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THE LATIN-AMERICAN MARKET

Moderator: CAMILO J. SALAZAR
Panelists: ENRIQUE KOZOLCHYK*
KEVIN M. LAW
RICHARD D. UMSTEAD
Recorder: AMY S. MARTIN

- Size, growth, regulations, products, distribution, marketing
- Market entry, business strategies, cultural issues, local staffing
- Level of activity for U.S. companies

MR. CAMILO J. SALAZAR: Let me start by describing a little bit about what is happening in Latin America before I turn it over to Enrique, who will be our first panelist.

Latin America traditionally has been our neglected neighbor to the south. For many years, we knew that it was there but were not interested in knowing anything beyond that. I remember buying a car in Denver many years ago. The salesman asked me where I was from. I was born in Colombia, and I told him so. He said, "Oh, Mexico, that's right." It is a very fuzzy area for a lot of people, but I think that the recent economic and political developments, especially economic, are turning the focus on Latin America, and perhaps that is one of the reasons why we are having this session.

It has been suggested that the Cold War was fought to some extent in Latin America; that governments, in their need to create some leverage to balance the influence the United States had in the hemisphere, aligned themselves with leftists or governments with nationalistic policies. Now with the fall of Eastern Europe, that balance has been basically eliminated, and that is why, not coincidentally, there is such an opening in both the economic and political realms. The trend to privatize their economies, to open up their markets, to reduce tariffs, and to repeal import substitution are the direct consequences of this development. If we look at what is happening in Eastern Europe today, after it opened up its political process and repealed communism, we see nationalistic, ethnic and religious conflicts arising. Since that is one thing that Latin America is virtually free of, this will allow for this economic process to move on a much more constructive basis. Also, one of the advantages that we see in Latin America is a cultural affinity with the U.S., that has always been there but has been played down through the years of Cold War and nationalistic policies. The Hispanic community in the U.S. is one of the largest growing communities, and to highlight that affinity, we could picture ourselves getting lost in a street in Mexico City or in Buenos Aires, and compare that to trying to find our way in Seoul or Taipei. You might not speak Spanish, but there is a lot in the culture that is similar as opposed to a Far Eastern culture that is really different.

* Mr. Enrique Kozolchyk, not a member of the sponsoring organizations, is Second Vice President of Lincoln National Reinsurance in Fort Wayne, Indiana.

With that introduction, I would like to introduce Enrique Kozolchyk, the first panelist. He has a Bachelor of Arts degree from the University of North Texas, a Master of Business Administration in international management from the University of Dallas, and also is a Fellow of the Life Management Institute (FLMI), a Chartered Life Underwriter (CLU), and a Chartered Financial Consultant (ChFC). His insurance experience spans 19 years with Lincoln National Life in international reinsurance. He joined Lincoln in 1974, and today is responsible for Lincoln National's reinsurance activities in Latin America.

MR. ENRIQUE KOZOLCHYK: For my part of the discussion about Latin America, I would like to concentrate on three countries that are getting a lot of light shined on them and for very good reasons. The three countries I want to concentrate on are Argentina, Chile and Mexico. Chile, for what it has done; Mexico, for what it is doing; and Argentina, for what it can potentially do. I would like to start off by giving you some macroeconomic data on Mexico so that you can see why Mexico is in the news as much as it is and why there is so much interest on the part of the American insurance community, as well as other international insurance communities, in looking into Mexico. First, look at where inflation was in Mexico in 1992 compared to where it was in 1987. From 160% inflation in 1987, Mexico finished 1992 at only 12%, and it is hoping to get down to one digit at the end of 1993.

The increase in foreign investment in Mexico, which is a good indication of how the international business community views a particular country, has had some very impressive growth, reaching $16 billion in 1992. Foreign reserves have gone up rather nicely in the last few years, and government debt (expressed as a percentage of the gross national product, which is a very important indicator), has gone from 74% in 1988 down to only 29% in 1992. Likewise, one of the things that Mexico and many other Latin American countries are doing as they move toward a liberalized economy, i.e., an open-market economy, is reducing the number of government-owned companies. As you may know, even such enterprises as the telephone company have been privatized in Mexico. A number of banks that were nationalized have been privatized now. What are the medium- and long-term growth expectations of Mexico? As I pointed out, Mexico is looking toward a single-digit inflation figure and looking toward a nice growth in its gross national product.

Some of the things that are drawing a lot of attention from international insurance groups that want to do business in Mexico today are the changes passed by the Mexican government that allow for foreign participation in the Mexican market. A lot of people think of this strictly in terms of North American Free Trade Agreement (NAFTA), but there are really two components. A few, short years ago, the Mexican government allowed joint ventures in the insurance sector -- something which up to that time had not been allowed. As a result, a number of international companies have gone into Mexico. From the U.S. alone, Metropolitan, Aetna, CHUBB, CIGNA, and AIG have gone in. AIG, by the way, was a grandfathered company. There were two companies in Mexico that had grandfathered joint-venture positions. AIG was one, and Generali from Italy was the other one. Metropolitan is in partnership with Banco de Santander of Spain in a Mexican company called Genesis. It gives you an

idea of how widespread this is, and it is anticipated that a lot more companies will come in.

NAFTA will create one of the largest free-trade zones in the world, as it brings together the U.S., Canada, and Mexico. Looking ahead about 17 years, this alliance will include an estimated 450 million people, which makes it a very desirable market. Another thing that makes Mexico very attractive from the perspective of our business is the issue of demographics. Eighty percent of the population is under age 39, which is really quite the opposite from what we might have in this country. In terms of marketwide premium volume for just the life side, in 1990 there was approximately $1 billion of premium in U.S. dollars; and in 1992, $1.6 billion. In terms of potential, I am sure many of you have seen the 1991 Life Insurance Marketing and Research Association (LIMRA) study that indicated at that time that there were only 1.5 million individual life policies in Mexico and that the scope of the market could be as high as 8-20 million people.

What are the life products that are being sold in Mexico today? In individual life, there is universal life, and there is traditional coverage. There are increasing plans either geared to the consumer price index or with fixed increases, and there is dollarized business. Dollarized business is business issued in pesos but with continuous indexation to the U.S. dollar. At one time, the Mexican companies were allowed to issue U.S. dollar policies. This is no longer the case, so now they have come out with this continuous indexation. Also, there is group and colectivo. Colectivo would be something similar to our franchise coverage here in the U.S. Credit insurance has taken on a new importance because interest rates have gone down and credit is more readily available now. There is also personal accident and health insurance.

The composition of the life market in Mexico is interesting. If one looks at the insurance market, it is really divided into two groups: the five largest companies, which control about 70% of the market, and everybody else. The everybody else group is further subdivided into two groups: the medium-sized companies and the very small companies. Out of the five largest, two of them already have joint ventures: Seguros Monterey with the Aetna and Seguros America with the Generali.

