

Mexico: Detailed Assessment of Observance of International Association of Insurance Supervisors (IAIS) Insurance Core Principles

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FINANCIAL SECTOR ASSESSMENT PROGRAM

MEXICO

IAIS INSURANCE CORE PRINCIPLES

DETAILED ASSESSMENT OF
OBSERVANCE

MARCH 2012

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GLOSSARY

AMA	Mexican Actuaries Association
AMACPBE	Mexican Consultant and Employee's Benefits Actuaries Association
AMASFAC	Mexicana Insurance and Surety Agents Association
AMDA	Mexican Association of Automobiles and Trucks Dealers
AMIS	Asociación Mexicana de Instituciones de Seguros (Mexican Association of Insurance Institutions)
AML-CFT	Anti Money Laundry - Combat Terrorism Financing
ASSAL	Asociación de Supervisores de Seguros de América Latina
ASF	Congress Superior Auditor (Auditoría Superior de la Federación)
BANXICO	Bank of Mexico (Banco de México)
BMV	Mexican Stock Exchange
CDD	Customer due diligence
CINIF	Mexican Council for the Investigation and Development of Financial Information Norms (Consejo Mexicano para la Investigación y Desarrollo de las Normas de Información Financiera)
CMG	Insurance Capital Requirement (Capital Mínimo de Garantía de las Instituciones de Seguros)
CNBV	Banking and Securities National Commission (Comisión Nacional Bancaria y de Valores)
CNSF	Insurance and Surety National Commission (Comisión Nacional de Seguros y Fianzas)
COFEMER	Federal Regulatory Improvement Commission.
CONAC	National actuaries College
CONDUSEF	Consumer protection agency (Comisión Nacional para la protección y defensa de los usuarios de servicios financieros)
CONSAR	Retirement Savings System National Commission (Comisión Nacional de los Sistemas de Ahorro para el Retiro)
CUF	Surety Secondary Regulation (Circular Única de Fianzas)
CUS	Insurance Secondary Regulation (Circular Única de Seguros)
DF	Federal District (Distrito Federal)
DOF	Federal Official Gazette
EU	European Union
FONDEN	Natural catastrophes fund (Fondo de Desastres Naturales)
FATF	Financial Action Task Force on Money Laundering
FSC	Financial Stability Council
FSAP	Financial Sector Assessment Program
GAFISUD	Financial Action Task Force of South America
HHI	Herfindahl-Hirschman Index
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principle
IETU	Business Flat Tax (Impuesto Empresarial a Tasa Única)

IMCP	Mexican Institute of Public accountants
INEGI)	The Office of National Statistics (Instituto Nacional de Estadística, Geografía e Informática)
INPC	Consumer Price Index
IPAB	Deposit Insurance Institute (Instituto para la Protección del Ahorro Bancario)
IPR)	Periodical reinsurance report
ISDA	The International Swap Dealers Association
ISMA	The International Securities Market Association
ISR	Income Tax
IVA	Value Added Tax
LARF	Financial Groups Law (Ley para Regular las Agrupaiones Financieras)
LFIF	Surety Institutions Federal Law (Ley Federal de Instituciones de Fianzas)
LFPA	Federal Law of Administrative Procedures
LFTAIPG	Law on Transparency and Governmental Public Information Access
LGISMS	General Law of Insurance Institutions and Mutual Insurance Societies (Ley General de Instituciones y Sociedades Mutualistas de Seguros)
LIETU	Business Flat Tax Law (Ley del Impuesto Empresarial a Tasa Única)
LISF	Insurance and Surety Institutions Law (Ley de Instituciones de Seguros y de Fianzas)
LISR	Income Tax Law (Ley del Impuesto sobre la Renta)
LISSSTE	Public Employees Social Security Law (Ley del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado)
LIVA	Value Added Tax Law (Ley del Impuesto al Valor Agregado)
LPDUSF	Law for the protection and defense of financial services' users (Ley de Protección y Defensa al Usuario de Servicios Financieros)
LRAF	Ley para Regular las Agrupaciones Financieras (Law that Regulates Financial Groups)
LSS	Social Security Law (Ley del Seguro Social)
MMoU	Multilateral Memorandum of Understanding
MoU	Memorandum of Understanding
MRSS	Mexican Retirement Savings System
NAFTA	North Atlantic Free Trade Agreement
NAR	Level of Regulatory Actions
OECD	Organization for Economic Co-operation and Development
OTC	Over the counter
PCIS	Policies and Internal Criteria for Supervision (Políticas y Criterios Internos de Supervisión)
PEMEX	Petrolío Mexicano
RASF	Insurance and Sureties Brokers Rules (Reglamento de Agentes de Seguros y Fianzas)
RBS	gross solvency requirement

RIRT	Technical Provisions Investment Rules for Insurance Institutions and Mutual Insurance Societies (Reglas de Inversión de las Reservas Técnicas de las Instituciones y Sociedades Mutualistas de Seguros)
RIRTF	Technical Provisions Investment Rules for Surety Companies (Reglas para la Inversión de las Reservas Técnicas de Fianzas en Vigor y de Contingencia de las Instituciones de Fianzas)
RMCBO	Surety Capital Requirement (Requerimiento Mínimo de Capital Base de Operaciones de las Instituciones de Fianzas)
SAT	Tax Administration Agency (Sistema de Administración Tributaria)
SESA	Insurance Sector Statistical System
SESAF	Surety Sector Statistical System
SFP	Public Function Ministry (Secretaría de la Función Pública)
SHCP	Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público)
SIC	International Quotation System of the Mexican Stock Exchange
SISI	Information System for Integrated Supervision
SMG	General minimum wage
SSLO	Single secondary legislation order (Circular (Única de Seguros, SSLO))
UDIS	Unidad de Inversion (Inflation Index currency)

I. INTRODUCTION

General

1. **This is a full assessment of the insurance regulatory and supervisory system in Mexico.** The high level of engagement and dedication of the authorities, the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*, SHCP), and the Insurance and Surety National Commission (*Comisión Nacional de Seguros y Fianzas*, CNSF) allowed for an efficient and thorough analysis of the regulatory and supervisory system in Mexico. This assessment update was conducted with regard to the circumstances in place and the practices employed on September 21, 2011.
2. **A new insurance law is expected to be submitted to congress in September 2011, precisely at the time of the mission.** The long process in preparing this new Insurance Law (LISF) and gaining consensus of the different stakeholders will certainly result in an improvement in compliance with the core principles, and those improvements have been referenced in the assessment. However, while indication to the improvements is made when appropriate, the lack of the corresponding secondary regulation and implementation prevented the assessor to take LISF into full consideration for this assessment.
3. **This assessment was produced in the course of a joint IMF, World Bank mission in Mexico during September 8–21, 2011 to conduct an update of the IAIS principles under the Financial Sector Assessment Program (FSAP).** It was carried out by Rodolfo Wehrhahn, Technical Assistance Advisor, Financial Sector Oversight Division, Monetary and Capital Markets Department, IMF.

