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**CREDIT INSURANCE AND OTHER NONTRADITIONAL
MARKETING OPPORTUNITIES IN THE AMERICAS**

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 IGNACIO GURZA†
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Recorder: ROBERT J. BUTLER

This panel will provide an explanation of nontraditional marketing opportunities in Mexico, Central America, and South America. The panel will discuss credit insurance and other products offered through nontraditional marketing distribution systems, exposure to currency exchange risk, reinsurance problems, and risk-based capital (RBC) requirements.

MR. ROBERT J. BUTLER: We have three excellent speakers. The first two speakers will talk about Mexico and Argentina and the third speaker will wrap it up by covering Central and South America. They'll each make their presentation and then we'll open the floor to questions. The first speaker is Ines Torres and she will talk about Argentina. She is an actuary and currently is the general manager of an Argentinean insurance company, Sur Seguros De Vida, which is jointly owned by Banco Rio and Citibank. She's a graduate of the University of Buenos Aires. She has represented Argentina as a delegate to the Hemisphere Conference of Insurance. She also was a delegate to the Reinsurance Conference for the Third World. She won an award for direct marketing of financial services. Ines has more than 20 years experience in the insurance industry and is president of the Chamber of Insurance Association.

Our second speaker is Ignacio Gurza. He currently is chief actuary at Tillinghast/Towers Perrin Latin America, and he is based in Mexico City. He graduated from the University of Anahuac with a degree in actuarial science. He was one of the founding members as well as a Fellow of the Mexican actuarial organization, Colegio Nacional de Actuarios. Ignacio co-authored the book *Actuarial Aspects of the Theory and Practice of Private Pension Plans in Mexico* published by the Mexican Society of Consulting Actuaries.

Our third speaker is not an actuary. Rafael specializes in marketing and is director of his own consulting firm, Opiciones Internacional, specializing in training sales management personnel throughout Central and South America. Rafael started with the Prudential Insurance Company as a debit agent, won rookie of the year, and was a Millionaire Club member. He has more than 20 years of insurance experience. He helped form a company in Argentina called Cenit. He is a former vice president of American Bankers Insurance Group, where I work. With that, we'll start with Ines Torres.

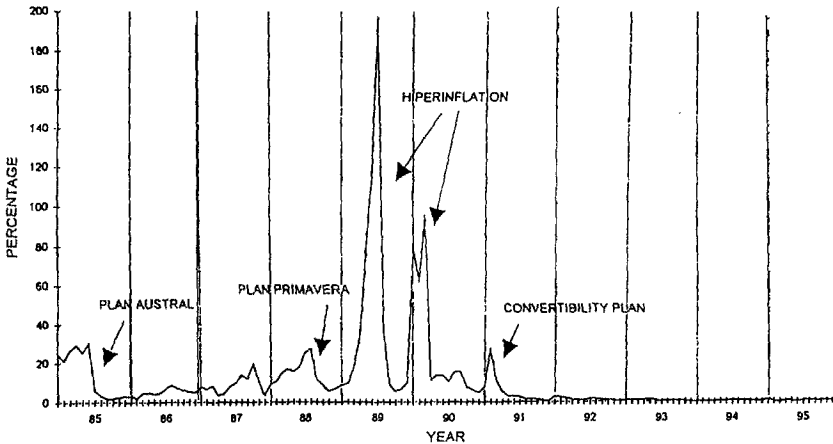
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MS. INES TORRES: The subject is credit insurance and other nontraditional marketing opportunities in my country, Argentina. I want to share with you some macroeconomic figures of the last 11 years (Table 1, Chart 1). You can see that at the end of the last decade we had some frightening figures. Inflation was very high. These conditions limited the development of life insurance, in general, and credit life insurance, in particular. During this time credit was not available in my country.

CHART 1
ARGENTINEAN CPI 1985-95



The Argentine government established after 1990 a new economic orientation, focusing on stability, especially attacking the fiscal deficit and the opening up of the economy. This was accomplished through deregulation of tariffs, liberalization of reinsurance, the closure of INDER, the official reinsurer, redefinition of controls, privatization of the social security system, and partial privatization of the official insurer, Caja de Ahorro y Seguro.

All these elements produced a major change in the products offered (ordinary life products, private pensions), new companies were formed (private reinsurers, pension administrators), and new differentiation elements for insurers were established (solvency, service, price, cost, and productivity). The prospect of economic growth and linking the value of the peso to the U.S. dollar make for a promising future, especially for life insurance. We can see this from the last several quarterly figures for the life and disability coverage premiums for the private pension business (AFJP) (Table 2).

If you look at the various lines, life and provisional life have not only increased a large amount, but property and casualty have also. This makes up a market today of about \$5 billion, and we expect it's going to grow in the next decade to \$15 billion.

