
GENERAL BACKGROUND INFORMATION ON COUNTRY MEXICO

• Actuarial Profession:

The number of actuaries continues to grow at an increasing rate as a result of number of graduates coming from the six universities which grant actuarial degrees. At present the majority of actuaries have entered in areas other than the traditional insurance and pensions such as Stock Brokers, Banks, Government, Management, etc. The role of actuaries in Governmental activities is becoming more than before.

Organizations in the country:

1. **Colegio Nacional de Actuarios (CONAC), A.C.:** It represents the official organization for the profession and it gathers all the actuaries in the country whether qualified or candidates. CONAC publishes "Boletín Actual", a magazine, which is the link of communication between its members. CONAC holds an annual conference in which the most important issues of the profession are discussed, and sponsors an annual award for the best investigation in the actuarial field.
2. **Asociación Mexicana de Actuarios (AMA), A.C.:** It includes all the actuaries whose major professional activity is related to insurance companies. Membership is restricted to qualified actuaries currently working in the insurance field.
3. **Asociación Mexicana de Actuarios Consultores (AMAC), A.C.:** It groups actuaries who work in the benefit consulting with emphasis in pension plans. To become a member requires in addition of being qualified to have at least three years' experience in pensions and the majority of the current members must be in agreement. A quarterly publication named "Visión Actuarial" recently started.
4. **Asociación de actuarios de occidente, A.C.:** It gathers the actuaries whether qualified or not in the occidental region of the country. Their headquarters are in Guadalajara, Jalisco.
5. **Asociación de Actuarios en Seguridad Social.:** This group of actuaries have their main concern with Social Security issues.

Number of actuaries:

According to the CONAC there are a total of 10,000 actuaries out of which only 2,000 are qualified.

Main areas of activities:

1. Insurance
2. Guaranties

-
3. Private pensions
 4. Social Security
 5. Data Processing
 6. Statistics
 7. Operations Research
 8. Finances
 9. Management
 10. Economics

Professional liability issues: Colegio Nacional de Actuarios has a sanctioning body for disciplining members who do not uphold the ethical standards of the profession. The sanctions will only apply to the member's professional status as an actuary and will not involve criminal sanctions. The special committee for dealing with actuarial professional misconduct is now defining new qualification standards for the Department of Education to use in their definition of a skilled actuary. An actuary will have to meet these standards standard qualifications to provide expert witness testimony and to sign actuarial reports. We expect the AMAC will make the standard qualifications significantly more stringent than the current ones.

Educational Establishment:

There are 6 universities which conduct actuarial and related courses up to achieve a university degree or candidate to become an actuary. Then, in addition to that, in order to qualify as an actuary candidates must write a thesis on a previous approved actuarial subject where one can achieve an actuary degree: Universidad Anáhuac del Norte, Universidad Anáhuac del Sur, Instituto Tecnológico Autónomo de México (ITAM), Universidad Nacional Autónoma de México (UNAM), Escuela Nacional de Estudios Profesionales (ENEP), Universidad de las Américas (UDLA). You can obtain a Master degree in the Universidad Anáhuac del Norte.

• **Economy:**

Short term interest rates:

CETES 28 days:	20.83%
CETES 91 days:	22.21%
CETES 180 days:	22.82%

Inflation / Wage Increases:

Last 12 months wage increase:	17.05%
Last 12 months inflation increase:	18.75%

Equity market performance:

Last 12 months increase:	64.43%
--------------------------	--------

Exchange rate:

Spot exchange rate:	8.50 MP/US
---------------------	------------

- **Social Security:**

Description of benefits:

The mandatory Mexican Social Security System covers the following situations:

1. Job related injuries and illnesses.
2. Sickness and maternity.
3. Temporary and permanent disability and death
4. Retirement, early retirement and old age.
5. Child care and social services.

1. Job related injuries and illnesses:

- ◆ Medical assistance, surgery and pharmacy.
- ◆ Hospital services.
- ◆ Orthopedical treatment and prosthesis.
- ◆ Rehabilitation.
- ◆ Life annuity for death or disability caused by a job related injury or illness.

2. Sickness and maternity.

- ◆ Medical assistance, surgery and pharmacy.
- ◆ Hospital services.
- ◆ In case of maternity obstetric assistance and a six month lactancy assistance.
- ◆ A pension during the illness or maternity.

3. Temporary and permanent disability and death.

- ◆ Temporary pension.
- ◆ Life annuity.
- ◆ Medical assistance, surgery and pharmacy.
- ◆ Family allocation.

4. Retirement, early retirement and old age.

- ◆ Pension.
- ◆ Medical assistance, surgery and pharmacy.
- ◆ Family allocation.

5. Child care and social services.

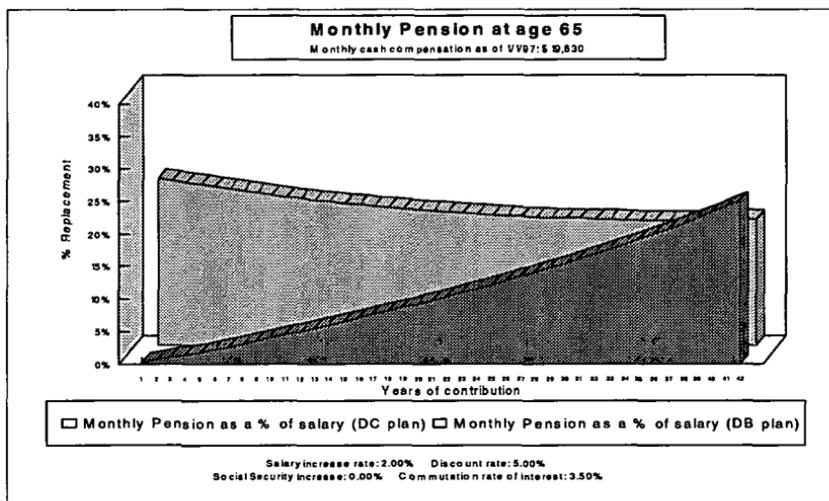
- ◆ Child care services.
- ◆ Cleanliness.
- ◆ Health care.
- ◆ Feeding.
- ◆ Education.
- ◆ Social assistance.

