

Interview with Alfonso Castro Toledo, chairman of the Inter-American Federation of Insurance Companies (FIDES)

«Latin America has a bright future.»

Insurance is growing throughout the world, but not at the same rate in all areas. Latin America is one of the regions which is most experiencing an accelerated development, where economic growth, the search for security and quality of life by people and the reform of the public welfare systems, act to give impetus. In order to explore these and other subjects, we have interviewed Alfonso Castro, a respected Mexican insurer and chairman of FIDES, who here gives us his expert opinion.

Question: Most of our readers do not need to be told that FIDES is America's most representative business association in this sector, but what more should we know?

Answer: The Inter-American Federation of Insurance Companies (FIDES) brings together the private insurance associations of 19 countries, which in alphabetical order are: Argentina, Bolivia, Brazil, Colombia, Chile, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Spain, Uruguay, USA and Venezuela. It was set up when, after the second world war came to an end, a group of insurance company associations felt the desire to exchange



Alfonso Castro Toledo is a prestigious Mexican insurer with a brilliant professional career behind him. He is an economics graduate from the Instituto Tecnológico Autónomo de México (ITAM) and has a diploma in business administration from the Instituto Panamericano de Alta Dirección de Empresas (IPADE). He worked for the Banco del Atlántico for 20 years, his last position being deputy general manager. He was a manager and director of Seguros Olmeca. Since 1993 he has worked in Geo New York Life, S.A., beginning as general manager, and, as of June of last year, occupying the position of executive vice-chairman of the company. He was chairman of the Asociación Mexicana de Instituciones de Seguros between 1995 and 1998, and at the present time continues to be a member of the directive committee and the executive board. For many years he was a member of the steering committee of the Directive stock exchange and a member of the executive committee of the Asociación Internacional de Aseguradores LOMA, (Life Office Management Association). He is also chairman of FIDES and is a member of the business coordination committee of the steering committee of the Instituto Mexicano Educativo de Seguros y Fianzas (IMESFAC), as well as being a director of various financial and commercial companies.

know-how and experiences, both technical and other types, in addition to studying the development of their respective economies, with the aim of promoting private insurance. This led to the creation of the Confederación Hemisférica de Seguros which met for the first time on May 14, 1946 in New York. The name was changed to FIDES in 1973.

Q.: There is a coincidence involving dates here. May 14 is insurance day in America and also in Spain. Spain's first insurance Act dates from May 14, 1908. Is this a coincidence, or was this day specially chosen?

A.: This is true, May 14 is chosen to mark the insurance day throughout America. For example the Asociación Mexicana de Instituciones de Seguros (AMIS), invariably holds it is annual convention during the week around May 14th. The day on which the first insurance act in Spain was enacted also had its influence.

Q.: What is your view of Latin America's present day economic context and of the development prospects of insurance?

A.: Economic development has been very promising over the last few years, with some exceptions, such as 1998 and 1999, where there were obviously problems, or when in Mexico, in 1994 and 1995, the crisis occurred which influenced the economies of other countries of the region. I believe that everyone remembers the famous "tequila effect". After this however, there have been large growths in the gross domestic

REINSURANCE CONTRIBUTES TO DEVELOPMENT

Q.: What role does insurance have in the setting up of regional markets such as Mercosur, the Free Trade Agreement (FTA) etc.?

A.: It played an important role in the negotiations of these treaties, up until the present time. Satisfactory agreements and conclusions have always been reached. North America's FTA allowed Mexico's insurance sector free and open access, although it had previously prepared itself and consolidated. Steps are also been taken in Mercosur to clearly define what will be the role of insurance. There is also talk of collaborative agreements between insurance companies in Central America.

Q.: What place will reinsurance have in all this growth which is foreseen for Latin America?

A.: Reinsurance has helped greatly in many different ways. To begin with, because it has allowed us to transfer part of the risk, but also because it has helped us with technology and know-how. There are reinsurers which have invested heavily in this respect, this has allowed many Latin American managers to be trained abroad. This helps in the assessment of new challenges and in the ways of dealing with them, such as the new creation of markets in electronic business, the Internet or bank distribution, etc.

Q.: How is the sector dealing with the natural disasters which frequently occur in the area?

A.: At the moment there is not a high level of consensus as to what collective measures may be taken, such as the constitution of funds to deal with these types of events. While funds are not available, reinsurance will continue to be used as the only way of avoiding the financial impact which an earthquake or a hurricane may have on the economy and on insured assets. There is a special reserve in Mexico, an earthquake fund. We have studied cases such as Spain's Consorcio de Compensación de Seguros and also what other European countries offer, and we have come to the conclusion that it is easier there because a high percentage of the population is insured. When the insured percentage is low, then the burden in order to constitute a fund is more difficult to bear.

Q.: Some days ago we heard the news concerning the agreement between the Spanish and Mexican banks, BBVA and Bancomer. What are your views on this?

A.: It is an interesting move. It is in accordance with Mexican banks' wishes to strengthen their capital, in order to do this there is no other remedy but to associate with large international groups. This also provides a more solid position for the pensions and insurers which depend on the banks.

product (GDP) of all the countries. For example, after 1995, Mexico continued its growth at a good pace. In the last five years the average rate of growth of its GDP must be between 3% and 3.5%, at a minimum. This situation has likewise affected insurance, with very significant premium growths. If we look at last

year, we can see that some countries had problems but that they are getting over them; for example, Brazil, the largest insurance power in Latin America, has clearly begun its recovery, and also Mexico and Argentina. The figures for the year 2000 will clearly be better, Mexico will be able to grow at a rate of around



7% this year, and the rest of the countries at an average of 3.5%.