TABLE 1
KEY INDICATORS 1985-95

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Population (millions)	29.9	30.4	30.8	31.3	31.7	32.1	32.6	33.1	33.5	34.0	34.6
GNP Growth (percentage)	-25.0	19.8	2.7	16.5	-34.7	71.2	34.0	20.6	11.8	9.3	3.0
GNP/Capita (\$)	2,944	3,478	3,521	4,045	2,605	4,299	5,813	6,912	7,618	8,215	8,416
Inflation (percentage)	385	82	175	388	4,923	1,344	84	18	7	4	3
Devaluation (percentage)	348	57	199	256	14,485	187	79	0	0	0	0
Unemployment (percentage)	5.9	5.2	5.7	6.1	7.1	6.3	6.0	7.0	9.3	12.2	18.1

TABLE 2
PREMIUMS OF THE LAST 12 MONTHS
(FIGURES BASED IN THOUSAND PESOS)

Type of Insurance	Up to March 1994		Up to June 1994		Up to September 1994		Up to December 1994		Up to March 1995	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Life	695,064	17.16	744,016	17.28	766,608	16.96	794,297	16.47	804,280	16.18
Provisional Life	-	-	-	-	36,504	0.81	141,869	2.94	223,453	4.50
Property and Casual	3,355,861	82.84	3,561,802	82.72	3,717,326	82.23	3,886,599	80.59	3,941,295	79.32
TOTAL	4,050,925	100.00	4,305,818	100.00	4,520,438	100.00	4,822,765	100.00	4,969,028	100.00

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Because of the economic stability, the availability of credit increased. Banks, in particular, began to offer auto loans, mortgage loans, and personal loans. Auto loans and mortgages are advertised by a special system that we have in which we start off by saving money with a lender and later the lender gives us a corresponding loan. For instance, 100 people ask for loans and they begin saving money. Then maybe 2 of 50 are selected during the first month for a loan because they are saving money. They are given the money necessary to buy their auto, or whatever. This is a very interesting system and because of it, almost everybody in our country has a car.

Banks asked for credit life coverage. In general, group policies were issued through an insurance company that was authorized to operate in this type of coverage. Banks obtained the insurance at a certain price and added a spread in their favor. I should say a very significant spread in their favor. Initially, the banks obtained the insurance through brokers in different companies competing in price and conditions. They pressured insurance companies for better conditions in order to not delay the extension of credit. As you can imagine, they requested high automatic issue limits without medical examinations and rapid approvals.

After some time, banks began to see opportunities in participating in the insurance business. They did so initially as brokers under two different forms: as brokers duly registered with the superintendency of insurance or as "institory agent," which is a figure authorized by the government. Now almost every important bank has its own insurance company. There are no figures available in our country on the amount of credit life written because credit life is reported within the group life figure, but we can estimate it from the loan figures of banks. Note in Table 3 that the bank loan figures are split between those based in pesos and those based in dollars. You can see that, in fact, bank loans in dollars have grown more. Assuming 50% of the loans are insured, I have shown the estimated credit life insurance premium on the bottom of the table.

The credit life premium is estimated to be around \$70 million per year by now. Perhaps for you this is a very small figure. For us it's a large amount because three to four years ago credit life insurance wasn't written. This activity has grown a great deal.

It is clear that the credit activity increased up to December 1994 and then stopped temporarily because of the Mexican effect (Mexico's unexpected devaluation). One thing that really worries us is the unemployment rate. It grew a lot in the last 18 months, up to 18.5%. Banks are again marketing loans and are offering different conditions, prices, and terms. The annual percentage rate is about 19%, and the rate is variable. Insurance companies limit writing credit insurance to banks within their group or to banks, saving plans, or cooperatives that do not have an insurance company.

We have in our country some other nontraditional marketing opportunities. For instance, unemployment insurance is completely unknown to us, but with the increase in unemployment it most likely will appear.

TABLE 3
LOAN FIGURES OF BANKS (IN MILLIONS OF DOLLARS)

	January 1993	July 1993	January 1994	July 1994	January 1995	February 1995	March 1995	April 1995	May 1995
Loans in pesos and U.S. dollars of the consolidated financial systems	43.749	46.639	52.074	56.802	59.701	59.550	58.177	58.480	57.680
Bank Loans in pesos	13.924	15.962	17.652	18.754	19.227	19.093	18.491	18.351	N/A
in U.S. \$	15.826	18.155	21.325	24.352	27.349	27.784	26.951	26.846	N/A
TOTAL	29.750	34.117	38.977	43.106	46.576	46.877	45.442	45.197	0
Bank Mortgage Loans in pesos	4.015	4.007	3.143	3.158	3.209	3.228	3.446	3.232	N/A
in U.S. \$	0.473	0.547	1.164	1.849	2.400	2.448	2.444	2.426	N/A
TOTAL	4.488	4.554	4.307	5.007	5.609	5.676	5.890	5.658	0
Mortgage Loans 12 commercial banks	719	949	1.368	1.809	2.200	2.231	2.257	2.253	2.238
Auto Loans 13 commercial banks	592	781	1.052	1.249	1.528	1.540	1.534	1.493	1.447
Estimation of credit group life annual premiums	45	51	58	65	70	70	69	68	-

Temporary disability insurance is rarely offered. Total-and-permanent disability is a common rider to group life policies and is better known. Only two companies are offering temporary disability now. Benefits are paid if you are confined to your home, a hospital, or if you are in a hospital and you need surgery. The maximum benefit varies, depending on which condition applies.

In-hospital insurance has been offered for many years through credit cards, direct mail, and telemarketing. Benefits are limited to cases that require hospitalization but there is no limit on the number of days.

The total-and-permanent disability coverage is offered through group policies under different options: the payment of a lump sum, an annuity, a waiver of premium, or monthly payments for a fixed term.