As one looks at everything that is happening in Mexico, what are the trends? Well, for one thing, one can look forward to a healthier economy. I believe that there are enough indicators that will point that out. NAFTA will bring increased activity as well as increased opportunities. An increase in quality and productivity is anticipated as the local insurance industry and other industries within the economic landscape prepare to compete with those companies coming in from the outside as a result of NAFTA. We are going to see an increase in new products. The demographics, of course, will favor Mexico for the time being. We are seeing the creation of large financial groups with the privatization of the banks in Mexico. Some very large financial groups have been created, which include insurance (life and property and casualty), banking, factoring, leasing, and stock brokerage. Another factor is the recent changes in the country's social security laws. It was anticipated that Mexico would make changes to its social security system along the lines of what Chile has made or what Argentina is about to make. However, once the changes came

through, they were not like those at all. Mexico's mandatory occupational pension program, Sistema de Ahorro para el Retiro (SAR) requires an employer to pay an additional tax of 2% of payroll which then goes into a bank. Eventually, the worker will annuitize that money as he retires. This then represents a potential future market. There will be an increase in the number of joint ventures with foreign companies, and it is anticipated that there will be a number of mergers among local companies as the really small companies realize that they cannot compete with the companies coming in from Canada or the U.S., or the Mexican companies that are entering into joint ventures.

As for Chile, the best way to look at this market is to think of it in terms of pre-1980 and post-1980. Let me take you a step back for some explanation. Life insurance practically disappeared in Chile under the Allende regime. Hyperinflation was such that there was just no life insurance being sold as the public had lost confidence in it. Then, under President Pinochet, the economy began to take a much better turn. A number of companies began to reactivate themselves, and in 1980, the market was liberalized. With that liberalization came the opening of the reinsurance market, which up until that time had been managed by a state monopoly. Also, the introduction of artificial currencies called Unidades de Fomento (UFs), which translated, literally means developmental units, helped pave the way for a thriving industry.

The Chilean life insurance market closed the year 1992 with over $700 million of premium. About 12 years ago, this did not exist. The Administradoras de Fondos de Pensiones (AFPs), the private pension fund administrators in Chile, generated life premium volume of $19 million in 1990 and $89 million in 1992. This is the premium paid by the private pension fund companies to the life insurance companies in order to purchase group life and disability coverage for pension fund members. The increase in annuity premium (from $19 million in 1990 to $98 million in 1992) is a by-product of the AFP program, for as people retire from the system, one of the options that they have is to annuitize their accumulated funds. Therefore, there is always a ready market of annuity purchasers in Chile.

There are 27 life companies in Chile today. About 50% of those are foreign-owned companies, and they control about 70% of the market. Who are those companies? The names of the companies will not mean much to you, but if you look at their respective foreign affiliation, the names will indeed take on some meaning. The Consorcio Nacional de Vida of Chile is owned by a consortium headed by Bankers Trust, the New York bank. Aetna Chile is owned by Aetna. Compensa is an annuity-only company owned mostly by Bankers Trust. Interamericana is owned by American International. CIGNA is, of course, CIGNA. Chilena Consolidada was just bought out in 1992. The Zurich Group out of Switzerland bought 90% of that company. Le Mans is French. AGF is French. UAP is French. Santander is owned by Banco de Santander, which is a partner of Metropolitan in Mexico. Mapfre, which owns Euroamerica, is a large Spanish concern. Mapfre also owns the Caja Reaseguradora (this is the former state reinsurance monopoly). There is also a Brazilian company called Real. Of the $720 million worth of life premium in Chile, $486 million of that is held by foreign companies.

What are the products being sold in Chile? Individual life, group life, group creditor, personal accident, and of course, a lot of annuity business. The group creditor market in Chile is very large, which is a result of the economic activity that one sees in that country. All insurance is issued in UFs. The UF is one of the things that has made the rebirth of the life insurance industry in Chile so successful.

In terms of who can own what in Chile, I should point out that Chile has a totally open economy. It is very transparent. One can own 100% of any company. The capital required today is $45,000 UFs or approximately $1.1 million, but there is a proposal before the authorities to double that requirement to about $2.2 million.

One of the biggest events to have occurred in the Chilean insurance industry was the privatization of the social security system. This led to the creation of the private pension fund companies, which in turn, buy group life and disability policies from the insurance companies. Some companies have come out with supplementary AFP coverage. The reason that it is supplementary is because people are buying it in addition to the amount of coverage that they can get from the AFP. The AFP coverage has a ceiling on it.

Now we move on to Argentina. What has been happening there over the last 50 years in terms of governmental macroeconomic policy has stopped. As one talks to business leaders in Argentina, they tell you that the way it was over the last 50 years could never be again because recent changes have gathered too much momentum. The main change is that Argentina is going to a free-market economy. President Menem is privatizing just about everything he can get his hands on, from the local airline to the telephone company. Again, in the case of Argentina, the reinsurance was a government monopoly. The state reinsurance monopoly, called the INdeR, was formed in 1947 and was partially demonopolized a couple of years ago. By partially, I mean that, as of a couple of years ago, companies were allowed to cede 40% of their business to the international reinsurance community. In reality, what happened then is that companies bypassed the INdeR altogether and were reinsuring almost 100% above their retention. Today the INdeR has gone into liquidation and has a runoff of about a billion dollars.

Individual life insurance, as we know it, practically disappeared in Argentina. Although it was very strong 35-40 years ago, it disappeared because of the fact that the Argentines, unlike the Mexicans, did not come up with the mechanisms to be able to sell in a highly inflationary economy. The market has grown from $255 million of life premium in 1990 to $540 million in 1992. When one thinks in terms of $255 million of life premium for a country like Argentina that has 33 million people and is rather rich in natural resources, it is a very negligible figure. It does, however, have good potential – that is why so many outside interests are looking at it.

What are the products being sold? There has been a rebirth of individual life. A number of companies are making a valiant attempt to bring this product into the market. All individual life is being sold in dollars. What we are seeing is either universal life or some sort of interest-sensitive product. There is also group life. Personal accident is a big line in Argentina, and the issuing currencies are the U.S.

dollar and the Argentine peso. As you know, the peso is now geared to the dollar, so there is hardly any difference between the two currencies.

What are the problems that one sees in Argentina? Well, one problem that the local companies are having is lack of public confidence. Life insurance had practically disappeared in Argentina since the industry could not go up against the hyperinflation that the country suffered from. Argentina became fertile ground for the nonadmitted, nonlicensed offshore companies that began operating there. Therefore, as local companies are now trying to reopen their individual life operations, one of the challenges that they have is how to once again win the public's trust. This is not an easy task! Another problem that they are running into is the building of a sales force. All the good agents are working for the offshore companies. As you well know, it is quite a task to put together a good sales force due to the developmental time and the necessary investment.