Information and Methodology Used for the Assessment

4. **The update assessment was carried out using the International Association of Insurance Supervisors (IAIS) Core Principles.** The industry analysis focuses on both life and nonlife insurance companies and excludes the surety business, which is also supervised by the CNSF. When relevant for the insurance sector, the pension fund industry is mentioned, but a formal assessment of the sector is outside the scope of this work.
5. **Sources of information included meetings with senior officials and staff from SHCP, CNSF, the consumer protection agency (*Comisión Nacional para la protección y defensa de los usuarios de servicios financieros*, CONDUSEF), as well as with market participants, trade associations, and professional bodies.** The assessor had access to a complete self-assessment on the Insurance Core Principles (ICPs) and a detailed questionnaire produced by the SHCP and CNSF. Official versions of the General Law of Insurance Institutions and Mutual Insurance Societies (LGISMS) and the insurance contract law (LSCS), as well as the relevant Articles in the CNSF bylaws and Internal Ordinances (*Circular Única de Seguros*, SSLO) were also available to the assessor.

II. EXECUTIVE SUMMARY

A. Market Facts

6. **The Mexican insurance market is second only to Brazil in terms of assets and premium in Latin America, totaling US\$34,260 million in assets and US\$19,743 million in premium for 2010.** With a strong international presence where more than half of the insurance companies have majority foreign capital, Mexico is domicile to the main global insurance players, but national companies also have strong market participation and leadership. The enormous potential for growth, as stated by current low insurance penetration of close to 2 percent or around 30 percent of the OECD countries' average, remains to be exploited.
7. **The contribution of the insurance sector to the financial savings remains low and its share has basically not increased over the last five years.** With a contribution in 2010 to the financial savings defined as M3a-M1 of only 6 percent, the insurance sector remains behind the pension funds and mutual funds participations of 17.8 percent and 15.8 percent, respectively. Over the last five years, the contribution of the insurance sector has grown by 13 percent, but only at half the growth rate of the other two sectors.
8. **The market shows a positive balanced development among the different nonlife products.** Over the last five years, the nonlife market has developed away from a dominant motor insurance business in 2005 with a 42.5 percent market share, 20.8 percent in property related insurance, and 25 percent in accident and health business, toward a more balance and diverse portfolio of offerings, having in 2010 a 38.7 percent market share in motor insurance, 32.2 percent in property related insurance, and 28.8 percent in accident and health business.
9. **Contrary to most countries where life products with saving elements dominate, pure mortality protection is the dominant product in the Mexican life sector.** In the life sector, it is noteworthy that the large amount of pure protection business written attests to an industry that is probably more resilient to financial shocks than in the case when a high amount of life insurance with saving components is the dominant product, which is the case in most countries.
10. **Third-party motor insurance arrangement has become mandatory in a few states, but implementation remains an issue with less than 30 percent compliance.** It is worth mentioning that since 1989, Mexican financial authorities and the private insurance sector have been trying to implement the compulsory auto liability insurance in Mexico. However, as the automobile liability insurance should be established at state level, only a few states have introduced this obligation in their laws and implementation is meager. The mandatory environmental insurance is another example where implementation has not been achieved.

11. **Important efforts to increase the use of insurance include the development of micro-insurance, which encompasses special insurance products that have the purpose of facilitating access by low-income population to insurance protection.** Insurance companies offering micro-insurance products are regulated through a regulatory framework that, on the one hand, maintains strong solvency requirements, and, on the other hand, relaxes the use of nontraditional distribution channels. Micro-insurance has shown an important increase in the past five years. In 2010, the net premium was 12 times higher, in real terms, than the premium issued in 2006, and it reached 3.3 million people insured with and insured amount of 65 billion pesos.

12. **The returns of the industry have been attractive and stable over the last six years.** An average return of equity of 17.2 percent and 2.6 percent return on assets has been achieved over the last six years. The worst year 2010 showed a decline in return on equity (ROE) and return on assets (ROA) of 21 percent and 18 percent, as a result of a retarded impact of the crisis on the industry

13. **The performance indicators in 2010 show an efficient well functioning industry.** The retention of the business is high for a country with large catastrophic exposure, with an average of around 86 percent. Combined ratios, as mentioned before, are below 100 percent and mortality claims around 60 percent, indicating high quality underwriting and less dependence on investment return for the profitability of the business.

14. **The soundness indicators attest to a resilient, sound industry in 2010.** The main capital ratios are those of a well capitalized industry. The main exposure is to the government with minimal exposure to real state and unquoted equities. The technical provisions allow for a four times increment in claims and the liquid assets over current liabilities are three times higher.

B. Oversight and Regulation

15. **A comprehensive legal and institutional framework supports the regulation and supervision of the insurance sector.** Insurance business regulation and supervision are carried out in separate entities, being the SHCP and the CNSF. The SHCP is in charge of setting the insurance policy and introducing primary regulation, always with strong input from the CNSF that issues the secondary legislation and supervision. CONDUSEF is entrusted with consumer protection in the financial sector.

16. **The authorities constantly update the legal and supervisory framework to align it with international best practice.** A major overhaul of the insurance law is in the final stage to be presented to Congress. The new proposed law will incorporate the recent international developments toward a risk sensitive solvency regime and an intrusive and continuous supervision. Further, a single Rules Book has been developed to harmonize and allow a comprehensive overview of the supervision in one source.

17. **The level of compliance with the IAIS principles and the CNSF reputation and credibility are high.** With only two partially observed and nine largely observed principles out of the 28, Mexico shows a high level of compliance in a post crisis environment. Transparent processes and an open dialogue with the industry have created the positive reputation of the agency. The powers allocated to the CNSF have been used according to the procedures with very low level of forbearance. Regular on-site inspections are strongly supported by a detailed off-site analysis. Data is collected at sufficient granularity and permanently used for supervisory and market analysis work in an effective way. The group supervision needs to further develop, but the low complexity and limited number of groups in the insurance sector does not appear to make this a priority.