The most important type of business in the last year definitely was life and disability for AFJP. AFJP is the name of the administrator companies for the pension plan in our country. This is the business that grew the most in the last months. It almost doubled the insurance annual premiums. It is the same type of pension plan that exists in Chile, Peru, and Columbia. In 1993, law 24.241 was enacted, and the system has been in force since July 1994. It is an obligatory plan. The actively-at-work population has the option to participate in the pay-as-you-go system with the government if they want, or they can opt to participate in the capitalization system with private companies (AFJP). By now 50% of the active population, five million of ten million people, are in the private system.

The AFJP must provide life and disability coverage, which it purchases from life insurance companies. The insurance companies insure the benefits that are in excess of the accumulated value in the individual accounts. Thus, the insurance is very high during the early years. Premiums have increased every quarter during the first year: 30 million pesos through September 1994; 141 million pesos through December 1994; 223 million pesos through March 1995; and 272 million through June 1995. In this market, 20 companies are participating, with the top five companies covering about 50% of the market.

We also have worker's compensation. This used to be a very unprofitable line of business for the insurers for many years. But a recent law modified the system and made it obligatory. Operations under the new rules are supposed to begin in March 1996. As the insurance is obligatory, premiums from this market are expected to be very significant. Quarterly premiums now are at about 130 million pesos is about 10% of the total insurance market in Argentina. These are life and disability premiums.

The benefits that are contemplated under this new law for the participants are: (1) monetary benefits, which are lump sums, monthly payments, annuities, and periodic payments to retirement age; and (2) other benefits, which are medical and pharmaceutical assistance, provision of prothesis and orthopedic materials, rehabilitation treatment, professional requalification program, and burial services. Table 4 is an example of the monetary payments, depending on the percentage of disability. The payment shown in each case is the maximum fixed by law. Employees must participate in the social service of their activity.

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TABLE 4
WORKMEN'S COMPENSATION—EXAMPLE OF BENEFITS
IN CASE OF DEFINITIVE PERMANENT DISABILITY

Percentage of Disability	Age at Disability		
	30 Years Old	40 Years Old	50 Years Old
10	Lump-sum equivalent to 9.3 salaries Maximum: \$5,500	Lump-sum equivalent to 7.0 salaries Maximum: \$5,500	Lump-sum equivalent to 5.6 salaries Maximum: \$5,500
20	Lump-sum equivalent to 18.6 salaries Maximum: \$11,000	Lump-sum equivalent to 14.0 salaries Maximum: \$11,000	Lump-sum equivalent to 11.2 salaries Maximum: \$11,000
45	Monthly payment up to Retirement Age; 31.5% of salaries (Maximum \$1,361)		
60	Monthly payment up to Retirement Age; 42% of salaries (Maximum \$1,814)		
75	Annuity or Programmed Withdrawal; 70% of salaries (Maximum \$3,024)		
100	Annuity or Programmed Withdrawal; 70% of salaries (Maximum \$3,024)		
High disability	Annuity or Programmed Withdrawal; 70% of salaries + 3 AMPO (Maximum \$3,024)		

The other type of activity that will change greatly is health insurance. Health insurance, up to now, is different, depending on the workers' association and activities. This has proven to be very inefficient and costly. That's why the government is interested in restructuring the program and giving the worker the option to select from the different coverages. Table 5 shows the coverage provided to the Argentina population now. Employees contribute 3% of their salary and the employer contributes 6%. Most of the social services are managed by unions. The question is whether deregulation of this system will occur at one time or whether it will be phased in over time.

I was asked to talk a little about reinsurance. From 1952 to 1989, reinsurance was required to be placed with INDER, the official reinsurer. After 1990, authorization was given to place 40% with other reinsurers. Since 1992 there has been no requirement to place reinsurance with INDER. This has allowed very good reinsurers to enter the country, and they are helping with training and material and are bringing with them new products. In Argentina, contracts can be issued in pesos or dollars since the convertibility law was enacted. It established one-to-one parity between the peso and the dollar. Although no devaluations are foreseen in the short run, life insurance is issued mainly in dollars. There are enough investments in dollars available (certificate of deposits (CDs), bonds, treasure letters) to cover the insurance reserve requirements.

The issue of taxes is my last point. There are taxes charged to the insured that are based on the premium. The tax varies between life and property and casualty. There are taxes on producers' commissions, which are very high. They are always complaining about that. There are taxes paid by the insurance company that are calculated on gross income and on

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less premiums ceded, less claims. But the most important is that the tax is about 30% on the result of the year.

TABLE 5
CURRENT SITUATION

Financer	Beneficiaries (millions)	Annual Expense (billions)	Monthly Expense per Person (in pesos)
1. Public Hospitals	12.0	3.0	21
2. State, Provincial, Municipal, Social Services	5.8	1.6	23
3. Social Services	13.0	2.4	15
Unions	7.5		
Mix Administration	4.5		
Executive Staff	1.0		
4. Private Prepaid Systems	2.5	2.0	67
5. Retirees (PAMI)	4.2	2.5	50
Total	37.5	11.5	26
Real Total	33.0		29

This is, in general, what we have to share with you about Argentina. I hope it is useful to you.