When I visited Argentina a couple of weeks ago, a law creating AFJPs, which are the Argentine version of the Chilean AFPs, was still being debated in the Argentine parliament. We were told then that the law was going to be passed at any moment. As with the Chilean AFPs, the Argentine private pension companies will buy group life and group disability benefits from the local companies. The immediate new creation of group life and disability premium that is anticipated to result is in the $330-400 million range -- it varies depending on who one talks to -- and it could be as high as $600 million per year in 10 years. It is interesting to note that, as of March 1992, 30 different groups had declared that they were getting ready to go into the private pension business in Argentina. Just for comparison, Chile has 14 AFPs (private pension companies).

To fully participate in the life insurance industry in Argentina, one will need a three-pronged corporate structure:

1. An AFJP to be in the pension business.
2. A life-only company. A life-only company is important there because in Argentina, as in many other Latin countries, one generally finds that insurance companies sell both life and property and casualty business. The Argentine authorities are demanding a separate company for life insurance for transparency's sake. What is beginning to happen is that a number of the local companies are separating their life areas from their property and casualty areas and incorporating them as separate companies. Doing this will allow them to sell group life and group disability coverage to the soon-to-be-created pension companies.
3. An annuity company. The annuity business is going to become very important in Argentina, as it has in Chile, because as people begin retiring from the newly privatized pension system, they will begin to buy annuities.

As we talk about the privatization of the pension business throughout Latin America, the country that we need to give a lot of credit to is Chile because it is the one that started privatization. In fact, one of the many things that Chile has been in the process of exporting for a few years is its private pension technology. Peru has already approved the privatization of its own social security system. The date that it

begins, aptly enough, is May 1, 1993, which is Labor Day in Peru. There are eight AFPs (private pension companies) that are going to start operations May 1. Out of those eight, seven of them have Chilean part ownership. Therefore, it gives you an idea of the type of expertise that the Chileans have developed.

MR. SALAZAR: The next panelist is Kevin Law. For the past ten years, Kevin has been at Pan-American Life Insurance Company in New Orleans, Louisiana. Currently, he divides his time about equally between the international and domestic group insurance departments. During his first seven years with Pan-American, Kevin worked exclusively on the international side, functioning as the chief group actuary for the Latin-American portfolio. In the course of carrying out his responsibilities related to international business, he has had the opportunity to travel periodically to each of the eight countries where Pan-American operates and has developed a proficiency in the Spanish language. Kevin served as the Chairperson of the Organizing Committee of the International Section of the Society, which was officially chartered by the Society of Actuaries' Board of Governors in fall 1991, and it is now in its first year of operation. Prior to joining Pan-American, Kevin worked in the group insurance field for both Aetna and Phoenix Mutual.

MR. KEVIN M. LAW: My presentation will consist of an overview of a number of unique aspects, issues, challenges and considerations involved with actuarial work and portfolio management for Latin-American group insurance business as opposed to the typical U.S. portfolios with which most of us are involved. The material that will be covered can be divided into the following seven categories:

1. Medical-trend-factor establishment
2. Currency devaluations
3. Plan designs and funding methods
4. Legal and regulatory aspects
5. Language difference considerations
6. Miscellaneous issues involving administration, reinsurance and political risk
7. Considerations related to pricing assumptions and rate-structure development

My observations are based upon my general experiences in working with Pan-American's group portfolios in eight distinct Latin countries. These consist of El Salvador, Honduras, Guatemala and Panama in Central America; Colombia and Ecuador in the northwestern part of South America; and Puerto Rico and the Dominican Republic in the Caribbean.

I will begin now with medical trend. Obviously accurate medical-trend assumptions play a key role in the financial success or lack thereof of a block of health business.

It is difficult enough to accurately measure and forecast trend on a U.S. portfolio for which there are a number of tools and sources of information. These include government medical price indices of reasonable quality, several available measures of

utilization, competitive-trend-factor surveys, models available from consultants, and sizable blocks of business that can be measured and monitored.

Published statistics for the Latin markets, however, are limited. There are some CPI-type indices available from both government and private sources. However, frequently these are composite values for all sectors of the economy, and a separate medical index is not available. Furthermore, I am cautioned that often the government-generated indices are not reliable as they are manipulated for political reasons.

Besides just the basic question of attempting to obtain a decent value for a CPI-type of index to measure the price component of medical-care cost increases, there is the issue of the proper relationship between the rate of unit price inflation and the rate of total medical trend in different countries. We in the U.S. are all well-accustomed to the apparently axiomatic relationship in this country that the medical CPI is significantly higher than the overall CPI, and that total medical trend is substantially higher than the medical CPI. This latter relationship is due to increases in utilization, cost shifting, mix, and intensity of services plus the effects of antiselection, COBRA and mandated benefits among other influences. However, the interplay of these variables is unique to our economy, social benefit structure, legislative environment, competitive conditions and health-care delivery system. The substantial spread that we observe between unit-price increases and medical trend does not necessarily have to exist in other countries.

We have attempted to utilize our portfolio data to directly measure each country's trend, but the fluctuations due to our portfolio size have been too great to provide results that can be meaningfully interpreted.

As if there were not enough uncertainty in attempting to deal with medical trends in these areas, there can be large swings in a country's CPI over time. One of the sources of composite CPI inflation statistics, upon which we rely for information on our Latin countries, publishes prevailing annualized total inflation rates each quarter. Over the seven-year period from 1986-92, these CPI increases have varied between the following minimum and maximum values:

Country	Annual Inflation Rate	
	Minimum (%)	Maximum (%)
El Salvador	8	33
Guatemala	7	56
Honduras	2	40
Panama	-0.5	3
Dominican Republic	2	115
Ecuador	16	30
	21	93

If I recall, the number for Mexico was as high as 160%. As is obvious from the ranges of prevailing inflation rates just described, there are some roller coaster patterns in the economies that add an interesting dimension to forecasting trend factors and that significantly increase the risk of providing medical insurance in these Latin countries.

I would like to continue with the subject of currency devaluations. Devaluations can play a significant role in the financial results of portfolios written in the local currency of foreign countries when there is a distinct tendency for that currency to weaken against the dollar over time. This is certainly the case in six of our eight countries of operation. For example, our aggregate earned premium for all countries combined, except Colombia, expressed in dollars at 1993 exchange rates is only about 22% of the total earned premium from the exact same portfolio but converted to dollars at the currency exchange rates from 10 years earlier.

As would be expected, this substantial erosion in the magnitude of the aggregate portfolio varies significantly from one country to another, depending upon the change in the 1993 exchange rate relative to the applicable 1983 conversion factor. The results range from no currency devaluations in Panama and Puerto Rico, which have dollar economies, to losses of value on the order of 93-97% in the three countries of Colombia, Ecuador and the Dominican Republic. These dynamics have a substantial impact on managing several aspects of a portfolio.

First, with respect to assets backing local currency reserves and liabilities, the question arises as to whether it is more advantageous to invest these funds within the country in local currency and receive a much higher rate of return than is available on dollar-denominated assets or whether it is preferable to support the reserves and liabilities with dollar assets that have a lower rate of return but that also have an additional source of increase due to the depreciation effect.