18. **Significant steps have been done in preparation to achieve further increased observance with the IAIS principles.** The promulgation of the proposed LISF is strongly recommended to significantly increase compliance with the IAIS core principles. Principles 6, 9, 10, 15, 16, and 27 will be observed, should LISF be passed in its proposed form and properly implemented. The full allocation of the currently collected supervisory fees would allow to a continued well functioning of the supervision, including the planned regulatory changes to the solvency regime.

C. Financial Concerns

19. **The market is well capitalized, with attractive stable returns over the last years and showing sound performance indicators.** However, insurance contribution to the financial sector remains very low and is not growing. The constant improvement on the solvency regime, together with the introduction of special reserves for catastrophic risk, has created a solid market with very low number of past liquidations, and currently only one insurer with 0.3 percent market share below the solvency requirements. However, the capacity of the industry to contribute to the development of the financial sector and real economy remains very limited, with a 6 percent participation in the savings component of the financial sector, and having an insurance penetration of less than 2 percent, or around 30 percent of the OECD countries' average.

20. **Notwithstanding the applicable capital risk charge, for life insurance there is an important mismatch between the duration of the assets and the liabilities that needs to be monitored.** The mismatch of five and 12 years in domestic and foreign currency respectively, as revealed by the reported data, could be explained by the investment strategy of the industry waiting for the right moment to invest in a low interest rate environment; however, a mismatch in the order of 15 years in indexed currency appears to be a source of vulnerability that needs close attention.

D. Regulatory and Supervisory Concerns

21. **The fiscal budgetary constraints are putting pressure on the well functioning of the supervisory authority.** As a result of the last years' compensation strategy to cut on any

salary increment, have created a level of salaries in the CNSF that, when compared with the industry, are reaching dangerous differences resulting in a drain of talent and hindering the ability to acquire the needed expertise. The future performance of the CNSF is compromised.

22. **Continuity of the CNSF needs to be strengthening.** The lack of a procedure to appoint the chairman of the agency creates uncertainty that could impact on the operational independence of the CNSF. The appointment mechanisms of the chairman and key members need to be established, and the reasons for removal need to be publicly disclosed when exercised.

23. **Consumer protection and financial literacy need to be further developed.** The efforts initiated by CONDUSEF are all in the right direction and created a better understanding of the insurance products and consumer rights. However, the impact has been limited as indicated by the non-increasing numbers of conciliations over the last years and a lack of arbitration activity. The fines and preventive actions observed in the market have limited dissuasive power and need to be enhanced.

E. Key Recommendations

- Develop and implement a comprehensive plan to increase insurance penetration.
- Ensure the operational independence and continuity of CNSF, including, for instance, appointing the chairman and key members for fixed terms, with the grounds for appointment and removal defined in the legislation, and with reasons for removal publicly disclosed when exercised.
- Ensure that the supervisory authority has full discretion on resource allocation, in accordance to its mandate, objectives, and the perceived risks.
- Introduce legislation as indicated in LISF to strengthening corporate governance and internal controls of the supervised entities.
- Establish carefully an implementation plan on the solvency regime. The level of complexity inherent in the standard model could create a false confidence on the level of required capital. Simplicity and applicability of the standard model should have high priority.
- Ensure a significant change in intrusiveness of the inspection, with the introduction of the new solvency regime. This will need additional resources.
- Include in the law the requirements with respect to the maximization of the value of the liquidated assets and on the efficiency of the process as proposed in LISF, to improve the procedure in winding up insurers.

- Incorporate in the LARF the requirements on the group-wide governance and comprehensive risk management and on group capital.
- Consider including the regulation of holding companies of financial groups in the LARF.
- Provide by the CNSF the prudential guidance on the accounting for reinsurance recoverable, as well as on the assets backing up the catastrophic reserves that could require investments outside the country. Further, consideration should be made on the concentration risk in the case of affiliated parties' reinsurance.
- Assess the appropriateness of resources in CONDUSEF.
- Revisit the arbitration mechanism to encourage its use.
- Implement the missing AML-CFT requirements of the FATF recommendations.
- Promulgate the proposed LISF to significantly increase compliance with the IAIS core principles (strongly recommended).

III. INSURANCE SECTOR DEVELOPMENT

A. Size and Concentration

24. **The Mexican insurance market is second only after Brazil in terms of assets and premium in Latin America, totaling US\$34,260 million in assets and US\$19,743 million in premium for 2010.** With a strong international presence, where more than half of the insurance companies have majority foreign capital, Mexico is domicile to the main global insurance players, but also national companies have a strong market participation and leadership. The enormous potential for growth as stated by current low insurance penetration of close to 2 percent or around 30 percent of the OECD countries' average remains to be exploited.

Table 1. Mexico: Total Assets of Insurance Firms, 2005–2011

(In billions of Mexican pesos)

Year	2005	2006	2007	2008	2009	2010	Jun-11
Assets	259.4	288	347.4	422.3	467.5	508.6	535.1
Investments	173.8	213.1	257.1	302.6	335.9	373.1	389.6
Technical reserves	184.7	205.9	245.4	309.2	337.0	367.5	383.1
Capital	38.6	46	59.8	67.2	77.7	87.7	95.4

Source: CNSF.

25. **The contribution of the insurance sector to the financial savings remains low and has basically not increased over the last five years.** With a contribution in 2010 to the financial savings defined as M3a - M1 of only 6 percent, the insurance sector remains behind the pension funds and mutual funds participations of 17.8 percent and 15.8 percent respectively. Further, over the last five years the contribution of the insurance sector has grown by 13 percent or only at half the growth rate of the other two sectors.

Table 2. Mexico: Financial Assets/Financial Savings 1/

(In percent)

Year	Insurance companies	SIEFORES (Pension funds)	Mutual Funds
2005	5.40	13.00	11.40
2006	5.70	14.20	13.90
2007	6.00	14.70	15.30
2008	6.00	14.20	12.10
2009	6.20	16.20	13.70
2010	6.20	17.60	15.80

Source: BANXICO.

1/ Financial savings = M3a-M1.