Q.: People tend to talk about Latin America as one unit, but the first thing that any expert does is to warn you that each one of the countries of the region is a world in itself..

A.: This is true, there are enormous differences between the countries, above all if we refer to premium income. The figures for 1999 are still not available, but if we look at 1998, we can see that Brazil is the region's leading country with USD 19,266 million, followed by Mexico and Argentina, which have very similar figures. Argentina had USD 5,989 million and Mexico USD 5,849 million. They are then followed by Chile, with USD 2,400 million and Colombia with USD 2,093 million. After this the figures begin to fall off, for example Bolivia has USD 72 million and Nicaragua — which in terms of insurance is the smallest — USD 25 million. The figures for the region do not include the USA or Spain, because they would distort the figures somewhat. Nor are figures for countries which are not members of FIDES, such as Cuba or Costa Rica, included.

Q.: Deregulation and the disappearance of the state monopolies is providing a historic opportunity for the participation of private insurance in the new welfare and protection schemes. What is your view on this?

A.: This is one of the most important chapters in which FIDES

has been involved in the last few years. We have contributed towards making all this a reality since the reform of the pension system in Chile was started; this was later followed by Argentina, Peru, Colombia, and even Mexico, which since the reform of the social security system in 1997, has allowed the private sector to participate in the management of pensions and life annuity insurance derived from pensions. There have also been advances with respect to this in El Salvador, and Venezuela is in the middle of this process. Also Brazil is beginning to take the first steps.

Q.: Some experts remind us that pensions are managed by pension fund administrators, which in America are known as AFPs etc. and should not be confused with insurance, which manages income derived from pensions.

A.: Yes, it is important to differentiate between the two. In Mexico this differentiation is well established. The retirement funds are at present managed by some 15 institutions, bringing together 15 million contributors. When retirement is reached then the money is moved to a company specialised in pension insurance, in other words in managing income, and is in charge of paying the monthly sums and also benefits in the case of widowhood, orphanage or disablement.

Q.: This system is helping to transform welfare states into welfare societies, isn't it?

A.: Of course, but in addition to this it is also a way of guaranteeing retirement pensions to the citizens of these countries because it is also true that the previous panorama was catastrophic, and it could be seen that the states did not have sufficient resources to cope with the demographic changes which were to come. This system, in addition to guaranteeing a pension also guarantees its revaluation, given the fact that, as is the case in Mexico, these pensions are index-linked to inflation.

Q.: Isn't there a risk of bankruptcies among the insurers?

A.: Fortunately not. The scheme has been well studied and resolved by the actuaries. It is not possible to avoid the risk of bankruptcy if some company acts crazily with regard to commercial matters, but that are reserves, monitoring, supervisory bodies, to avoid this. If some problem were to arise, the owners of the capital would be affected before the insured. The business would certainly be taken over by some other company.

Q.: With respect to the liberalisation and modernisation processes, what effect do foreign companies have? How are the supervisory bodies dealing with this in order to make insurance more transparent and to offer better guarantees to the consumer?

A.: The sector has progressed greatly with the regulatory changes, and the share of international groups has accelerated. Many companies from the US have entered the market, and also European ones, many of which have done so through their North American subsidiaries. Many are taking positions in Latin American insurance, but this process is accepted within the philosophy of FIDES, which clearly states that it is in favour of free establishment under equal conditions. The regulatory bodies are seeking two things: firstly, technical criteria, solvency and investment controls in order to avoid bankruptcy problems; they also wish to find arbitration measures to deal with the problems arising between policyholders and the companies. An insurance ombudsman has begun to be implemented in Mexico. A body has also been created, in the form of the commission, to defend and protect the rights of the users of financial services.

Q.: What is FIDES's line on the introduction of compulsory insurance.

A.: Until now what we have done is to facilitate the study of the various forms of compulsory insurance which exist, in fact we went over this matter in a recent meeting which we held in Bogota. We know that the governments wish, or intend, to introduce some types of compulsory insurance, and although we are aware that it is not excellent business, we are helping in any way requested of us, because this helps to spread insurance culture. In this sense they are good, because it is possible to introduce other types of cover using compulsory insurance as a base.

Q.: If you were asked to give some noteworthy aspects of insurance in Latin American in the last few years of the 20th century, and the challenges which exist for the 21st century, what would you choose?

A.: I have no doubt about the 20th century, I would have to talk about what Latin American countries have achieved in the consolidation of the insurance system. There are companies which date from the 19th century, but they are very few. With respect to what the 21st century holds, I would say that in principle the future is very promising for insurance in Latin America. One of the most important points will be social security and the development of personal lines insurance, especially life insurance, annuities and savings. Some of this is already happening. Insurance will be a great help in the organisation of the welfare society and also for managing assets. The aims will be, in this order, to achieve greater well-being for the population; secondly, to develop a significant insurance sector; and after this, that this important and proper development is transferred, through financial investment, to society as a whole. ■