With respect to the components of premium income designated to cover taxes and expenses incurred in dollars in the U.S. as well as the profits generated by the portfolio, strategically it is best to bring these into the U.S. in dollars as rapidly as possible to avoid erosion of value.

The total effect of devaluations is intertwined with the administrative structure of the company with respect to functions and services performed in the U.S. versus those handled in the local country. This results from the fact that the location of the administrative functions directly determines the distribution of the currencies in which the salaries and total expenses required to support the portfolio are incurred.

From the perspective of protection against devaluations, it is most advantageous to perform as much work activity as possible in the local offices. The salary and local currency expenses will devalue at the same rate as the premium income, and therefore, the income and outgo will retain the same proportional relationship. However, to the extent that there are actual hard dollar expenses that must be supported by the portfolio, such as those generated by our international department in New Orleans, these outflows increase relative to the devaluing premium income. In

other words, the U.S. expenses remain constant in dollars, while the soft currency premium income converted to dollars decreases due to the effect of the weakening local currency. This problem can be minimized by transferring as many of the functions and, therefore, expenses to the local countries as is possible.

Besides protection against devaluations, there are other advantages to performing service and administrative functions at the local level as opposed to in the U.S. These include faster, more accessible service to policyholders and cheaper labor costs. Wages for clerical personnel, after adjusting for currency exchange rates, can typically be about one-third or less of the going rate of U.S. workers.

The disadvantage of farming out the portfolio administrative activities is a loss of central control with respect to adherence to established policies and quality standards and perhaps some inefficient duplication of effort in each individual country. This last possible disadvantage can be reduced by consolidating some appropriate functions into a "regional" foreign-based office that services several individual offices in more than one country.

Moving on to the topic of plan designs and funding methods, in general, many of the advances and changes that have occurred in the U.S. during the last 15-20 years with respect to plan designs and funding methodologies do not seem to have significantly penetrated the Latin group markets, at least according to my experiences. The majority of the marketplace appears to be focused on fully insured traditional indemnity base/major and comprehensive medical plan designs.

There are some exceptions, however, particularly for cases that are subsidiaries of U.S. companies. Occasionally we will encounter a requirement to incorporate a retrospective premium arrangement, minimum premium funding, or an ASO plan for the health coverage. HMO-style programs and PPO networks exist in some countries but are rare in most locations. Managed-care features such as preadmission certification, concurrent review and large-case management are not yet well-developed in these markets.

One interesting and unusual aspect of health-plan designs in an international environment is the possibility of having to contend with different currencies. This is essentially a nonissue for U.S. business since a medical plan's schedule of insurance and rates will be denominated in dollars; premiums and claims will be payable in dollars; and the medical bills received from providers will be in dollars. In the international arena, it is not always a given that medical plans will be designed with the anticipation that all five of these parameters are always, or even frequently, expected to be in the same currency.

It is usually the case that a plan's schedule of benefits and unit rates will be denominated in the same currency and that the claims will be paid in the same currency in which the premiums are received. However, sometimes premiums payable will differ in currency from the unit rates via the application of a currency exchange rate factor that may either vary monthly or be fixed for a period of time such as policy year.

The currency of the incurred medical expenses is obviously a function of the country in which the medical treatment is received.

In working with the design and pricing of medical programs in this environment, care must be exercised to minimize potential problems that may result from the mixing and matching of currencies. I have seen some plans that were structured in an unwieldy manner, such as with all plan provisions stipulated in dollars but with reasonable-and-customary-style benefits and substantial expected plan utilization in nondollar economies. Under this type of plan structure, there is the potential for mismatches to occur during the policy year among the currency exchange rate assumed in the pricing, the prevailing market exchange rate, and the rate utilized to convert local currency medical expenses to dollars to apply the policy's benefit provisions.

In this situation, the insurer assumes not only the usual loss ratio or experience risk that is inherent in medical plans but also a currency exchange rate risk. Most of us, I believe, feel that we have a sufficient challenge in dealing with the experience risk and keeping our blocks of business profitable with respect to achieving our target loss ratios and would not want to design plans that required us to cope with an additional risk component resulting from fluctuations in currency exchange rates.

Concerning legal and regulatory aspects, there are a number of nuances in the legal and regulatory arena involved with business written in Latin America, including dealing with superintendencies, additional requirements for financial reporting, and difficulties in exporting funds to the U.S.

Most of the countries in which we operate require rate and contract filings, and we have periodically experienced substantial delays in receiving approvals. On several occasions I have had the opportunity to meet with departmental officials to try to expedite the review and approval process.

My observations are that the bureaucratic process in these countries is quite slow, which many, I imagine, would not find too surprising. The review of both contract and rate filings seems to be primarily a mechanical analysis. For contracts, the focus appears to be more on the details of the terminology and wording rather than on the substance of the benefits provided. Concerning rates, the review tends to be centered upon the mechanical steps of the rate development and the accuracy of the arithmetic as opposed to the reasonableness of the assumptions and the appropriateness of the resulting rate levels.

Required accounting methods and procedures for financial reporting to the Latin superintendencies present a number of complications. In several countries, there are distinct accounting systems postulated with specific account numbers and names that must be used to record all transactions. We end up with a duplicate accounting process and system in these countries with one set of books on the superintendent's basis and a second on our own internal system, which is consistent with U.S. life insurance conventions.

Even in those countries where there is not a mandated accounting structure, in effect, we carry two versions of trial balances within our system. The Latin accounting norms require that accrual charges be booked in specific trial balance accounts as if they were paid values, which in the U.S., are handled on a nonledger basis.

Concerning the computation of accruals, the Latin-based financial reports do not usually recognize an incurred but not reported (IBNR) claim reserve or an unearned premium reserve as would be included in a U.S. statement. Rather, there is an entity known as a "technical" reserve, which is usually a percentage of the last year's premium, often around 40%. Due and unpaid premium assets would be recognized and computed in a manner similar to a value developed for a U.S. financial statement.

Moving on to other aspects of government regulation, on the plus side, except for Puerto Rico, there are no requirements to address in the areas of specific mandated benefits, minimum loss ratios, small-group rating and accessibility requirements or legislation like the Age Discrimination in Employment Act (ADEA) of 1967, mandated maternity the same as any other disability, Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1986, required primary coverage to Medicare for active employees, or anything else of that nature.

However, regulations that limit the withdrawal of dollars from some countries can be onerous. Previously in the discussion of currency devaluations, I mentioned strategic issues involved with converting accumulated cash funds into dollars and bringing these amounts into the U.S. to support dollar expenses and to invest in dollar securities. However, it can be difficult to do this in countries that want to restrict the outflow of funds. Some countries have laws that specify minimum percentages of reserves for local currency policies that must be invested within the country. There also may be restrictions and bureaucratic approval procedures related to the withdrawal of expense margins, operating profits and surplus from the country.

Language differences must be considered with respect to operations in Latin America. All of the countries in which we operate speak Spanish.