26. **The opening of the market in 1990 liberalized the tariffs, and in 1994 allowed signatories of the North America Free Trade Agreement (NAFTA) to own up to 100 percent of Mexican insurance companies.** On January 1, 1994, NAFTA opened Mexican insurance and surety markets to companies from the United States and Canada. In the following years, Mexico signed commercial agreements with other jurisdictions, such as the one subscribed with the European Union in 2001. These agreements, with their corresponding financial services chapters, allow companies based in the subscribing jurisdiction to establish subsidiaries in Mexico with up to 100 percent ownership. As a result of such liberalization process, the number of subsidiaries had an important increasing trend. In December 2010, out of 99 insurance companies, 58 were subsidiaries, and their premium written represented 62 percent of the total market premium.

27. **Surviving several financial crises, the insurance sector has demonstrated continuous growth for over 30 years.** Since 1980 the sector has grown six fold with a clear acceleration pace since the liberalization in 1990. The reverse growth trend during some years reflects the impact of different crises.

Table 3. Mexico: Number of Insurance and Reinsurance Companies

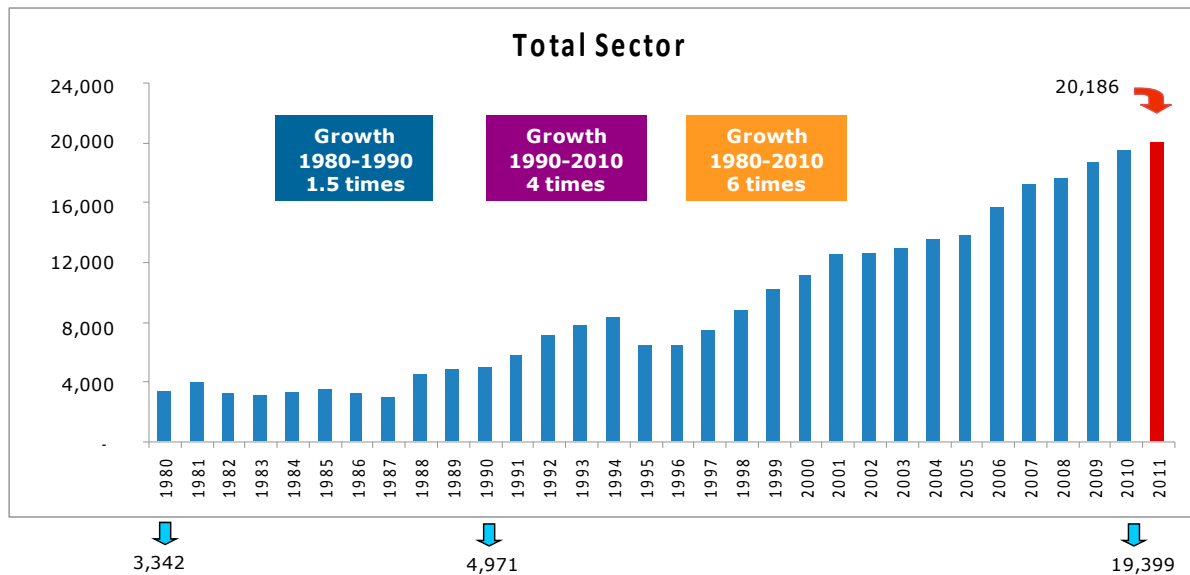
	2005	2006	2007	2008	2009	2010
Life insurers	18	17	18	20	20	21
Nonlife insurers	34	36	40	44	43	42
Composite insurers	31	35	34	33	32	33
Reinsurance companies	2	2	2	2	2	2
State owned insurers 1/	1	1	1	1	1	1
Total Insurance Companies	86	91	95	100	98	99
Subsidiaries	46	51	54	59	57	58
Domestic	40	40	41	41	41	41

Source: CNSF.

1/ Agroasemex.

Figure 1. Mexico: Historical Behavior of the Insurance Market: 1980-2011

(Numbers are in 2010 U.S. Dollars and 2011 are estimates)



Source: AMIS.

28. **Although, having been impacted by the recent financial crisis, the Mexican insurance sector has remained with a positive growth.** During the period 2005–2010, on average, insurance premia had a real annual rate of growth of 7.1 percent, while the GDP increased only by 1.7 percent annually, resulting in a higher penetration throughout this period. In the past decade, except for a few years,¹ the real annual rate of growth of the

¹In 2005, the insurance premium decreased due to the withdrawal of particular insurance saving products from the market.

insurance sector has been noticeably higher than that of the GDP. In 2006, real growth (13.5 percent) was explained primarily by a 39.4 percent real annual increase in the premium of insurance products with savings components, the so-called flexible life insurance. In 2007, the 12.1 percent growth resulted from a very positive performance alongside most of the different types of insurance (life 8.2 percent; pensions 21.2 percent; accidents and health 15.1 percent; property and casualty, 14.4 percent).

29. **The 2009-2010, negative annual rate of growth of the insurance premia (-0.9 percent) was importantly affected by one particular policy.** In February 2009, a multi-annual insurance policy for the government-owned oil company (Petróleos Mexicanos, PEMEX) was renewed, thus representing a particular high premium in that year that impacts the 2010 year-over-year (*yoy*) comparison. To have a clearer view of the market's performance, that effect has been adjusted by annualizing the corresponding premium for each year. The resulting positive real *yoy* insurance growth was 2.4 percent at the end of 2010.

