to demonstrate that investing in a policy will result in more security in the future.

The best potential growth areas for insurers in Mexico are in health, life, property and casualty, including auto insurance. In 2003, the most significant growth was in accident and health insurance, with premium income rising 9.8 percent. According to *Asociacion Mexicana de Instituciones de Seguros* (AMIS), a private organization of insurance companies, life and property and casualty insurance sectors are expected to see notable growth in the next five years.

LIFE INSURANCE

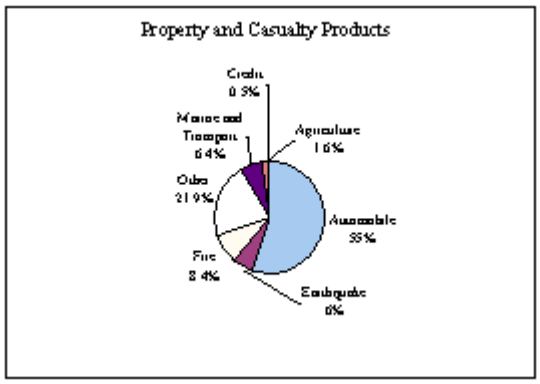
Statistical data demonstrates a significant drop in total life insurance premiums from 2002 to 2003 (-16.4 percent). Much of the decline is accounted for by the regulatory changes as a result of the reforms outlined in the 1997 *Leyes de la Seguidad Social,* (Social Security law) as well as the re-labeling and commercializing of a previous life insurance product as an investment product instead of a life insurance policy. Accounting for these unique circumstances, premiums in life insurance policies showed no change from the previous year (0.0 percent). More importantly, experts anticipate life insurance premium sales to continue to grow in the short-term.

With the exception of a drop in premium sales in 2003, premiums in life insurance policies, particularly individual policies, have seen remarkable growth. Individual life insurance plans were up 60.8 percent at the end of the first trimester of 2004 from the same period of 2003, followed by a 10.7 percent growth in group life insurance policies and 3.0 percent in collective policies. Five large companies dominate the life insurance market (79.2 percent).2[2] MetLife Mexico controls 40.3 percent, GNP has 13.6 percent, Seguros Monterrey, Comercial America, and Seguros Banamex follow with 10.8 percent, 7.3 percent, and 7.2 percent respectively.

HEALTH AND PROPERTY AND CASUALTY

Sixty-one percent of the health and property and casualty insurance sectors is controlled by 5 major companies: Comercial America (27.1 percent), GNP (17.9 percent), Seguros Inbursa (8 percent), Mapfre Tepeyac (4.6 percent) and Zurich Cia (4.1 percent). While Comercial America continues to dominate the market, its premiums fell by 2.1 percent from the year before.

Automobile insurance products comprise 55 percent of the property and casualty sector. Fire insurance accounts for 8.4 percent of the market, liability insurance follows with 7.5 percent, marine and transport insurance has 6.4 percent, earthquake insurance has 6.2 percent, and agricultural and credit insurance account for 1.6 percent and 0.5 percent accordingly. Mixed products comprise 14.4 percent of the property and casualty sector.



SOURCE: "*Boletin de Analisis Sectorial: Seguros, Pensiones, Fianzas," Comision Nacional de Seguros y Fianzas.* April 2004.

Comparing March 2004 to March 2003, property and casualty premium sales, excluding automobiles, increased by 4.0 percent. Automobile premium sales alone grew by 2.5 percent. Most of this growth was experienced in Liability insurance (34.7 percent), agriculture insurance (8.8 percent), and credit insurance (97.5 percent). This impressive growth was offset by a decrease in premium sales in Marine and Transport insurance (-6.1), Fire insurance (-14.4), and Earthquake insurance (-43.0 percent).

According to AMIS 42 percent of automobiles are insured in Mexico, up from 34 percent in 1999 and 17 percent in 1989. Average costs for auto insurance remains high as a consequence to the fact that close to 20 percent of the incurred costs due to an accident are associated with situations in which the other driver was not insured. From the end-user's perspective, this keeps the price of premiums high. Considering the lack of a resale market for used vehicles, it is unlikely that the aging fleet of automobiles in Mexico will be insured. Marketing an inexpensive, basic liability product to offer limited protection for uninsured automobiles, however, would be a creative way to attract end users that are not interested in a comprehensive automobile insurance product.