While there are a number of approaches to managing this aspect of an international operation, at Pan-American the policy has been adopted that all of the New Orleans personnel in the international operations profit center must be bilingual, speaking both English and Spanish. This policy has not been rigorously enforced in all instances, but it is generally applicable, at least to the extent of being able to function with written communications in the secondary language.

Actually, in our department in New Orleans, the secondary language for most people is English. Anglos are a definite minority as we comprise about 15-20% of the employees with 80-85% consisting of native Latins. The actuarial section is probably the only area where Anglos are the majority.

In working with our local offices, the language is Spanish (because we do not expect our employees there to work in English at all), and internally within the department in the home office, the language may be either Spanish or English, depending upon the

persons involved. Translations are almost never utilized, the occasional exception being the necessity to convert a document from English to Spanish to be sent to a local office or to translate in the other direction for distribution outside of the international profit center in New Orleans.

Incidentally, we have found it preferable that the top management people of our local offices be functional in English as this allows them to effectively interface with our corporate area and key management personnel outside of the international profit center.

I will now briefly mention several points concerning administration, claim adjudication, reinsurance and political risk.

Routine, daily administrative aspects of the Latin portfolio are quite similar to the handling of the U.S. business. We utilize a billing, accounting and claim-adjudication system that was originally designed to administer a U.S. portfolio. It did require a significant conversion effort to have all of the input screens and output changed from English to Spanish.

One tricky aspect of medical-claim adjudication involves the application of reasonable-and-customary-expense limitations. Not only are there no charge-level databases conveniently available for purchase, but also providers in some locations still follow the practice of charging patients according to their socioeconomic status, which complicates the reasonable-and-customary-charge-level determination.

Reinsurance acquisition for the Latin portfolio is not as straightforward as it is for the U.S. business. It has proven to be more difficult to obtain reasonably priced coverage for the Latin cases since many reinsurers are not interested in coverage of risks emanating from this region. Some of those reinsurers that will offer protection incorporate substantial loads into their rate levels. This situation may improve, however, as more companies enter the Latin market.

An additional aspect that merits consideration is the increased political risk of doing business in this part of the world due to the greater instability of the governments. During the early 1960s, we lost our portfolio in Cuba as Fidel Castro's regime took control of the country. Unfortunately, we suffered the same fate in Nicaragua with the Sandinistas in the late 1970s. These risks are real, and problems do occur from time to time.

I will make a few comments about pricing assumptions and rate-structure development for health business in these Latin countries. It is always a challenge to develop and select pricing assumptions for products to be marketed in Latin America. For U.S. business, there are several valuable sources of data, studies and other tools that are available to us. Examples are intercompany SOA mortality and morbidity reports, detailed statistics published by government agencies and private organizations, plus actuarial firms with expertise and prepackaged claim-cost manuals and rate structures. To my knowledge, except for some scanty government statistics, these items are essentially nonexistent in the Latin countries in which we operate.

Of course, existing blocks of business are a source for statistical data that can be utilized to develop assumptions and parameters, and we have been able to extract information for this purpose for some applications. However, there are a number of limitations that affect the extent to which we are able to use our own portfolio, including credibility concerns due to the size of the block by country, inadequate computerization at the local country level, which makes it difficult to efficiently acquire data, and scarcity of home office technical resources to address questions such as statistical studies.

A general methodology that can be utilized to deal with the pricing issues in particular is to break the rate-structure development into two distinct phases:

1. The first is the creation of an internally consistent manual rate formula with all of the calculation steps included and all of the internal relativities set among the various components of the rate structure.
2. The second phase is to proportionally adjust the various rate tables in the manual formula so that the claim-cost portion of the aggregate premium level is established at the desired target for the product given the expected claim level in the local country environment.

In order to create the internal relativities in the first phase of this process, a typical starting point is a complete set of U.S. data and a model rate structure as if a rate formula for business in the U.S. were to be developed. Then certain U.S. relativities in a number of key areas can be modified or replaced in order to produce a rate structure that is still complete and internally consistent but that reflects expected characteristics of the Latin portfolio in each country.

A good example of this process relates to differences in the populations that justify replacing the national average U.S. demographics that are built into group manual rate formulas. In comparing census data from typical Latin and U.S. distributions, the Latin demographics will include a higher percentage of male versus female employees, a lower proportion of employee-only coverage, more spouses per employee with dependent coverage, and significantly more children per employee with dependent coverage.

An example of the application of government statistics to adjust rate structure internal relativities is the use of published demographic data to modify the assumed incidence of maternity claims, which would be expected to vary from the U.S. experience.

Let me just mention some experience results that might be of interest. In 1990 we completed a study of our group life mortality over the prior four years, 1986-89, inclusive. The format of the study was actual-to-tabular incurred death claims, where the tabular was the Intercompany Group Life Insurance Mortality study published in the *1980 Transactions Reports*. There were more than 300,000 exposed life years in this analysis.

The experience of our portfolio was reasonably good. Four of the countries produced mortality results at or slightly above the U.S. intercompany level with actual to tabular ratios between 100-107%.

Three other countries generated actual to tabular mortality experience better than the U.S. standard, with ratios ranging from 52-90%. In the aggregate for all countries combined, the Latin group mortality was better than the Society tabular based on U.S. business, which I found to be quite interesting.

MR. SALAZAR: Our third panelist will be Dick Umstead. Dick was born in Colombia, educated in the United States, and has a degree from Duke University. He was a vice president and actuary of Durham Life until 1978. Since that time, he has been a private, independent consultant mostly in international matters. He has also done consulting work for Lincoln National in the reinsurance department. Dick will talk about his experiences in pricing individual products in some Latin-American countries.

MR. RICHARD D. UMSTEAD: During the past 15 years, I have been working with international life insurance clients principally in South and Central America and the Spanish Caribbean, mostly in the development, valuation, and administration of life products.

What I would like to discuss is the status of life products today and the assumptions, regulations and other factors that might differ in the international arena from those to which the U.S. actuary might be accustomed. I would also like to make some comments regarding the assumptions, procedures, and methodology used in pricing, and the administrative problems that exist from my perspective as a consultant. First, let me emphasize that my remarks are from the point of view of a consultant working with small, local companies that rely heavily on their European and American reinsurer for actuarial underwriting assistance as well as for advice regarding new products.

Prior to my first assignment in the international market, I had worked for a U.S. life insurance company in both the product development and valuation areas, and the transition to the Latin market at that time was both quite bewildering and refreshing. It was bewildering because of the emphasis on high premium plans with lots of pure endowments, tontine effects, and even products based on raffles that bordered more on games and gambling schemes than on insurance. I was also surprised at what seemed to me to be a very primitive method of setting rates and profits. Yet I found it refreshing because as a product development actuary, one was free to use total imagination in developing the product without regard to the constraints of government regulations, the restrictions and the tax consequences to which I was accustomed. That is not to say that I did not have to readjust to a different set of rules of the game but, rather, that I found the rules in my new environment much more flexible and usually not that strictly enforced by the regulators or adhered to by all the game players.