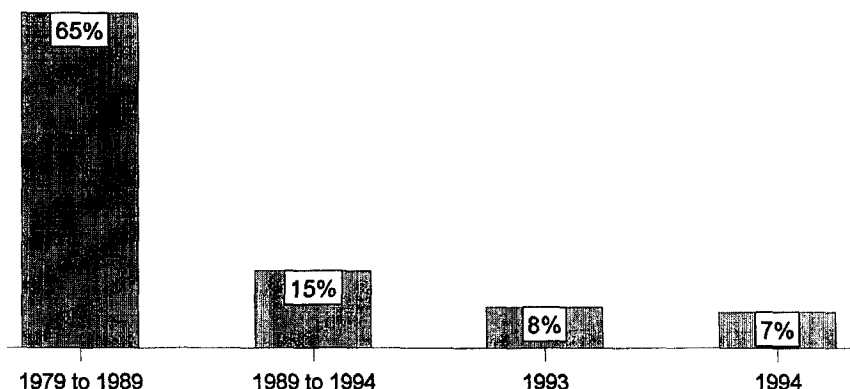
MR. IGNACIO GURZA: In my part of the presentation, I will address the issues in Mexico, and I plan to divide my presentation into four basic issues. First, I will talk about credit insurance. Then, I will address what is going on with the Mexican financial system. In the third part, I will speak about other marketing opportunities. To conclude, I will give you a brief description of what the RBC rules are and the impact that the North American Free Trade Agreement (NAFTA) is having on investment opportunities in the Mexican market.

I would like to divide credit insurance into three parts. Some background is going to be necessary for you to understand the history of credit insurance in Mexico. Then I will speak about the current situation, and then finally I will speak about what I see as the future of credit insurance in Mexico, which is going to be very strongly tied to what happened with the economy.

To understand the history of credit insurance in Mexico, looking at inflation is essential. I was looking at Ines' presentation and it is amazing because we follow practically the same path. Chart 2 shows that from 1979 to 1989, the average yearly inflation rate in Mexico was 65%. Two of eleven years saw inflation not in the double-digit range, but in the triple-digit range. So I guess you can imagine what happened.

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CHART 2
BACKGROUND—AVERAGE INFLATION



With interest rates in the 170% range, credit is just nonexistent. Even if you could get credit, there's no way you can afford it. For almost 20 years, there was no credit available in Mexico, and given the fact that there was no credit, there was no credit insurance.

Just imagine what happened when, in the late 1980s, inflation finally started coming under control, and there started to be availability of credit. Enormous lines of people were applying for credit to purchase houses or to buy new cars. There is a tremendous deficit of housing in Mexico. A vast population was in the middle class. Ines said that almost everybody has his or her own car in Argentina. Well, in Mexico, it was almost impossible to purchase a car five years ago. You had to have the cash up front.

The year 1990 was important for several reasons. First, it was the first year when inflation finally seemed to be under control. Inflation was coming down. Second, the government started selling the banks back to private investors. In 1982, the government nationalized the banks and then in 1990, the government decided to sell the banks back to private investors.

If you look at Chart 2 for the period from 1989 to 1994, you will see that the average inflation rate was 15%, which is still very high if you compare it with that of first world standards. However, it is incredibly low if you compare it with what happened in Mexico the previous decade. Inflation in 1993 was only 8%, and in 1994 it was only 7%. I'm going to talk later about what happened next.

The insurance market has been historically dominated by agents. The traditional way it works in Mexico is that individual agents have control of the individual market. Individual agents sell individual life insurance, individual health insurance, and individual property and casualty insurance. The brokerage system works pretty much as you know it in the U.S. The difference in Mexico is that there are no exclusive agents. Once a person gets

licensed to be an insurance agent, a company cannot mandate him or her to remain loyal. Once the person gets credentials, he or she is entitled to sell for any insurance company. The market also was highly regulated until 1990. Remember, I told you that 1990 was an important year. This is the year when banks were starting to be sold back to private investors, and this is the year when deregulation in the insurance industry began.

What is the current situation? I don't think that it is worthwhile to spend so much of our time talking about what happened in December of last year [1994]. That was when the peso was dramatically devalued. Inflation for this year, according to the official forecast of the government, was expected to be 42%. According to the official information from the central bank, inflation as of the end of the third quarter was 41.5%. Fifty percent is a more realistic estimate in my opinion. I don't think I need to tell you that we are back to square one. There is no credit available in Mexico, even as we speak. Even if credit was available, think again before applying for a loan because you will be expected to pay a 90% interest rate.

The expected inflation for next year is in the range of 20–25%. The government has been making incredible efforts to get inflation back under control. Part of the price we have had to pay is that it has literally drained the economy. No money is going around in the economy and no credit is available.

From a qualitative viewpoint, I think two major issues are going to have an impact on the immediate future of the Mexican insurance industry. The first one is deregulation. As I told you before, until 1990 the Mexican insurance market was overregulated. By the way, this is a direct quote from the insurance commissioner. Prices and conditions were fixed and were homogenous for all insurance companies. There was an extremely conservative investment regime in force for the technical reserves.

In 1990 a deregulation process was initiated. The process basically consisted of changes to the general laws of insurance institutions and mutual societies. By the way, something to keep in mind is that in Mexico, insurance regulation is federal. It is not like the U.S. where it works on a state-by-state basis. In Mexico, insurance regulations are federal, and the insurance commissioner has federal authority.

