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FEATURED Q&A

What Factors Are Driving Mexico's Insurance Sector?

Insurance companies have significant opportunities for growth in Mexico, ratings agency A.M. Best said in early May. // File Photo: Pictures of Money via Creative Commons.

Q Mexico continues offering insurance companies significant opportunities for growth, ratings agency A.M. Best said in a report released May 6. The introduction of the Solvency II-based regulatory framework in the country's insurance industry has not become a limiting factor for the sector, the report added. What are the major drivers of growth in Mexico's insurance sector? What effects is Solvency II having on insurers operating in the country? What headwinds could Mexico's insurance sector face in the future?

A Manuel S. Escobedo, president of the Mexican Association of Insurance Companies (AMIS): "In any industry, financial stability is fundamental for growth. Mexico has enjoyed this for almost 25 years, and although GDP hasn't grown significantly, it has maintained a positive stable trend most quarters. The public sector is very important and represents about one-fifth of Mexico's insurance market. With the state as the last-level guarantor and as a public risk manager, it has a fundamental role in the development and penetration of the sector. The insurance sector has been working with the Finance Ministry to propose a risk-management public policy within the framework of article 4 of the agreement with the IMF. Once this policy materializes, it will be invaluable to align, coordinate and structure risk management work of all areas of government and the interaction between government and the private sector. We trust that the effect will be to enhance the efficiency of risk management in the country and, in this context, promote the penetration of insurance. The last effect of Solvency II (SII) must be to empower companies to manage their risk in a self-regulated manner.

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TOP NEWS

BANKING

Santander Hiring New Tech Staff for Brazil Unit

Spain's Banco Santander is hiring 400 new technology staff employees in Brazil. The move is part of the bank's $2 billion investment plan to boost digital operations.

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REMITTANCES

Remittances to El Salvador Hit $1.78 Bn for Year Through April

The amount of money transfers to the Central American country rose 3.9 percent year-on-year, the central bank said. El Salvador's remittances predominantly come from the United States.

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BANKING

Caixa Offering Discounts for Delinquent Loan Payoffs

Brazilian state-owned lender Caixa Econômica Federal will offer borrowers discounts to pay off delinquent loans, said CEO Pedro Guimarães.

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Guimarães // File Photo: Caixa Econômica Federal.

BANKING NEWS

Scotiabank Misses Analysts Estimates for Quarterly Profit

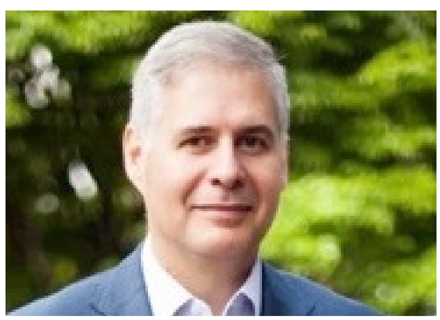
Toronto-based Bank of Nova Scotia missed analysts' profit estimates for its second quarter, which ended in April, due to surging noninterest expenses and higher provisions for bad loans, Reuters reported May 28. Scotiabank, Canada's third-largest lender, has the biggest overseas presence among the country's major banks and has been focusing on Latin American units, including Mexico, Peru, Chile and Colombia. The bank reported adjusted net profit attributable to shareholders of 2.08 billion Canadian dollars ($1.55 billion), or 1.70 Canadian dollars per share. That compares to 2.06 billion Canadian dollars, or 1.71 Canadian dollars per share a year earlier. On average for the lender's fiscal second quarter, analysts had expected profit of 1.74 Canadian dollars per share. The profit miss was Scotiabank's third in a row. At the same time it reported its profits, the bank also forecast low single-digit growth in its mortgage portfolio, saying the domestic housing market had experienced a slow start. Scotiabank said its adjusted noninterest expenses rose 7.7 percent year-on-year in the fiscal second quarter to about 4 billion Canadian dollars. It's loan-loss provisions jumped 35 percent to 722 million Canadian dollars. The rise in provisions followed recent acquisitions by the bank, which included Canadian insurance provider MD Financial Management and the Jarislowsky Fraser investment firm. "Scotia's earnings were negatively affected by provisions related to acquisitions which, from our standpoint, generated the miss," Barclays analyst John Aiken said in a note. Canada's two largest lenders, Royal Bank of Canada and Toronto-Dominion Bank, also recently reported jumps in provisions.

"Scotia's earnings were negatively affected by provisions related to acquisitions which, from our standpoint, generated the miss."