What I am seeing today in the Latin market in the area of products is that most companies are heavily influenced by the U.S. products, are always interested to know what is new in the American market, and want the same products. Because of the varying degrees of inflation, interest rates, and historical inclination to more savings and less protection, there remains a strong presence of traditional high premium plans. Now you will also find many of the products we are selling in the U.S. today: universal life, interest-sensitive plans, term plans, annuities, and dread-disease riders.

There are several interest-sensitive products, various imitations of the universal life product and even some totally typical front- and back-loaded universal life plans being offered. In the early years of universal life, the typical answer to the universal life product was a traditional term plan combined with a separate investment fund, and although in some cases there were preplanned increases in coverage and premiums, the completely flexible universal life product was not being offered. There was strong resistance in the 1980s to entering the universal life market because of the administrative burdens and what I believe was a very negative view of the product by European reinsurers. This may no longer be true, but there are still many companies that have never entered into the totally flexible, classic universal life product. Unlike the low interest rates we are now experiencing in the U.S., many Latin markets still have high interest rates and inflation, which would seem to be a good environment for universal life products.

The key elements influencing products are the level of inflation, interest rates and currency fluctuations. When Mexico was experiencing interest rates of 5% or more per month, insurance products had to provide for automatic benefit increases and investment returns competitive with market rates, or they could not be sold. I participated in several discussions with a company that wanted to enter the universal life market in the 1980s. Think about the administrative requirements. You have to separate automatic inflationary increases from discretionary increases that are subject to evidence of insurability. Some rules must be established for regulating the levels of the automatic increases. You have to segregate premiums for each type of increase for commission purposes. Reinsurance administration must be able to handle a dynamic retention based on currency fluctuations. Beginning with 3,000 pesos to the dollar, sales proposals inflated benefits and premiums to levels that were meaningless and could not even be printed. When you throw in all of the other administrative problems that accompany universal life, you have a monster. Furthermore, Mexican regulators would not approve cash values and reserves that varied with current interest rates. To gain approval, it was necessary to separate the insured's cash fund into two parts, one accumulating at a low guaranteed rate of interest (the policy cash value) and the other restricted to excess interest credits (the policy dividend). We never got the product off the ground.

Of course, there have been many changes in Mexico since that time. This points up one of the greatest problems facing the actuary in the international markets: the difficulty in predicting the status of the economy in the market and, therefore, the needs that the product is trying to meet. Historically, this has been further aggravated by political and social upheavals in many countries making any type of stability almost impossible. I hope we are now entering a new era.

Most of you are probably aware that in Chile, both insurance benefits and premiums are completely indexed by a governmental index that closely parallels the cost of living, thus decreasing the need for total flexibility in benefit and premium payments via a universal life product. However, real rates of interest are still in the 5-7% range, and thus, an interest-sensitive plan would seem to be a good product for this market. To my knowledge, universal life has only recently been introduced there, and its marketing success is still unknown.

Term plans have always been available and continue to be requested in all markets: annual renewable term, level and convertible term and decreasing term plans. I have not seen the competitive pricing in the annual renewable term that occurred in the past in the U.S. One interesting point here is the lack of interest in providing coverage for children. Companies that provide optional term coverage for children in their universal life plan have sold very few policies with this benefit rider. This is especially interesting since families tend to be larger than U.S. families, and the family term coverage premium that covers all children in the family without regard to the number of children can be a real bargain for a large number of families. However, there seems to be a certain reluctance to buying coverage on children, a certain belief that buying this coverage somehow suggests receiving a financial profit on the death of one's child. I do not recall confronting this type of reasoning in the U.S. markets, although quite possibly, it exists here also.

One benefit rider that does seem very popular in the Latin markets is the anticipation-of-capital rider that provides payment of the face amount of the policy in a lump sum on total and permanent disability. I believe this coverage was issued in the U.S. many years ago and may still be available, although I am not aware of it. In the Latin markets, this product has been available for many years and continues to be popular today. In the U.S., perhaps the reluctance is more on the part of the insurer than of the insured. My impression is that companies are better able to resist fraudulent disability claims in the Latin countries than is possible in the U.S. Recently, companies have become interested in the dread-disease rider. This is not all that different from the anticipation-of-capital rider, but it should certainly be much easier to avoid fraudulent claims since benefits are payable on more limited and specific diagnoses rather than on meeting the more vague definition of total and permanent disability. The long-term-care rider, on the other hand, has no particular attraction in the Latin market at this time. Most long-term care is still provided by an institution, and hence, there is less need for this type of coverage.

I have often been requested to develop individual and group annuity products. The great distrust in the survival of social security benefits, perhaps with the exception of Chile, and the desire for individual retirement benefits make this a very sellable product. Yet I found it very difficult for such products to compete successfully with banks and savings institutions. Unlike the U.S. insurance company advantage over banks from the individual tax point of view, many countries do not tax the interest credited in individual bank savings accounts. Without this advantage, the insurance product with its higher acquisition and maintenance costs is very difficult to justify.

One of my biggest difficulties when I started pricing products in this market was the lack of experience data available. Mortality, lapse and expense studies were hard to find, and even today the actuary will have to use his experience, judgment, and, yes, impressions rather than any solid studies in setting his assumptions.

Valuation mortality tables are available in several countries, but other countries have no specific required valuation table, and the usual practice is to use U.S. valuation tables in such instances. To my knowledge, there is no available experience mortality study for pricing, perhaps there may be an exception to this in Mexico, and my

practice has been to use U.S. experience studies such as the SOA intercompany select and ultimate tables, using, if appropriate, some loading factor, depending on the particular market for the product. Most technical notes prepared by company staff for filing new products or rates that I have seen always refer to the valuation table as the assumption used in calculating the gross premiums. If the product is to be marketed in the upper and even medium-to-upper income market, there is no reason to believe that mortality experience will differ significantly from U.S. experience. Most people at this economic level have access to very good medical care. Their lifestyle is comparable, and the underwriting standards used by most companies would compare to U.S. standards. After all, most underwriters are trained by U.S. and European reinsurers and use their manuals and standards in their classifications. Also, in many cases, their nonmedical limits are quite conservative as compared to the U.S. Most companies have rather low retention limits so that reinsurance mortality experience by country or at least all Latin markets would be quite valuable to the pricing actuary. To my knowledge, these data are not available. Perhaps due to the low volume, the data are not considered statistically reliable.

Many companies still prefer to not vary their gross premium rates between smoker and nonsmoker. The companies that do must proceed with caution. I believe that it is generally recognized that in the population as a whole, the percentage of smokers is greater than in the U.S. and has not been decreasing as rapidly. Yet I have seen data in at least one company where only 8-10% of the new insureds were classified as smokers. They did no nicotine testing. If nicotine testing is not done, mortality assumptions must be adjusted to offset the unreliable classification, thereby somewhat negating the whole purpose in classifying insureds in smoker and nonsmoker. AIDS testing is usually set in concert with standards recommended by the reinsurer. Since retentions are low, most policies issued have some reinsurance, and the reinsurer often sets the underwriting standards.