The federal law for insurance institutions was modified in 1990 to remove the entry restrictions of foreign competition. It was opened to reach world efficiency standards. More flexibility was given for foreign investment, and the government basically decided to let companies set their own prices, conditions, and agents' commissions. Prior to 1990, insurance rates were basically fixed and equal for all insurance companies. What the government did was change the filing system.

The insurance commissioner is willing to let you do almost whatever you want as long as you meet two requirements: you must be reasonable in the criteria you use, and you shouldn't affect adversely the interest of the consumer. Once you meet these two criteria you can go out and do practically whatever you want. The government is focusing on the financial stability of the insurance institutions. In other words, it is not that concerned about the details of the products you are going to be selling. It is concerned that you meet the obligations of what you sell.

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One of the consequences of the deregulation is the possibility to open new channels of distributions. Remember that I told you that the market has traditionally been dominated by agents. One of the consequences of the changes in the law is that new channels of distribution are now visible and they are starting to be used. The government deregulated the industry and it started selling the banks back to private investors. One of the consequences of these two actions was the formation of financial groups, which is another important change of the law in 1990. As of 1990, it is permitted to form financial groups, and I'm going to get a little bit more into that in a moment. The second major change is the impact of NAFTA, and I'm going to describe that impact later.

What is going to happen in Mexico's future? The only honest answer I can give is, I don't know. I can tell you what I hope will happen, but I don't know what will happen. The main challenge the Mexican government is facing is that the economy has to grow and, at the same time, inflation must be kept under control. It is sort of a balancing act. On one hand we don't want to trigger inflation back to the levels of the 1970s and the 1980s but, on the other hand, our economy needs to grow. Mexico has a terrible unemployment problem and the only possible way to solve it is to get the economy growing.

We were talking about the future. Ines explained to us all the changes to the social security system in Argentina. It is interesting, again, to see how all Latin American countries are following practically the same path. Chile initiated the trend in Latin America and Argentina followed. Other countries are on the same path. There's much talk in Mexico about what will happen with the Mexican social security system. Most likely, toward the end of the year, there will be new social security regulations. Things can go to one or two extremes. One extreme is that the government is going to totally privatize the social security system as it did in Chile, and as it did in Argentina. The other extreme is that it will do nothing. I don't think that it can afford to do nothing. The system is on the brink of bankruptcy.

My personal expectation is that it will settle for some sort of middle ground and most likely will privatize the pension system, similar to what happened in Argentina. It will probably offer the possibility to cover workers' compensation risk benefits by private insurance. This is something that currently is absorbed by the Mexican social security system. The next thing to happen in the future is that the banks will become major players in selling insurance.

In 1982, when the government nationalized the banks, the people who used to own the banks basically got the money they were paid for the banks and invested it in insurance company or stock brokerage houses. When the government started selling the banks back to private investors in 1990, there was only one rule. The investors who owned the banks when it was nationalized could not buy back the same banks. They could buy whatever banks they wanted, except the banks they owned before. Financial groups were formed and they went shopping for banks. The major players in Mexico, as I see it now, are shown in Table 6.

What are the banks doing regarding insurance? Some think the bank insurance systems have been basically credit-related. Just think of this situation—for several years, there was a total lack of available credit in Mexico. All of a sudden, the banks started offering credit. Think of a person who has been seeking to have his or her own home for 20 years. All of a sudden, he or she has access to credit and goes to the bank. He or she is asked to complete

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a mound of paperwork. The bank investigates everything and finally tells him that his credit has been approved. "We're going to require you to get life insurance just to make sure that we're going to get our money back in case you die. We're going to require you to insure the property that we are lending money for. Would you mind doing it with our insurance company?" The answer is no. By the way, it's not legal to make it mandatory to purchase insurance from the same insurance company.

TABLE 6
FINANCIAL GROUP

Bank	Insurance	Market Share
Banamex	Banamex-Aegon	N/A
Bancomer	Monterrey-Aetna	11.49%
Serfín	Serfín	1.78
Inbursa	Inbursa	7.39
Internacional	Interamericana	1.91
Atlántico	Atlántico	0.03

I already told you what is going on with credit insurance. It is nonexistent today. Major players are in the process of trying to create systems to take advantage of the relationship between the bank and the insurance company. They will get into mass marketing to leverage this relationship with the client. They will be selling life insurance, annuities, health insurance, whatever. This is something I'm going to include in my outlook of the future.

What are the other marketing opportunities? There are mass marketing systems. Remember that the Mexican system has historically been dominated by agents. Now people are starting to wake up, and we're starting to see more and more mass marketing companies through banks, through credit cards, and through payroll deduction. This year [1995] is not exactly the best year in the world for the people. People just don't have the cash. However, I think that the name of the game is going to be rich for the consumer.

One of the problems in the Mexican market is that the life insurance industry has been heavily focused on operating in the highest classes of the society. Companies haven't tried to sell insurance to the middle-middle class or to the lower-middle class. Banks as debit insurance brokers are nonexistent in Mexico, and I think that we're going to see mass marketing systems used in the sale of life insurance in the future. We Mexicans have been accused of not having a long-term perspective. The problem is that when you live with triple-digit inflation, your definition of long term is the end of the payroll.