Table 4. Mexico: Premium Growth between 2005 and 2010

(In percent)

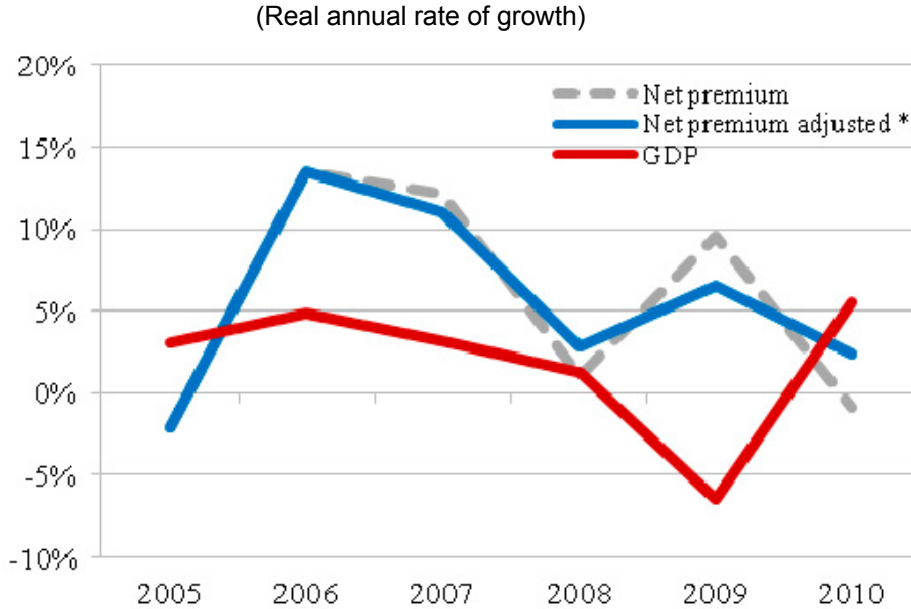
	2005	2006	2007	2008	2009	2010
Life	-6.40	24.70	4.00	4.00	7.70	4.30
Nonlife	-0.40	5.90	14.50	-0.10	10.10	-4.90
Nonlife (<i>adjusted*</i>)	-0.40	5.90	11.60	1.50	6.00	-0.10
Total	-2.10	13.50	12.10	1.00	9.60	-0.90

Source: CNSF.

30. **Life and nonlife insurance are equally developed; each sector accounting for about 50 percent of the total premium.** Life insurance includes pension insurance derived from social security laws and nonlife insurance includes property and casualty, accidents and health, financial guarantees and credit insurance. Special licenses are required to write life, nonlife, pension health, and surety. A third of the 33 insurers have been grandfathered existing licenses and remain operating as composite insurers. Two local reinsurers and 10 representative offices of the 392 registered reinsurers are present in the market as of October 2010.

31. **Life insurance has shown an important real average annual growth rate of 9.8 percent during the period 2005–2010.** This growth has been influenced by the growth of insurance products with savings components (flexible life insurance). These insurance products include two principal components: protection and saving. Flexible life insurance premium grew by 11.9 percent on average during 2005–2010, while life insurance premium, without flexible life insurance premium, grew by 6.3 percent on average during the same period.

Figure 2. Mexico: Insurance Market Premia



Source: CNSF and SHCP.

*Adjusted for the effect of Pemex's multi-annual policy.

32. **Nonlife insurance premium grew 5.1 percent on average during 2005–2010.** Auto insurance, which represents almost 39 percent of the nonlife insurance market, contributed with 40.5 percent to this rate of growth. This occurred despite the fact that in 2008 and 2009, this sector slowed down due to the decline in automobile sales² (6.6 percent and 26.4 percent, respectively), which is the line of insurance business that is more clearly correlated to the slowdown in the overall economic activity. In 2010, as a result of a recovery of GDP, auto insurance grew 2.3 percent.

33. **A statistical analysis carried out by the CNSF shows that the increase in the insurance premia is primarily explained by the increase in the insurance policies issued, rather than a result of higher prices.** In general, net premia's growth can be explained by two factors: (i) the variation of the quantity of policies sold; and (ii) the price change of insurance policies. In order to separate both effects, an analysis of a Laspeyres index was performed. Considering a Laspeyres Quantity Index (IQI), except for 2007, the increasing trend of insurance policies outperformed GDP dynamics (Figure 3). In contrast, the evolution of the price of insurance products calculated through a Laspeyres Price Index (IPI) has had a slight increasing trend, which is considerably lower than that of the consumer price index

²Retail auto and light trucks sales, respectively. Source: Mexican Association of Automobiles and Trucks Dealers (*Asociación Mexicana de Distribuidores de Automotores, AMDA*).

(INPC) (see Figure 4, indicating the dominant effect of number of policies over the increment in price of insurance).

Table 5. Mexico: Market Size in Premium

Life 1/	2005	2006	2007	2008	2009	2010
Premium (bn. USD)	5.09	6.66	7.25	8.77	7.94	9.35
Penetration (in percent)	0.60	0.70	0.70	0.80	0.90	0.90
Density (USD)	51	65	73	64	74	84
Nonlife 2/	2005	2006	2007	2008	2009	2010
Premium (bn. USD)	7.64	8.57	9.32	9.86	9.70	10.39
Penetration (in percent)	0.90	0.90	0.90	0.90	1.10	1.00
Density (USD)	73	79	93	79	92	97
Total	2005	2006	2007	2008	2009	2010
Premium (bn. USD)	12.73	15.23	16.56	18.63	17.64	19.74
Penetration (in percent)	1.50	1.60	1.60	1.70	2.00	1.90
Density (USD)	124	143	166	143	166	182

Source: CNSF, SHCP, INEGI, and IMF.

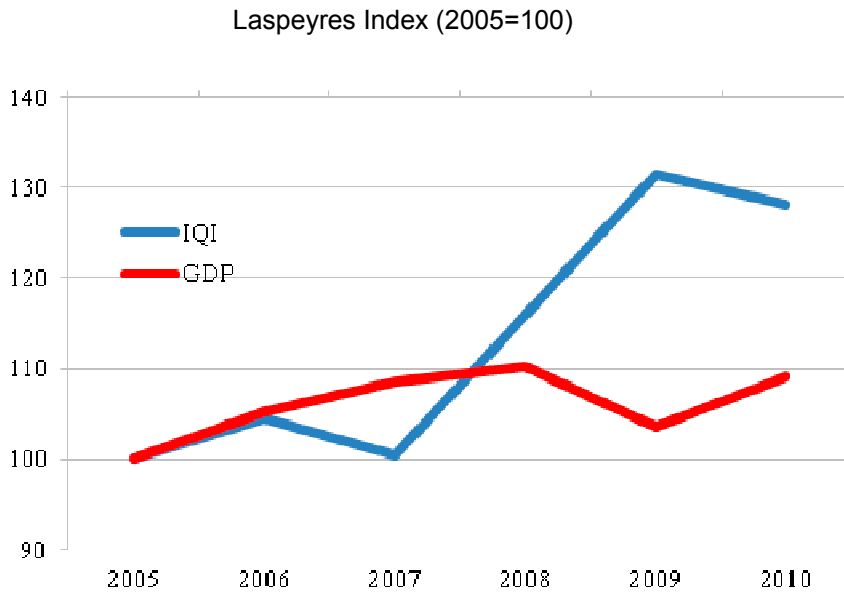
1/ Life insurance includes: life insurance and pension insurance (derived from social security laws).