— John Aiken

Santander to Hire New Tech Staff for Brazil Unit

Spain's Banco Santander has announced that it plans to hire 400 new technology staff members for its Brazil unit, ZDNet reported June 3. The announcement is part of the bank's $2 billion investment plan to boost its digital operations in its markets around the world, the technology news website reported. Santander's operations in Brazil account for 30 percent of that investment, the bank said. Santander is planning to hire Java, Android and iOS developers, as well as artificial intelligence and data engineers. The bank is seeking to hire new technology employees for positions ranging from entry-level to management jobs, most of which will be located in São Paulo at a Santander campus known as "Digital Generation." The bank launched the campus last year as a central location for its technology staff.



Aguiar // File Photo: LinkedIn.

"We offer competitive pay, as well as professional development opportunities in a working environment that is dynamic, motivating and challenging," said Marino Aguiar, the bank's technology executive director. The move to more digital offerings has been a major focus of Brazilian banks. Mobile banking in the South American country increased 24 percent last year as compared to the year before, according to a study that Deloitte carried out for the

NEWS BRIEFS

Brazilian Prosecutors Consider Civil Suit Against Banco Bradesco

Brazilian prosecutors are considering a civil lawsuit against Banco Bradesco as they suspect it failed to prevent corruption schemes, Valor Econômico reported May 30. Prosecutors have asked a court for an arrest warrant for two Bradesco bank managers in connection to an alleged scheme involving shell companies, fraudulent checks and bank slips that helped launder nearly 1 billion reais ($252 million). Prosecutor Eduardo El Hage said Bradesco should have noticed such financial transactions.

Brazil's Caixa to Offer Borrowers Discounts to Pay Off Delinquent Loans

Brazilian state-owned lender Caixa Econômica Federal will give discounts of between 40 percent and 90 percent to indebted retail clients on their delinquent loans, CEO Pedro Guimarães told reporters on May 21, Reuters reported. The move seeks to raise as much as 4 billion reais, or roughly $990 million. Guimarães added that the measure would raise additional revenue, as such loans had already been written off, and allow the bank to offer new products and services to clients after they pay off their loans.

Evo Payments, Chile Bci Form Joint Venture

Atlanta-based Evo Payments and Chile's Banco de Crédito e Inversiones, or Bci, are forming a 10-year joint venture that will make Evo the first international merchant acquirer to enter the South American country through partnering with a national financial institution. Chile's payments market was established with the creation of one acquiring and issuing processor, Transbank. Chilean regulators recently announced legislation that will open the market.

Brazilian Banking Federation, Febraban. Six of every 10 banking transactions in Brazil are carried out with a computer or a mobile device.

REMITTANCES NEWS

Remittances to El Salvador Hit $1.78 Bn Through April

Remittances to El Salvador totaled $1.78 billion in the first four months of this year, Diario la Huella reported May 24, citing the country's central bank. The total represented an increase of 3.9 percent from the same period a year earlier. El Salvador's central zone received the highest amount of family remittances, at $641.3 million, for the year through April. That amount was 36 percent of the country's total level of money transfers for the period. The country's eastern zone took in $580.5 million in remittances, the central bank said. The country's La Paz Department saw the highest increase in remittances, with a rise of 5.6 percent year-on-year. San Salvador and Cuscatlán followed, each with increases of 5.3 percent. The country's smallest growth rates were in Cabañas and Chalatenango, with increases of 1.9 percent and 1.3 percent, respectively. The United States is, by far, the top source of remittances to El Salvador, accounting for nearly 95 percent of the total. Canada accounts for just under 1 percent, while transfers from Italy make up 0.5 percent. In April, the U.S. unemployment rate was 3.6 percent, while the unemployment rate among Latinos in the United States declined to 4.2 percent, as compared to 4.8 percent the same month a year earlier, helping to drive remittances sent from the United States. For the first four months of 2019, family remittances to Guatemala grew 10.1 percent year-on-year to $3.07 billion, while money transfers to Honduras grew 10 percent to $1.65 billion, Diario la Huella reported. Through March, remittances to Mexico grew 7.1 percent, as compared to the same period a year earlier, to $7.7 billion, and transfers to Nicaragua grew 8.6 percent to $383.8 million.

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The process is on the right track. However, the learning curve is relevant. The SII model implies a level of sophistication and complexity that significantly affects the volatility of the solvency indexes. The Mexican insurance sector is a very solvent sector and has successfully overcome the challenge of implementing new regulations. By nature, the insurance sector confronts innumerable risks and obstacles. Among the most important macro trends are: the deterioration of the country's economic indicators, such as financial stability, sovereign credit quality, growth and economic development; digital transformation and accelerated competition in the virtual field; cybersecurity; an aging population and migration displacements; deterioration and/or collapse of the public and private health systems; climate change; public insecurity and inefficiency in risk management; and supervision and regulatory risk."