I said at the beginning of my presentation that there were going to be four sections; I think I will just skip one. This is basically the rule for RBC. As I was telling you, under the new regulations companies have practically total freedom to set prices. The only thing to be careful of is to maintain sufficient capital reserves because insurance commissioners are going to be looking at this very closely.

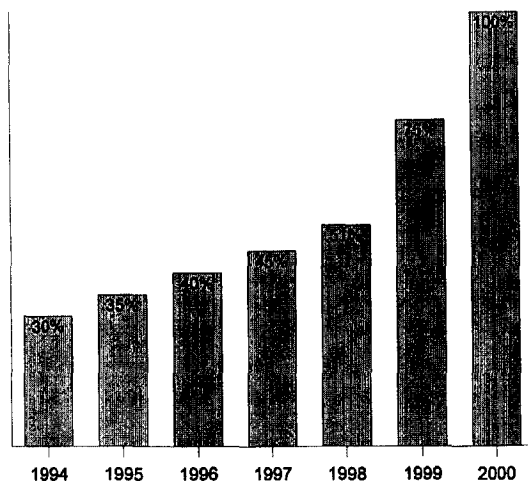
NONTRADITIONAL MARKETING OPPORTUNITIES

Finally, let me talk about foreign investment and there are two areas of importance. One is NAFTA and the other is the rest of the world. Given the fact that we are in a NAFTA-participating country and that the rules for the rest of the world are not clear, I'm going to limit my comments to what is going on with NAFTA. Under NAFTA, there are two ways under which an American or Canadian company can get access to the Mexican market. One of the consequences of deregulation is that authorizations for new insurance companies have been granted. During the last 40 years, not even one new authorization had been granted in the Mexican market. In the last year-and-a-half, 12 new authorizations have been granted.

The first possibility for an American or Canadian company to get into the market is on a joint venture basis with a group of Mexican investors. Chart 3 shows the schedule of maximum foreign ownership under this scheme. It starts with 30% ownership in 1994, and it moves up to be 100% ownership by the year 2000. Is an American company willing to get into the Mexican market and settle for the idea of not having management voting control until 1998. The advantage is that if it does so, there's no limit in the market share that it can have access to.

The other option is to open a wholly-owned subsidiary. The good news about the opening of the wholly-owned subsidiary is that the American or the Canadian company will have total management control immediately. The bad news is that there are limits in the market share. By the way, insurance companies in the Mexican market have been multiline. Insurance companies can operate in life, health, and property and casualty at the same time. The new tendency is that the insurance commissioner is issuing authorizations to operate by individual line of business pretty much like what you have in the U.S. We're going to start having life insurance companies, health insurance companies, and property & casualty insurance companies pretty much in line with what you have in the U.S. The authorizations to open wholly-owned subsidiaries under NAFTA have been granted on a line-of-business basis.

CHART 3
FOREIGN INVESTMENT: SCHEDULE OF JOINT VENTURES UNDER NAFTA
PERCENTAGE OF FOREIGN OWNERSHIP



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MR. RAFAEL ALCAZAR: For the last 25 years I have been in the business of insurance, primarily personal lines, life, health, and pension. For the last 15 years, I have been working in Latin America. I did have some detours in Japan and India, but my heart was always in Latin America. When I decided to go on my own, 100% of my effort and time was going to be in Latin America. I'm going to talk about what it is that we look at in Latin America when we talk about marketing opportunities in credit life, and in all other insurance.

All these marketing opportunities—credit life, ordinary life, and health insurance—are there. Ines and Ignacio both told you about the things that are happening in their countries. Many things are happening and many changes are going on. One of the biggest caveats that U.S.-based companies need to be aware of is the culture of the country it is entering. That country is not going to change to fit itself to your wants or needs. You, as a company, have to fit yourself to the wants and needs of that culture. Now let's understand that before we begin. That's true not only in Latin America, but also of anywhere in the world. Any company that goes into a transnational environment has to be aware of the importance of that little caveat.

Up until about 15 years or so ago, most of the individual life insurance that used to be sold in Latin America was the old traditional-type insurance. What happened? The previous speakers touched on that subject. There was very high inflation and devaluation.

I had to live in Argentina in what was probably the worst historical economic period in that country, which was in 1989–90. Put yourself in the people's shoes for a moment. The other speakers talked about inflation, and they talked about triple-digit inflation. Unless you've dealt with it, who are in this stable economic environment don't really understand what that means. As a company, we had to pay salaries, at one point, two and three times a week. Whenever we paid a salary, it had to be upgraded for the inflation of the last two days.

Let's talk about long-term investments. You have to be realistic enough to understand what the concept of long term was in Argentina. Ignacio said that in Mexico the concept of long-term investment was the payroll. In Argentina it was seven days because that was the term of the local CD investment. Every seven days you scrambled like crazy to see if you could get an extra half point or a point; that was the investment. People are switching little by little, and it's going to take a generation. This does not get done by presidential command. It takes time for people to regain confidence and trust in a system that has failed them over and over again.

Historically, in Latin America, most companies have dealt with property and casualty insurance prior to dealing with life insurance or health insurance. Why was it property and casualty insurance? It's money in the bank. You sell it and you have a good year if you don't have claims. If you have claims you raise the premium; people have to buy it anyway. Life insurance doesn't work that way. To make life insurance sales you have to have a long view. When you have an environment, which we were just talking about, it's difficult to have a long view. It's difficult to make the investments that it takes for that long view.