With regard to females, the common practice is to use a three-year adjustment. I have not seen separate rating by sex, but it is also true that female sales in the Latin market still lag the male market by a large margin.

When I first started reviewing technical notes prepared by company staff, I was greatly surprised to find that most pricing was done without regard to lapse-rate assumptions. Of course, at that time, Anderson-type profit studies were not very prevalent, and the pricing methodology available did not lend itself to the use of lapse assumptions. This is certainly not true today, but it is still rare to find companies that prepare lapse studies that determine lapse rates in the various breakdowns that the pricing actuary would prefer. I have yet to see studies that determine lapse rates by issue age or mode of payment, and certainly we all know that these are very significant factors influencing persistency experience. My experience has been that in most companies that allow monthly payments where premiums are paid to "cobradores" (collectors), not agents, or where payments are made directly to the company office (payment by mailed checks is almost unheard of), the lapse rates are quite high. One company with which I have worked allows only annual and semiannual payments and has had excellent persistency. Of course, companies that allow payment by bank draft have much better persistency. I assume this is all similar to U.S.

experience, but it is important to be aware of the very common practice of having premium payments paid to collectors.

The situation with respect to expenses is similar to mortality and lapses in that very precise data are not available. Remember that most life insurance companies are often managed by executives experienced mainly in the property and casualty field who are not accustomed to the same detailed breakdown of expenses. Most managers can readily provide you with a ratio of their expenses to premium income, but if you ask for a separation between acquisition and maintenance expenses, the answer is not so precise. To further ask for a breakdown of acquisition expenses between those that vary by policy, benefit amount and premium is to expect the impossible. Often the only course available is to arbitrarily assume certain unit expenses and to validate the results by making certain that the total expense assumptions reproduce the total current expenses. In comparison to U.S. expenses, many of the factors are considerably lower. Certainly salaries and salary-related expenses at the present time are decidedly lower than in the U.S. Underwriting expenses, such as medical and lab tests, are also much lower than comparable expenses in the U.S. On the other hand, many small companies will produce low sales and unit expenses that are adversely affected by the small volume. Many staffs are completely commingled between life and property and casualty operations, and it is really very difficult to properly segregate expenses between the operations.

Since many of the countries are still experiencing very high rates of inflation, it is vital to include this in any expense assumption. Although volumes also increase with inflation, it is not always true that increased volumes result in flat unit expenses. As I mentioned before, most companies have low retentions so that often reinsurance costs are quite significant. This is especially true in term products. In pricing an ART plan, for example, the pricing can best be done by first determining what the reinsurance risk charges will be. Often the foreign reinsurer is quite concerned over possible currency devaluations and resulting losses to the reinsurer in recouping its acquisition expenses and, hence, may hedge these losses with reinsurance rates that appear quite conservative as compared to similar rates available in the U.S. market.

The interest assumption and the corresponding inflation assumption are particularly difficult to set in a highly inflationary environment. If the normal conservative practice of using the current investment return reducing over the next period of years is used, the resulting rates for high-premium plans may produce rates that are unattractive. Setting them at their current levels for an indefinite period of time is too risky for most actuaries. For this reason, the universal life product is particularly attractive since it passes most of the investment risk to the insured. Another complication is that most countries that set reserve requirements still express minimum standards with a low interest rate. I am not up-to-date as to the situation today, but a few years ago, Mexican reserve requirements were set at 5% annually while current market rates were closer to 5% monthly. As far as I know, there have been no attempts to index reserve interest requirements in any of the Latin countries. Since revaluing reserves on a GAAP basis is not that common, the low interest reserve requirements has an important impact on book profits.

As I noted earlier, the practice of many companies a few years ago was to develop gross premiums by applying expense-loading factors to net premiums developed from valuation tables. It has been hard to dispel many insurance regulators from this methodology, and in such instances, it is my practice to develop the pricing structure through the use of present-value profit studies, arrive at rates with my profit objectives, and then try to reproduce this scale by loading the valuation table premiums. This is sometimes difficult to reproduce with one simple formula. On the other hand, there are some countries where filing a technical note seems to be more of a formality, and hence, questions regarding the technical note are rare.

I believe it is now more common practice to develop profit studies measuring year-by-year profits as in an Anderson-type approach. My usual practice is to set the profit objective as some percentage of the present value of premiums, usually in the 10-15% before tax range. That seems to be a concept most readily accepted. However, in Chile, for example, I have always used the return on investment approach. Chileans seem to find it hard to accept the percentage-of-premium objective as meaningful.

To my knowledge, there are no standard minimum nonforfeiture regulations. The usual practice on traditional products is to develop nonforfeiture values by deducting surrender charges from the valuation terminal reserves over a period of years, and as I mentioned before, only some countries have prescribed valuation tables. The usual practice is to prescribe the basis in the technical note that is prepared by the actuary.

With regard to a universal life product, I have already mentioned some of the possible problems we encountered in Mexico several years ago. I believe there are still some problems with this plan in certain countries. On the other hand, I developed the product in three of the countries where filing the product was completely routine. With regard to the administrative problems, my impression is that most companies have competent staff, are well-trained, and perform well at costs that are considerably lower than those found in the U.S. For example, my firm developed an administrative PC-based system for administering totally flexible universal life products that have been functioning very successfully for several years in several companies at costs that I do not believe could be reproduced in the U.S.

Although some of my remarks might seem critical of some aspects of the Latin markets, I have found working in this environment extremely exciting and rewarding. I believe there is great opportunity for developing this market. As the economic level of the various countries improves and as stability becomes more widespread, I would expect a great expansion of life insurance coverages and many opportunities. The recent turnarounds in Mexico, Argentina and the continuing boom in Chile are, I hope, indications of an expansion of the life insurance industry throughout South and Central America.

MR. SALAZAR: If you have any questions, please feel free to express them at this point.

MR. MARK H. JOHNSON: I would like to ask a question about something Enrique said. You mentioned the dollarized policies in the Mexican market, and I wondered if there are restrictions on dollar-denominated assets purchased by Mexican companies?

MR. KOZOLCHYK: Years ago, Mexican insurers were allowed to sell dollar policies, and then I believe it was around the time of one of the large devaluations that this was eliminated. What is currently being sold is being labeled as dollarized policies. Let us say that an agent goes to a prospective client, and the client wants the equivalent of $100,000. The premium that the company charges is the peso equivalent of the necessary dollar premium so that, at any time when the insured dies, the beneficiary collects an amount in pesos that is equivalent to the $100,000 that the insured originally wanted. For our purposes on the reinsurance end of it, we carry those amounts on our books as dollars so that when there is a death, we just pay the amount of dollars necessary or its peso equivalent.

MR. JOHNSON: If the value of the peso decreases relative to the dollar, then the insured pays an increase in premium?

MR. KOZOLCHYK: He pays more pesos because the insured pays the peso equivalent of the dollar premium whenever the premium is due.