2/ Nonlife insurance includes: Property and casualty; Accidents and Health; AND Financial Guarantees and Credit Insurance.

34. **Important efforts to increase the use of insurance include the development of Micro-insurance which encompasses special insurance products that have the purpose of facilitating the access to low income population to insurance protection.** Insurance companies offering micro-insurance products are regulated through a regulatory framework that, on one hand, maintains strong solvency requirements, and, on the other hand, relaxes the use of nontraditional distribution channel.

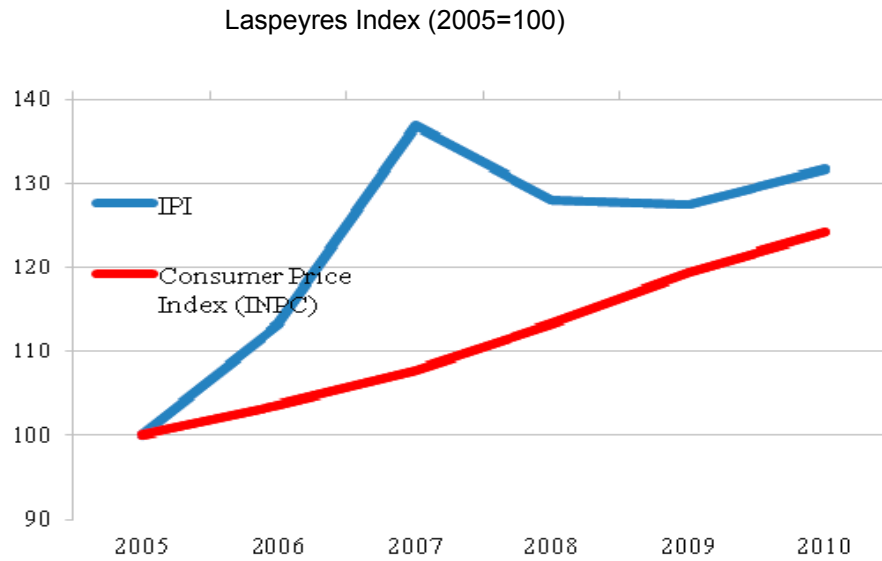
35. **Micro-insurance has shown an important increase in the past five years.** In 2010, the net premium was 12 times higher, in real terms, than the premium issued in 2006, and it reached 3.3 million people insured with and insured amount of 65 billion pesos.

Figure 3. Mexico: Insurance Quantity Index (IQI)



Source: CNSF.

Figure 4. Mexico: Insurance Price Index (IPI)



Source: CNSF.

Table 6. Mexico: Micro-insurance Performance Indicators

	2006	2007	2008	2009	2010
Net premium (million pesos, Dec. 2010=100)	22.4	103.9	113	153.3	281.9
Number of insured	608,097	1,021,624	1,410,417	2,031,255	3,305,317
Insured amount (million pesos)	8,647	21,643	42,956	48,694	65,015

Source: CNSF.

36. **The market is dominated by 10 companies in the life sector and by 16 in the nonlife sector accounting for over 80 percent in both cases.** The dominance of the insurers with foreign capital is strong in the life sector, where only 12 percent market share corresponds to national insurers. The nonlife market share distribution is closer to a 30 to 70 percent in favor of foreign owned insurers. The Herfindahl-Hirschman indices (HHI) for both life (1,190) and nonlife (660) correspond to unconcentrated industries and have been falling continuously in the last years, attesting the increasing competition of the market.

Table 7. Mexico: Market Share in 2010: Life Insurance Sector

(Percentage of premium)

Insurer	Life Sector	Insurer	Savings Products	Insurer	Without Savings Products
Metlife México	28.00	Metlife México	50.80	Metlife México	16.20
Grupo Nacional Provincial	9.00	Seguros Banamex	19.00	Grupo Nacional Provincial	10.60
Seguros Monterrey	8.10	Seguros Monterrey	8.30	Pensiones Bancomer	10.10
Seguros Banamex	7.80	Seguros BBVA Bancomer	7.90	Pensiones Banorte Generali	9.30
Seguros BBVA	7.40	Rest	14.00	Seguros Monterrey	8.00
Bancomer					
Pensiones Bancomer	6.60			Seguros BBVA Bancomer	7.20
Pensiones Banorte	6.10			AXA Seguros	6.30
Generali					
AXA Seguros	5.00			Seguros Argos	3.10
Seguros Inbursa	2.90			Seguros Banorte Generali	3.00
Rest	19.10			Seguros Inbursa	2.80
				Seguros Banamex	2.00
				HSBC Seguros	1.90
				Rest	19.40

Source: CNSF.

Table 8. Mexico: Market Share in 2010: Nonlife Insurance Sector

(Percentage of premium)

Insurer	Nonlife sector
AXA Seguros	15.50
Grupo Nacional Provincial	13.30
Quálitas	7.50
Seguros Inbursa	6.70
Mapfre Tepeyac	5.20
ABA Seguros S	4.30
Metlife México	4.00
Seguros Atlas	3.70
Seguros Banorte Generali	3.50
Seguros BBVA Bancomer	3.30
Allianz México	2.80
Chartis Seguros México	2.70
Seguros Monterrey	2.40
Zurich Seguros	2.40
Aseguradora Interacciones	2.40
Seguros Santander	1.60
Rest	18.60

Source: CNSF.

Table 9. Mexico: Market Herfindahl-Hirschmann Index Insurance Sector

Year	Life	Nonlife	Insurance market
2005	1450	1090	910
2006	1220	900	770
2007	1180	770	690
2008	1170	730	680
2009	1250	740	690
2010	1190	670	660

Source: CNSF.

B. Lines of Business

37. **The market shows a positive balanced development among the different nonlife products.** Over the last five years the nonlife market has developed away from a dominant motor insurance business in 2005, with a 42.5 percent market share, 20.8 percent in property related insurance, and 25 percent accident and health business, toward a more balance and diverse portfolio of offerings with now in 2010 having a 38.7 percent market share in motor insurance, 32.2 percent in property related insurance and 28.8 percent in accident and health business.