Issues:

The legislation reforming the Mexican Social Security System (IMSS in Spanish) was passed into law in December 1995 and became effective on July 1, 1997. In essence an unfunded defined benefit program is being replaced by a funded defined contribution program with a promise that benefits for any individual under the new system will not be less than those under the present system. However, it is not stated explicitly how this guarantee will be applied. Since the presentation of the reforms placed great emphasis on the financial problems of the present system, pointing out that before the end of the century pension outgo will exceed contribution income and that this position will rapidly deteriorate into the future, how this guarantee will be applied is an important, perhaps the most important, unresolved question of the new system.

From July 1, 1997 contributions will be paid by and on behalf of each covered individual into his or hers Individual Retirement Account (CIR) held with an Administrator of Retirement Funds (AFORE).

The following graph compares both systems:



- **Private Pensions:**

- Composition of market in the country.

- According to **Watson Wyatt México** Survey on Investment Performance, we have a 144 fund sample with a market value 3,446 millions of Mexican Pesos which represent about an 8% of the total mexican market.

- From this sample 18.75% are funds up to 1 million Mexican Pesos, 27.78% are funds between 1 and 5 million MP, 23.61% are between 5 and 15 million MP and finally 29.86% correspond to funds of more than 15 million MP.

- About 73% are DB plans, 20% are mixed plans and 7% are DC plans.

- 47% of the plans are paid through a monthly pension while 53% of them are paid through lump sum.

- An 80% of the plans are independent from the Social Security and a 20% are complementary to it.

- Trends.

- There is a trend to redesign DB plans with DC plans. Also, because of the benefit reduction related to the new Social Security Law the need to implement a private pension plan gives to the actuarial profession more job opportunities as well as many companies are increasing the benefit of their plans.

- Current consulting issues.

- Not only the companies must assume the decrease in the benefits but also the employee has to contribute to diminish the negative effect on the benefits by the new Social Security Law.

- Another important thing to consider is the demographic allocation:

- About 48% of the Mexican population is younger than 20 years old. This means that 8 million people between ages 12 and 20 must join the labor force in the next 7 years. Those jobs must be generated and the elder ones must have an earlier retirement because of the pressure of the younger ones which demand a lower wage, are more creative and might have a better educational level. That is why an efficient plan design must be done to cover the higher costs that are being generated.

- On the other hand, medical expenses for retirees represent another important consulting issue. This is because 72% of the labor force has a very low income which forces them to assist to the Social Security Institutions. However medium and high income levels pay the Social Security fees as well as a medical expenses insurance but they never use them; instead they use their own money, so when they reach retirement age they do not have enough savings to face any illness or disability in a moment they need them the most. In consequence they are obligated to use the Social Security services or withdraw from their own insufficient pension to cover these expenses. This is

the reason why actuarial consultants should promote a medical expense plan for retirees as well as to avoid lump sums.

• **Health Care:**

How provided in the country.

For a total population of approximately 90 million, 37 million are covered by the Social Security and it is estimated that a large proportion has no protection or attend the public institutions of the Secretariat of Health and Welfare while only 2% of the population is covered by private plans.

As a result that the demand for medical services has not kept pace with the growth in the health services the quality in services provided by Social Security diminishes steadily creating a high degree of dissatisfaction and in many instances this has caused duplication of payments to obtain medical services.

The Social Security provides *integral medicine* i.e. covers all minor expenses including all types of diagnoses and illnesses, whether preexisted or not, prevention of accidents and illness (vaccination programs, control and reduction of epidemics, etc.) while the private sector is concentrated on reimbursement of major medical expenses, with premiums determined based on age and sex of the participants depending on the category of providers selected, sum insured, deductibles, and co-insurance. These types of plans are limited in the sense that they do not promote health as preventive care is not covered.

Trends.

As a result of the continuing raising costs to provide medical services coupled with the financial problems possibly the private health system will take over the social security and the most likely changes in the private sector are:

- Transformation of the traditional hospitals to HMO's
- The pharmaceutical industry will have programs for medicine supply and a basic schemes.
- Sharing of the risk and costs.
- Establishment of special clinics focused to the promotion of health.
- Educational programs.
- Strategic alliances.
- Foreign investment in the health care institutions.

- **General Insurance:**

Composition of market in the country.

There are 34 insurance companies in the country. They are classified into 4 categories: Large companies (4), Medium companies (9), Small companies (19), Government companies (2). From all the premiums collected in the market, Grupo Nacional Provincial retrieved 25.09%, Aseguradora Hidalgo 23.71%, Monterrey Aetna 13.62%, Comercial America 12.67%, Inbursa 5.39%, Banamex 3.63%, Bancomer 3.24%, Génesis 3.12%, and the rest 9.53%.

Trends.

As a result of the new Social Security Law, mexican insurance companies will have to handle pension plans such as disability, illness,retirement and death, so their market will grow as much as three times with respect to the actual market.during the next 10 years. They will have to develop new and more efficient plans for medical expenses and capitalization. This is why insurance companies have been lately merging with stronger companies with a better management technology.

Current consulting issues.

As we mentioned before, the insurance market will be widely expanded due to the new mexican Social Security Law. This will of course open a huge consulting area