A Latin American company is traditionally a line-and-management business. What do I mean by line and management? Line management simply means my grandfather started

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this company, then my father was the president, and it's my turn next. If my grandfather started this company, it was 80% property and casualty. My father kept it going at 80% property and casualty, and I'm going to keep it going at 80% property and casualty. Most of these companies do have the licenses to sell life, health, pension, and so forth, but they just don't do it. In the last 15 years, they have begun to sell other lines of insurance.

What changes have happened in the last 15 years? Number one is the political arena. You need to have stable politics to create a stable business environment. In Latin America, unfortunately, we've had a history of very unstable politics. In the last 15 years, however, we have seen most, if not all, of the primary countries adopt the concept of democracy. The people are slowly accepting this new concept; you are dealing with a culture.

I happen to have lived in Chile when the Chilean people voted to go to elections. There was so much tension you could cut it with a knife that year, and yet it went through. Going from a totalitarian government to a democracy was a very painful experience for the country, both for the people and system. Now have more stable politics in Latin America; that's step number one. That occurred in the last 15 years.

Number two is economics. We've had major upheavals. We've heard two examples. Most of these countries have gone through reevaluations, devaluations, and inflation. They've gone through so many problems with their currencies and economies that it has become a matter of trust. The concept of trust in the long term has been devalued in the people of these countries, the people who buy the products. They're going to say, "I'm going to give you \$10 for something that you're going to give me back in five years. First of all, are you going to be here in five years, and if you're going to give me back \$10, what is it going to be worth in ten years?" That is their thinking process. We were beginning to think this way in the U.S. because we've lived through high inflation. The insurance industry almost went belly-up when we went to 17% inflation. We're talking about 600–1,000% inflation. We almost went belly-up when we went to 17% in the 1980s. Think of these things.

How long did it take for people to regain that trust? That only happened for three or four years. In Latin America we are talking about generational situations. The government froze the bank account of my father and my grandfather before him. My father lost his money because of that freeze. Why am I going to put money in the bank? Why am I going to buy that product if the insurance company is not going to be here next year or the year after? How many companies have come into my country asking me to trust them and then, at the first sign of trouble have taken up and left?

The next thing is communications. There have been major changes in communications. The world has become a satellite dish and Latin America is part of it. You can go to any country in Latin America and you'll see satellite dishes. They can pick up channels from anywhere in the world. Cable TV is in most of the capitals and major cities in Latin America at this point. I can go to any hotel in Latin America today and literally watch the Home Shopping Channel or its equivalent. It gives you the listing of a local phone number in any given country in Latin America, and you can buy the product in your country. You can buy this super-duper whatever in your currency and have it at your doorstep tomorrow. This is a message you can take to your companies. Think about these things when you're talking about marketing because the age of communication is here, and it is in Latin America as well. All these things did not exist eight years ago. People are now better

informed consumers. When you have more information you know what to ask for, and this applies to insurance as well.

We can learn some things from Latin America. Ignacio touched on one. This is not a political platform, but we have to look at what they're doing in Latin America with the social security system. That's a hot potato that we're afraid to tackle in this country. We're not in a situation that's much different than what some of these countries are in. In the late 1970s, Chile had a unit-linked variable life insurance product—you buy your insurance based on that unit, you pay for it in pesos and your policy value reflects the value of the unit that month; it works. We are struggling with this concept in universal life policies at this time in this country. They were handling a unit-linked product and doing it very well for quite some time in Chile.

This leads me to the insurance industry and to the changes in the insurance industry in Latin America. Perhaps I'm looking at this now from the point of view of foreign companies as well as local companies. Please remember that what I'm saying here are generalities that are not applied 100% to all of Latin America. There have been excellent life markets in Latin America. Columbia has had probably one of the most ingrain life markets in Latin America for years and years. There are companies in Argentina and Mexico that go back 140 years. Even though the penetration of the individual life market was small, there have been companies that do sell individual life and have sold individual life for many, many years, so there are exceptions to these generalities. However, the generalities do apply to about 70–80% of the overall Latin American market.

Many U.S. companies and Canadian companies have had a long relationship with the Latin American markets, and they have done so up until about five or six years ago in a very quiet manner. We've had two levels of market penetration. One is the admitted business and the other is the nonadmitted business. On the admitted side, there have been companies that, over the years, have had branches, joint ventures, and products being sold in the open market down there. They did it very well and are still doing it successfully. There is the nonadmitted market in which companies over the years have very quietly done their business down there and have done so very successfully.

What is the difference between one and the other? The admitted product is a product that complies with the laws of the country. A company has its reserves in the country, a company makes investments in the country, and a company is registered with the superintendent of insurance with a nonadmitted product, a company is based in the U.S., Canada, or wherever, and that company makes efforts to go into that market, be it by way of U.S.-based agent or a local agent who now sells for the foreign company as well. It was a matter of time before the governments in Latin America realized that a tremendous amount of money was going out; there was a tremendous amount of capital flight from their countries to the sale of these nonadmitted products.

It has been interesting in that in the last few years, several governments have begun the so-called "dollarization" of the economy. Either the local currency is pegged on a one-to-one basis to the dollar, as it has been done in Argentina, or it is now legal to sell dollar-based products.