38. **Contrary to most countries where life products with saving elements dominate, pure mortality protection is the dominant product in the Mexican life sector.** On the life sector, it is noteworthy the large amount of pure protection business written, attesting to an industry that is probably more resilient to financial shocks than in the case when a high amount of life insurance with saving components is the dominant product which is the case in most countries.

Table 10. Mexico: Insurance Lines of Business, 2005–2010

(In percentage of premium)

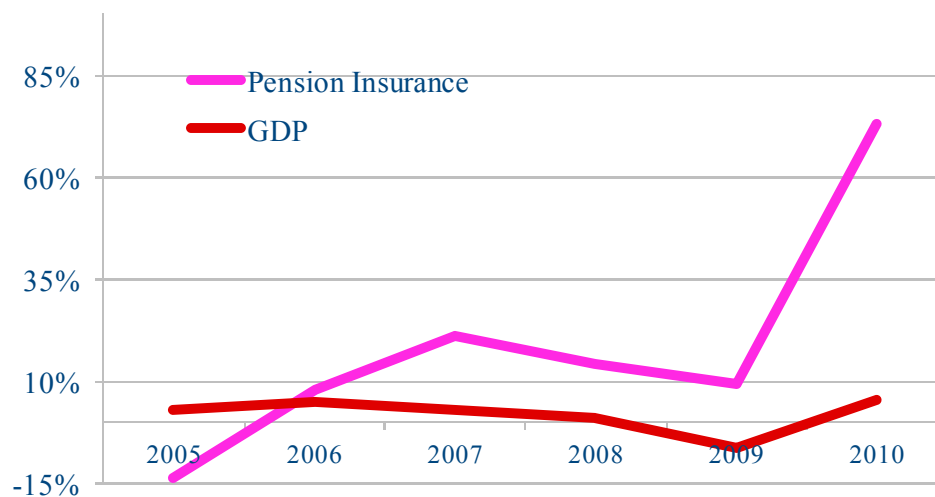
	2005	2006	2007	2008	2009	2010
Life Insurance	41.10	45.10	43.90	44.90	44.40	46.50
With savings component (<i>flexible life insurance</i>)	31.00	37.90	37.40	37.40	37.40	34.20
Without savings component	61.10	55.20	55.00	54.30	54.20	51.80
Social Security annuities*	7.90	6.90	7.60	8.30	8.50	14.00
Nonlife Insurance	58.90	54.90	56.10	55.10	55.60	53.50
Auto	42.50	43.20	41.20	41.60	35.90	38.70
Accidents and Health	25.00	26.60	26.80	28.20	26.50	28.80
Earthquake and other catastrophic risks	7.90	7.50	7.00	7.40	8.50	8.90
Miscellaneous	6.80	5.80	6.20	7.10	6.40	7.10
Fire	6.10	6.50	8.50	5.70	12.20	6.20
Others	11.60	10.40	10.20	10.00	10.50	10.30

Source: CNSF.

39. **There is an increasing annuities market derived from the social securities laws.** The current Mexican pension system for private sector employees in operation since 1997 has incorporated state workers as of 2007. The annuity products derived from this law has had an outstanding performance: 73 percent real annual premium growth in 2010. Its participation in the insurance market increased from 3.3 percent in 2005 to 6.6 percent (15.9 billion pesos) in 2010. This growth is mainly explained by the implementation of a new operating scheme for annuities markets that includes an electronic quotation system

(August 2009). By end of year 2010, the technical provisions held by pension insurance companies amounted to 125.6 billion pesos, which represented 25.4 percent of the total of technical provisions in the Mexican insurance market as indicated in Figure 5.

Figure 5. Mexico: Real Annual Rate of Growth of Pension Insurance



Source: CNSF.

40. **There are 87 types of compulsory insurance established in Mexican laws, regulations or administrative provisions.** They are established for certain markets at state, or, in some cases, at federal level. The implementation of each type of compulsory insurance is responsibility of the respective federal or local administrative authority.

41. **Third-party motor insurance arrangement has become mandatory in a few states, but implementation remains an issue with less than 30 percent compliance.** It is worth mentioning that since 1989, Mexican financial authorities and the private insurance sector have been trying to implement the compulsory auto liability insurance in Mexico. However, as the automobile liability insurance should be established at state level, only few states have introduced this obligation in their laws and implementation is meager.

42. **The mandatory environmental insurance is another example where implementation has not been achieved.** The General Law for the Prevention and Integral Management of Wastes (Ley General para la Prevención y Gestión Integral de los Residuos) in Article 46 requires any "large generator of hazardous wastes" to have environmental insurance in conformity with the General Law of Ecological Equilibrium and the Protection of the Environment (Ley General del Equilibrio Ecológico y la Protección al Ambiente). Article 89 requires importers or exporters of hazardous wastes also to have insurance or guarantees to provide economic resources to deal with "any contingency and the payment of damages." However, the level of compliance appears to be minimal.

43. **The minimum capital requirements are at the current level of the Latin American region, but are low compared to the OECD countries.** The minimum capital requirements are stated in inflation index currency UDIS. The UDIS amounts have not changed at least since 2001. The inflation has raised the level of the minimum capital in U.S. dollars to the average level of the Latin American region but it is low compared to OECD countries. For instance in the nonlife sector it is at around 75 percent of the EU level, but only around 30 percent in the case of life insurance. However, there is no evidence of any negative effect related to current level of the minimum capital.

Table 11. Mexico: Minimum Paid in Capital for 2011

Insurance operations and lines of business	Minimum Paid in Capital (In UDIs)
Life	6,816,974
Social security pensions	28,000,000
Accident and health:	
Personal accident and medical expenses	1,704,243
Health insurance (including medical expenses)	1,704,243
Property and casualty:	
One line of business	5,112,730
Two lines of business	6,816,974
Three or more	8,521,217
Mortgage insurance	12,200,000
Financial guaranty	33,200,000
Surety (<i>indirect</i>) - reinsurance:	
One line of business	3,650,154
Two lines of business	4,873,358
Three or more	6,091,923

Source: CNSF.

C. Reinsurance

44. **The high natural hazards exposure implies a strong dependence on the international reinsurance market for the development of the insurance sector.** While in lines of business with reduced catastrophic exposure, like motor insurance, the market retention is in the high nineties, on average 40 percent of the risks are reinsured. The reinsurance pricing cycle ultimately dictates the cost of insurance and its availability. While the total proportion of claims paid by the reinsurers remains on average low, the losses on catastrophic events have been substantial for the reinsurers resulting in a 400 percent increment in the premium in some cases for property along the shore.

