

Financial Services Advisor - Q&A: Mexico's Insurance Sector - ft. Tom Morante & Yani Contreras

Thomas Morante, KD partner, and Yani Contreras from the KD Florida offices, were featured in the Financial Services Advisor, a publication of The Dialogue, in the May 23-June 5, 2019 issue.

What Factors Are Driving Mexico's Insurance Sector?

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. 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."

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