The Latin American countries are liberalizing the laws quite a bit to allow companies to do joint ventures in a much freer manner than has been done in the past. Now, interestingly

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enough, some of those companies that before used to sell in the nonadmitted market, that now have investments in these markets, are the ones that are screaming the loudest about the other companies still doing the nonadmitted business. It's interesting to see these trends and these changes happening.

Looking at Latin America is like watching the U.S. in the last 25 years, but in a fast-forward mode. When I started working in Latin America, I thought that there was about a 20- to 25-year gap between their insurance and our insurance. Today these countries are no more than five years behind the U.S. Some countries, such as Chile, have products that we don't have. They're dealing with their situation in a unique manner. We can learn by working together.

There are real opportunities in Latin America. There's a cost to it, though; there's a real cost. Many companies in the last ten years have come to these markets and have made major investments. Some companies have done very well, other companies have not done well. They've lost money. Some have lost lots of money. I know companies in some specific markets that started out with an investment that was supposed to be \$5 or \$6 million and they ended up investing \$25 million. It's going to be a while before they recoup their investment.

Why? What is the difference? Like I said at the beginning, know the market you're going into. Know the culture. Selling insurance and dealing with deregulation in Mexico, Brazil, Venezuela, Argentina, Bolivia, and Ecuador is not the same as dealing with your local superintendent of insurance and state capital; it's very different. They are not going to adapt to your way. You must adapt to their needs and to their reality. Latin America, by the way, is not one market. It has many markets. It's very similar, but it has many markets because each one has its own regulation. Each one has its own needs. Each one has its own culture, and you must adapt to it.

What do I see for the next five years? You have seen some of the possibilities already, and I agree with them 100%. I believe the two areas having the most opportunities in Latin America over the next five years are health insurance and pension plans, followed by life insurance. Credit life insurance is important, but there must be credit available before the people can buy credit life insurance. The credit situation is improving in Latin America.

I see windows of opportunities in the next five years for those companies that are willing to honestly look at the market. I believe very strongly that in order for us to look at this market and look at the opportunities, we have to think beyond the concept of insurance policy. As an industry, anytime we think about a product that we're going to sell, we look at a finished product that covers you for so much if you pay so much into an insurance policy. When I look at a company, I see many products that the company can market in this particular area. I look at a company and I see general know-how, systems, administrative support, advertising know-how, and capital. Capital is a very important product and we have it. Many of these companies in Latin America can use the capital to get their feet wet in the market. I see possibilities for joint ventures. A company can take that very knowledge that has made it successful and package it, take it to these markets, adapt it to the reality of these markets, and sell it. Yes, we will sell insurance policies. But we have to be able and be willing to rewrite the rules of the game that we're playing.

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We, as a corporate entity, must be willing to ask ourselves, Are we willing to take the long look at these markets? I cannot go into a market that's somewhat unstable by my standards and take a short view; I have to take the long view. Am I willing to rewrite my rules? Not the rules of the game; those are rewritten as time goes on by practices in the market. Am I willing to adapt my corporate rules to the different parameters?

I will end with a very short anecdote which I think puts it all together. I often travel and have done a great deal of business in a Central American country. By our standards, it is very backward. There is a corporation that owns about half the country. It owns the insurance companies, banks, shipping, you name it. The patriarch of the family who started the corporation originally came from England in the early 1920s. He brought with him a little money and a large amount of know-how. A few years later, a friend of his, an old chum from school in England, came to visit him. After spending a day in what he thought was a horrible backward country, they were having an after-dinner brandy. He looked at his friend and said, "David, what on earth are you doing in this awful place? There's nothing here." And David just sipped his brandy, looked at him, and said, "That's exactly why I'm here." When we can bring many things to a market, we create our opportunities if we're willing to take the risks.

MR. E. PERRY KUPFERMAN: I have a multipart question for Ines. You mentioned the spike in unemployment. Do you know what has caused it? How does that relate to the people who have credit available to them in Argentina? Is credit available to all people there? Or are there some people who are not in the workforce and, therefore, don't have access to credit?

MS. TORRES: Unemployment grew from 8% last year to almost 20% now, so the growth was very big during this year. Credit is available only for those people who are employed and who have many opportunities to pay the loan back. If not, nothing is available. A great politician recently said, "We have a very important entity in our country to help with this, and it is the family, not loans."

It's very expensive. For instance, to get a loan for an automobile or for a mortgage, the loan cannot be more than 25% of your salary or, if it is a joint loan, it can't be more than the salary of both persons. So this is the only thing available.

MR. BUTLER: Ignacio, is there an opportunity to sell unemployment insurance in Mexico? And, if so, how can we control claims? In the U.S., the unemployment system allows us to know when a person is unemployed and we can verify that he remains unemployed.

MR. GURZA: This is simple question requires an elaborate answer. There's no such thing as unemployment insurance currently available in Mexico. One of the reasons why it doesn't exist is that there is no central information that is reliable to verify the existence of claims. Probably the best option would be through social security.

In Mexico, social security provides universal coverage. Many people are working for private companies, not the government. Social security could be the best option. However, it still has many pitfalls and problems. I wouldn't be surprised if, as part of the reforms to social security (to which nobody really knows what is going to happen), the government decides on a centralized system to provide for information on unemployment.