MR. JOHNSON: Does the direct company convert the pesos to dollars and invest in dollar assets?

MR. KOZOLCHYK: They have dollar-indexed assets that they can invest in, to the best of my knowledge, which is what makes it attractive. Looking at it from the reinsurance end, Mexican companies that deal in this have a separate dollar retention for this dollarized business. For our purposes, it is a dollar transaction. For them, it is the peso equivalent of the required dollar amount, and at times, depending on the company, you might see a lower retention on dollar business.

MR. JOHNSON: Is it possible that political conditions would change in Mexico so that you or the direct company could no longer invest in dollar-indexed assets?

MR. KOZOLCHYK: That is precisely what happened when they de-dollarized the then allowable dollar policies. At the time, devaluation brought the peso to, I believe, 70 to 1, and most of the dollar-denominated policies were converted at 70 to 1. Of course, the devaluation kept on going, and today it is around 3,100 in old pesos. Expressed in new pesos the rate is about 3.1 to 1. Today it is a totally different environment. What the industry is anticipating is that the government will once again actually allow it to issue U.S. dollar-denominated life policies.

MR. JOHNSON: Therefore, there would be some clause in the policy so that the policy would be converted to a peso policy if the dollar asset investment was no longer permitted, if there was a subsequent de-dollarization?

MR. KOZOLCHYK: I do not know if the policy has such a clause. I think last time it was just by decree, and that was the same time that U.S. dollar bank accounts in

Mexico were de-dollarized, but today the environment is totally different. I do not think that could possibly happen today.

MR. JOHNSON: Even if one of the political opposition parties – a more populous party – came into power?

MR. KOZOLCHYK: I think President Salinas still has about a year to go. The way Mexico is going now, it is hard to fathom a reversal to the way things were.

MR. SALAZAR: I think it is important to note that when the de-dollarization happened in 1982, it was in a political climate of socialistic policy, if you will. Lopez-Portillo, the president at the time, had just nationalized the banks, and at that point, I believe between 75-80% of the economy was in the hands of the state. Today the trend has reversed with the privatization program that Salinas has implemented. Now about 20% of the economy is in the hands of the state, and that percentage is being driven down. It is a completely different environment. If NAFTA is implemented, that is going to liberalize the currency mechanisms and the investments across the border even further.

MR. KOZOLCHYK: De-dollarization today would hamper NAFTA, and that is something that nobody wants to run the risk of. I think it is highly improbable that it would happen.

FROM THE FLOOR: I have a question for Enrique. Why was medical not mentioned in your description of the products sold in the three countries?

MR. KOZOLCHYK: I pointed out that there was personal accident and health insurance sold in Mexico. There is, in fact, a lot of health insurance sold in Mexico, and there is health insurance sold in Mexico for overseas treatment, which is really U.S. treatment. In the case of Chile, there is a deduction in salary that goes toward a program called Isapres, which provides coverage, and then there is supplementary coverage. When we were in Argentina, only a few weeks ago, we noticed that there was a tremendous amount of increase in insurance companies going into the health field. That is another soon-to-be hot topic in Argentina. There is health insurance sold in all three countries.

MR. PATRICK O'ROURKE: I was wondering if the dollarized products are offered in other countries as well.

MR. KOZOLCHYK: Not that I know of, only in Mexico. Argentina does not need to because it actually issues in U.S. dollars. You can issue in pesos or in U.S. dollars. Today, the peso is tied to the dollar, so there is no problem, but you actually buy insurance in dollars. In the case of Chile, it issues in UFs. These artificial UF units have actually become stronger relative to the dollar. A number of years ago, in the 1970s, I remember the UF traded at $13 to 1. Today it is upwards of $22 to $23.

MR. SALAZAR: As a side note, the point of reference that turned Argentina around was a decree called the Convertibility Decree which pegged Argentina's currency to

the U.S. dollar, and the U.S. dollar is generally accepted as legal tender in Argentina. You can buy a Coke™, a taxi drive, or even a house or a car in U.S. dollars, and that is what has provided enough confidence in the market to start developing a good economic climate. I was recently in Argentina. As Enrique was mentioning before, the local institutions have no credibility whatsoever as a result of the stunning years of inflation. There was a survey that a company did on the street asking about the pension legislation that is coming. It asked, with which of ten banks or ten financial institutions would you feel most comfortable placing your retirement savings from now on? Five of the names were phony foreign names, and they placed in the top five which is very telling. The Central Bank placed at the very bottom.

MR. KOZOLCHYK: It is one of those the-grass-is-always-greener-on-the-other-side situations.

MR. SALAZAR: It tells you that these people have absolutely no faith in their local institutions.

MR. KOZOLCHYK: Things in Argentina will change for the better because Argentinians are not going back. Everyone will tell you that the changes that have begun are irreversible.

MR. SALAZAR: Interestingly enough, the most credible foreign institution in Argentina is Citibank, which Argentinians consider to be a very stable, rock-solid financial institution since it is based in the U.S.

MR. KOZOLCHYK: In Argentina, the reinsurance monopoly is out, but the government still has a direct-writing insurance company, which has a substantial part of the market. This company is now being privatized.

MR. E. PERRY KUPFERMAN: Can someone comment on the insurance market in Costa Rica?

MR. KOZOLCHYK: We know Costa Rica quite well. There is one company in the market called the National Insurance Institute. It is a government monopoly, and we have been its exclusive life reinsurer for over 35 years. The total life premium production for Costa Rica on a direct basis was about $10 million in 1990 and about $12 million in 1992. Costa Rica has term products, ordinary products, and not too long ago, it introduced a universal life product that, in fact, Dick Umstead helped with.

DR. KRZYSZTOF STROINSKI*: It looks like some of the problems of the region are similar to the problems of Eastern European countries which are trying to get into the development stage. Someone mentioned that individual savings in banks are not taxed. A similar disadvantage is present in Poland, for example. Is there anything being done about that?

* Dr. Stroinski, not a member of the sponsoring organizations, is an Assistant Professor in the Department of Statistical and Actuarial Sciences at the University of Western Ontario, London, Ontario.

MR. LAW: I am sure the banks are going to try not to do anything with respect to that.

MR. UMSTEAD: As far as I know, that is certainly true in Panama, and I think it is true in the Dominican Republic, and there may be other countries. I am not sure.

MR. KOZOLCHYK: It is not universal. I think in Mexico you pay tax on the interest.

MR. UMSTEAD: I do not think it is universal. I do not know what the situation is in Mexico, but I think it is true there, too, is it not?

MR. KUPFERMAN: You indicated there is a very large group creditor book of business in Chile. To what do you attribute that? What type of business is it? Is it similar to the U.S?

MR. KOZOLCHYK: It is very similar to the U.S. Chile has group credit, both short-term and the mortgage-type products that are longer term. When we say large, we mean it is large vis-à-vis its own market, not large by comparison to the U.S. What made it so popular is that Chile has had a very buoyant economy, thus generating a large demand for credit.