A **Thomas Morante, member of the Financial Services Advisor board and chair of the Insurance Regulatory and Transactional Practice Group, and Yani Contreras, consultant, both at Kaufman, Dolowich & Voluck:** "To achieve growth of 7.5 percent for 2019, as projected by the Mexican Association of Insurance Companies, Mexico's insurance market faces challenges. Recent government decisions (cancellation of private damage insurance Pemex had obtained, and cancellation of private health and life insurance for public officials) affected the insurance industry. Despite low insurance penetration, the future looks promising if the insurance market can align with President López Obrador's development plans. The government seeks to make insurance available to a wider segment of Mexico's population by promoting a culture of 'insuring.' As an example, the 2017 earthquake demonstrated the need for mortgage insurance to cover earthquake damage. Thus, if coverage is expanded, mortgage insurance will experience growth opportunities. In addition, many Mexicans lack health coverage. So, demand for private health insurance is likely to increase to complement public health care services, and insurers stand to benefit by introducing broader health plan options. Another insurance product line likely to benefit is auto insurance, as demand increases to address the mandatory obligation to obtain coverage for travel on federal highways, coupled with the coverage requirement imposed in 14 of 32 states in Mexico. In the life sector, insurers offering life and retirement products seek to introduce legislation that would promote savings by increasing the tax-free limitations on the amount of contributions that can be made to retirement plans. Also, new growth opportunities exist in Mexico for specialized products like representation and warranties (R&W) insurance to protect buyers against a breach of sellers' R&W in cross-border deals. As Mexican insurers adjust to Solvency II, adopt data analytics to facilitate underwriting and claims management and utilize digital distribution platforms, and assuming Mexico manages potential tariff wars, the insurance sector faces a vibrant future."

> **"The future looks promising if the insurance market can align with President López Obrador's development plans."**
> — Thomas Morante & Yani Contreras

A **David Ross, global fund manager at La Financière de l'Echiquier in Paris:** "The Mexican insurance market is the second-largest insurance market in Latin America, but it has one of the region's lowest insurance penetration rates, estimated at 2.3 percent. The insurance industry traditionally

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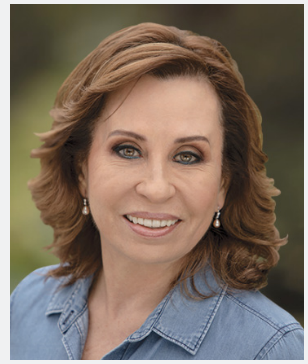
ECONOMIC NEWS

Mexico Considering Retaliation Following Trump's Tariff Threat

Mexico is considering retaliatory action following U.S. President Donald Trump's threat to impose tariffs on all Mexican exports to the United States but would rather convince the Trump administration to reach a negotiated solution, senior Mexican officials said June 3, The Wall Street Journal reported. The Mexican government sent a high-level delegation led by Foreign Minister Marcelo Ebrard to Washington for meetings with U.S. officials in an attempt to reach an agreement that is in both countries' best interests. Trump on May 30 threatened to impose 5 percent tariffs on all Mexican goods starting June 10. The duties would gradually increase to 25 percent by October if Mexico fails to "substantially" stop the flow of migrants traveling through Mexico toward the United States, Trump said. Mexican Economy Minister Graciela Márquez said Mexico was exploring several possibilities for retaliatory action, including resorting to a multilateral organization, such as the World Trade Organization, or impose its own tariffs on selected U.S. goods. "We're getting prepared, but we trust that diplomacy and actions to persuade and convince to maintain integration and trade relations will work," she said. Adding, "We want free trade to prevail in North America." Meanwhile, Republican U.S. lawmakers are reportedly discussing whether they should vote to block Trump's planned tariffs, The Washington Post reported, citing unnamed sources familiar with the talks. Trump's declaration of a national emergency at the U.S.-Mexico border allows him to impose the tariffs, but Congress can override a national emergency determination by passing a resolution of disapproval. Such a resolution could also block billions of dollars in border wall spending that relies on the national emergency declaration, unnamed sources told The Washington Post. [Editor's note: See related Q&A in the June 3 issue of the daily Latin America Advisor.]

IN PROFILE

Sandra Torres Casanova, Guatemalan Presidential Candidate


Torres // File Photo: Sandra Torres Campaign Website.

Name:
Sandra Torres Casanova

In the News:
Sandra Torres is leading in the polls ahead of the first round of Guatemala's presidential election, scheduled to be held on June 16. Torres is a well-known politician in Guatemala. She was the country's first lady from 2008 to 2011, when she divorced then-President Álvaro Colom.