It is important to mention that while car insurance is slowly becoming more common for vehicle owners, it is not mandatory throughout the republic. Financing the purchase of a new car often requires automobile insurance, and provides the major incentive to purchase an insurance product. AMIS, along with the *Asociacion Mexicana de Agentes de Seguros y Fianzas A.C.* (AMASFAC), is pressuring the federal government to make car insurance mandatory throughout the republic. According to AMASFAC, car insurance will become legally required in the next ten years in part because the government will look to the insurance companies to offset the costs of accidents. Moreover, pricing premiums currently does not take into consideration previous driving records. Innovative pricing schemes such as implementing a similar discount strategy for "safe drivers" would attract new end-users as well as be a competitive edge for a new company interested in entering the automobile insurance market.

HEALTH

At the end of 2003, only approximately 3 percent of Mexicans had private health insurance, yet health insurance is being marketed aggressively and between March of 2003 and March of 2004, premium sales increased by 16.7 percent. Mexico has a public health system, but less than half of the Mexican population work in formal institutions and thus, are entitled to the benefits provided by the national health system (*Instituto Mexicano del Seguro Social - IMSS*). Moreover, many who are entitled to the IMSS choose not to use the public health care system and rely on fee-for-service medical care. Thus, Mexicans are more familiar with paying out-of-pocket for medical care than purchasing health insurance products.

One major change that promises to affect the health insurance industry in Mexico significantly is the creation of *Instituciones de Seguros Especialistas en Salud,* (ISES). ISES are "privately held, governmentally regulated institutions that have sole authorization to operate comprehensive health insurance in Mexico." Essentially, ISES not only provide restorative, rehabilitative services, but also preventative, maintenance, and health promotion services. Generally, Mexicans visit medical facilities for restorative or rehabilitative reasons, and thus, health insurance products that cover preventative services is a new concept for Mexicans.

Authorized by the *Secretaria de Hacienda y Credito Publico* (SHCP), ISES are supervised by the *Secretaria de Salud* (SSA) to ascertain quality of care, and the *Comision Nacional de Seguros y Fianzas* (CNSF) to oversee actuarial and financial components. The current ISES operating in Mexico are:

- Médica Integral GNP
- Vitamédica
- General de Salud Compañía de Seguros
- Preventis
- ISES Comercial América
- Plan Seguro
- Salud Inbursa
- Seguros Centauro
- Salud Especializada
- Servicios Integrales de Salud Nova

Another incentive for Mexican end-users to purchase health insurance is premiums for ISES plans are tax deductible, up to 100 percent of the annual premium, as are all expenses not paid by the insurance company. In order for these ISES to be marketed successfully, significant investment in educating the Mexican community on the value of health insurance that covers preventative as well as restorative care is necessary.

MARKET ACCESS

Insurance companies authorized by the CNSF sell services through certified agents. Insurance firms usually sell their services through the roughly 30,000 certified agents in

Mexico by placing ads in major newspapers or business magazines. Other common practices include buying time on television, radio, announcing via billboards in strategic locations, or attending local trade shows. Internet-based sales are in their infancy. Banks are the largest sellers of insurance policies and are beginning to sell policies through ATM machines.

TRADE REGULATION

U.S. firms must comply with the regulations outlined in the "*Ley de Contrato de Seguro"* (Law of Insurance Contracts) and the *"Ley de Instituciones de Seguros"* (Law of Insurance Firms).

IMPORT DUTIES AND TAXES

U.S. companies are obligated to pay taxes to Mexico only if they have offices and/or employees in Mexico. U.S. insurance firms with offices in Mexico must adhere to tax-rates according to the Mexican progressive tax code, which could be as high as 35 percent on annual sales.

CONTRACT PRACTICES AND COMMON SERVICES

Policy agreements are generally reviewed annually, and can have simultaneous insurance agreements with the same company. Insurance companies doing business in Mexico sell its services in Mexican pesos, but offer life insurance policies in U.S. dollars.

TRADE PROMOTION OPPORTUNITIES

There are no specialized trade shows in the insurance industry in Mexico. Major insurance firms usually buy space at large international shows and offer their services to visitors and exhibitors in the shows through certified agents.

TRADE PUBLICATIONS RELATED TO THE INSURANCE INDUSTRY

The majority of insurance companies circulate their own publications among their employees and agents. The publications are not for sale to the public and carry ads and articles related strictly to their company.

KEY CONTACTS

For further information about the insurance market and the services provided to U.S. firms by the U.S. Commercial Service to access these business opportunities, please contact:

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