Background:
Torres, 63, was born in Guatemala's Petén Department. She entered politics in 2002, when she helped found the National Unity of Hope party, better known as UNE, under which her then-husband Álvaro Colom won the 2007 presidential election. That year, UNE also won the majority of congressional seats. Within UNE, Torres has worked to promote programs and policies with a focus on social development, especially in relation to women and children. She also founded the National Coordinator of Women within the UNE party, a position which seeks to hear women's specific demands.

In 2011, Guatemala's electoral authority barred Torres from running for president due to her personal relationship with then-President Álvaro Colom, whom she had divorced just before enlisting her candidacy. Guatemalan law bans close family members of current heads of state from running for office, and the electoral tribunal deemed the divorce had been orchestrated to circumvent the law, El Espectador reported. In 2015, Torres ran for president again, coming in second in the first round. She then lost to current President Jimmy Morales in the runoff.

Among her top proposals, Torres wants to create a support program for single mothers in Guatemala, as well as a business-training program for women. She has also promoted the construction of regional hospitals with specialized care for women.

Of Note:
Guatemala's Constitutional Court ruled in May that the country's Supreme Court must revisit a case involving Torres' immunity, which presidential candidates enjoy. In February, the Supreme Court had ruled against the Public Ministry's request to strip Torres of her immunity, saying there was not enough evidence. The ministry sought to lift her immunity in order to investigate her alleged role in illegal campaign financing in relation to the 2015 election. Torres has denied wrongdoing.

In recent weeks, Guatemala's Constitutional Court has barred two candidates who were among the front-runners from participating in the election. Zury Ríos' candidacy was blocked because she was the daughter of late dictator Efraín Ríos Montt, and Thelma Aldana was deemed ineligible to run for lacking a certification confirming that all of her public accounts were settled.

Sources: The Washington Post; Sandra Torres campaign website; El Espectador; Prensa Libre.

NEWS BRIEFS

U.S. House Passes Disaster Relief Bill That Includes $1 Billion for Puerto Rico

The U.S. House of Representatives on June 3 passed long-delayed legislation that will provide $19.1 billion in aid to states and territories hit by flooding, hurricanes and other disasters, The Washington Post reported. The measure, which U.S. President Donald Trump is expected to sign, includes more than $1 billion in aid for Puerto Rico. The Senate approved the bill in May.

Brazil Halts Beef Exports to China Following Case of Mad Cow Disease

Brazil has suspended beef exports to China after a case of mad cow disease was reported in the state of Mato Grosso, the latest blow to Brazilian meat exporters, Bloomberg News reported June 3. Shipments have been halted in compliance with quarantine and sanitary protocols between the two countries, the Agriculture Ministry said. Cargoes shipped after May 30 must be returned or redirected to other destinations. The ministry called the case "atypical," as the infected cow contracted the disease spontaneously instead of through contaminated meals.

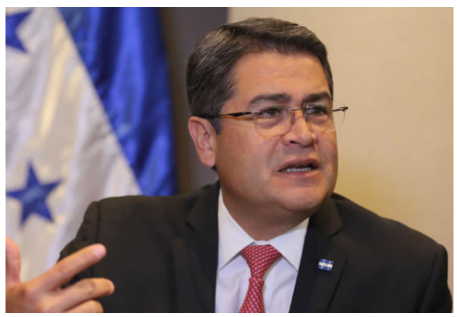
U.S. Homeland Security Agents to Work With Guatemalan Authorities

The administration of U.S. President Donald Trump will deploy dozens of Homeland Security agents and investigators to the Mexico-Guatemala border in an attempt to slow illegal migration to the United States, The Washington Post reported May 31, citing unnamed U.S. officials. The DHS agents are to work as "advisors" to Guatemala's national police and migration authorities, with the aim of deterring migrants from beginning their journey north and disrupting popular routes.

POLITICAL NEWS

Hondurans Take to Streets in Violent Demonstrations

Violent protests continued in Honduras on June 3 despite President Juan Orlando Hernández's decision to concede to demonstrators' demands a day earlier, Reuters reported. The previous day, Hernández vowed to overturn two decrees approved last year to set up entities to overhaul the country's education and health



Hernández // File Photo: Honduran Government.

sectors. Critics say the reforms would have privatized public services and led to mass layoffs, which Hernández's government had denied. Hernández revoked the decrees on June 3 "for the peace of Honduras," and his administration sought dialogue with unions and trade groups that opposed the reforms. The groups have demanded several conditions for talks, including that the topics of health and education be tackled together. Protests began in early May, but they have intensified since then, with tens of thousands of people taking the streets and violent clashing with police. In late May, demonstrators set fire to tires and other objects outside the U.S embassy, CNN reported. They also burned and looted some 30 shipping containers with the logo of fruit company Dole. Strikes have also brought operations at public hospitals and schools to a halt. Classes have been suspended for about three weeks, and consultations in public health centers have been suspended for nearly a month, Reuters reported. [Editor's note: See related **Q&A** in the May 13 issue of the daily Latin America Advisor.]

Bukele Sworn in as President of El Salvador

Nayib Bukele, 37, was sworn in June 1 as president of El Salvador, ending three decades of two-party rule in the Central American nation. A former mayor of San Salvador, Bukele won more votes than all other candidates in the country's presidential election in February and wore a blue suit without a tie to his swearing in, at which he was accompanied by his wife, Gabriela. "Our country is like a sick child, now it's up to all of us to take care of it," Bukele told the crowd in his inaugural address, Reuters reported. "We have to suffer a little now, we have to have a little pain, assume our responsibility and all as brothers to bring forward that child." He added that El Salvador "has suffered greatly. It is a country that has had to rebuild; it has had earthquakes and corrupt governments and yet we continue to move forward," the Associated Press reported. During his five-year term, Bukele vowed to make tough decisions for the country, which is beset by violence and poverty, but he gave no details. Bukele's inauguration ended decades of rule by the right-wing Nationalist Republican Alliance (ARENA) and the leftist Farabundo Martí National Liberation Front (FMLN). At his inauguration, thousands of Salvadorans filled Gerardo Barrios Plaza in front of the National Palace, chanting "Yes, it's possible! Nayib president!" Bukele now must contend with frequent threats by U.S. President Donald Trump, who has threatened to cut aid to El Salvador, as well as Guatemala and Honduras, if they do not increase efforts to curb the flows of migrants heading to the United States, Reuters reported. On June 1, Trump congratulated Bukele via Twitter. "The United States stands ready to work with @NayibBukele to advance prosperity in El Salvador and the hemisphere. Congratulations President Bukele on your inauguration!" Trump tweeted. Bukele did not invite Venezuelan President Nicolás Maduro, Nicaraguan President Daniel Ortega and Honduran President Juan Orlando Hernández to his inauguration, saying they lead "undemocratic" governments.

FEATURED Q&A / Continued from page 3

has found the Mexican market to be a difficult one to develop due to both low levels of formal sector employment and a significant portion of the population living in poverty. Adding to these historical hurdles, automobile insurance, a gateway product that leads consumers to other types of insurance, before this year had not been completely mandatory. However, the Mexican insurance industry has been gaining ground. Changes making some level of automobile insurance compulsory as of the beginning of this year have helped. It also seems that the Solvency II regulation, instead of being a drag, has been somewhat beneficial to insurance companies because it addressed one of the major problems of insurance in Mexico: public trust. Lack of trust in insurance companies has been a deterrent to buying insurance, but with Solvency II, trust in the industry has been bolstered by providing regulation on reserves, capital requirements and disclosures. Another growth driver for the Mexican insurance industry is the increasing penetration of banking services in the country. While individual agents and brokers have been the most significant distribution channel for insurance, generating more than 60 percent of premiums, bancassurance is becoming an increasingly important channel, growing at double digits. As banking penetration continues to expand in the country, bancassurance will continue to expand access to insurance products."

A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:** "In the insurance industry, Mexico has remained a country with potential, but unfortunately that potential does not seem to have been realized in the past quarter-century. With NAFTA in 1994, Mexico opened its insurance business to the other NAFTA countries with the hope that it would increase the penetration of insurance business in the country. That has not happened. It has stayed under 2 percent of GDP. Mexico has more than 100 operating insurance companies, and Solvency II has been implemented. Everything looks good on paper. However, no compulsory third-party insurance has been implemented nationwide for automobiles. Group life insurance has stayed only with the large employers, whereas most of the jobs are created in the informal sector, which has no life insurance at all. Insurance companies have remained profitable, with the return on equity above 20 percent and the return on assets above 3 percent. But in 2015, the return on equity was below 11 percent. There has been a huge volatility in the insurance market (compared with insurance markets in the other developed markets in the region, such as Canada or the United States). This characteristic of the Mexican market has not changed since the implementation of NAFTA. Now, the future of NAFTA itself is being challenged in the political arena. That fact alone would give a pause to large U.S. insurance companies to venture further into Mexico. However, it might open doors for the companies in the Trans-Pacific Partnership countries to make forays into Mexico."

> **"In the insurance industry, Mexico has remained a country with potential..."**
> **— Tapen Sinha**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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