Table 12. Mexico: Reinsurance Ceded and Recovered by Type of Treaty

(In millions of U.S. dollars)

	2005	2006	2007	2008	2009	2010
Proportional treaties (Ceded Premium)	1,822	1,855	2,493	2,460	3,529	2,915
Ceded Premium/ Written Premium (in percent)	16	14	16	15	19	16
Nonproportional treaties (XL Cost)	165	195	222	215	256	243
XL Cost/ Retained Premium (in percent)	2	2	2	2	2	2
Proportional recoveries Proportional Recoveries/ Claims (in percent)	2,005 25	827 11	1,415 16	1,377 14	1,286 12	1,675 15
Nonproportional recoveries Nonproportional Recoveries/ Claims (in percent)	635 8	244 3	151 2	106 1	105 1	161 1

Source: CNSF

45. **Reinsurance is provided by total of 392 registered reinsurers.** In Mexico, 27 insurance companies carry out reinsurance activities. There are only two Mexican reinsurance exclusive companies, 10 representative offices of foreign reinsurers and 33 registered reinsurance brokers. Most of the reinsurance activity is carried out by foreign reinsurers. Business ceded to overseas tax havens is subject to a 40 percent tax, introduced to discourage captive company operations. Tax havens are defined as places such as Bermuda, Guernsey and the Isle of Man. Switzerland and Ireland are not defined as tax havens. There are no government-owned reinsurance companies.

Table 13. Mexico: Reinsurance Companies Ratings

(Percentage of ceded premiums and XL cost)

	2005	2006	2007	2008	2009	2010
Superior & Excellent (AAA & AA)	n.a.	79	72	76	75	76
Very good & Good (A)	n.a.	20	28	24	25	24
Adequate (BBB)	n.a.	1	0	0	0	0
Total	n.a.	100	100	100	100	100

Source: CNSF.

46. **The relevance for the stability of the market of high quality reinsurance is reflected in a number of regulatory requirements on reinsurance operations.** A minimum rating of BBB is required for reinsurers to operate in Mexico. Reinsurance operations are reported on a quarterly basis. Solvency capital surcharge in reinsurance depends on the quality, concentration and usage of nonregistered reinsurance. The maximal retentions on the different lines of business are supervised quantities.

Table 14. Mexico: Net Retention Ratio by Major Line of Business

(In percent)

Line of business	2005	2006	2007	2008	2009	2010
Life	96	97	96	97	97	97
Accidents and health	97	97	96	95	95	95
Property & casualty	69	71	67	69	61	67
Liability insurance	25	29	29	28	31	34
Maritime	38	40	34	40	35	40
Fire	32	32	27	32	17	29
Earthquake and other catastrophic risks	27	29	27	25	21	21
Agriculture and animals	48	57	45	49	56	47
Automobile insurance	98	98	97	97	97	98
Credit	15	18	18	21	21	18
Miscellaneous	45	47	43	40	41	42
Total insurance operations	84	86	84	85	81	84

Source: CNSF.

47. **An innovative parametric insurance protection against earthquake has been purchased by the Mexican government.** To protect government property, the Mexican government, through the SHCP and the Natural Disaster Fund (Fondo de Desastres Naturales (FONDEN)), placed a parametric (event-based) insurance contract to boost funds following the occurrence of an earthquake falling within the specified parameters. Costing USD 26 million for three years of cover, the insurance policy provides the payout of USD 150 million in the event of a magnitude 7.5 to 8 earthquake.

D. Distribution and Intermediation

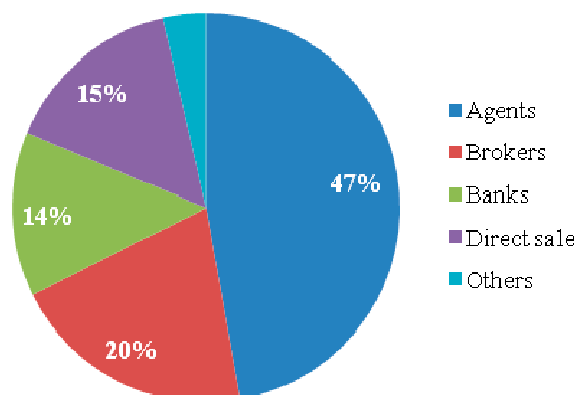
48. **Insurance is mainly sold through agents with initial development of alternative channels.** Insurance intermediation is carried out by licensed agents (individuals), brokers (entities) and other legal entities (considered in Article 41 of the LGISMS),³ for example,

³Article 41 of the LGISMS allows the marketing of insurance products, through legal entities that are not agents. The LGISMS foresees that insurance formalized through adhesion contracts, with exception of those referred to annuities derived from social security laws, can be carried out by legal entities, other than insurance

(continued)

banks or car dealers. While the entrance of new distribution channels including banks, direct marketing, etc. is in process, most of the insurance intermediation (47 percent) is carried out by insurance agents.

Figure 6. Mexico: Distribution Channels 2010



Source: CNSF.

49. **Proof of technical and professional knowledge is required to obtain an agent or broker license, or the endorsement of such license.** This is accomplished by presenting an exam at the CNSF, or the legal entity designated for such effect. According to the line of business different licenses are required.

Table 15. Mexico: Types of Licenses for Insurance Intermediaries

Type of License	Description
A	Personal and family risks
B	Personal and P & C insurance business risks
C	Special risks
D	Agricultural, animal insurance
E	Credit insurance
F	Sureties
G	Special

Source: CNSF.

agents or brokers (i.e., automobile dealers). Respective outsourcing contracts have to be previously registered at the CNSF.

E. Asset Composition and Investments

50. **The asset composition of insurers is influenced by the solvency regulation.**

Current Mexican solvency regulation is based, on one side, on an adequate valuation of liabilities and a proper calculation of capital requirements, and on the other, on having the sufficient assets to cover them. The regime addresses the valuation of technical provisions, capital requirements, suitable forms of capital, quality and liquidity of assets, and asset liability matching.

51. **There is no mandatory investment in government securities but also no**

limitation. Insurance and surety companies can invest up to 100 percent of their assets in government bonds; however, their investment policy can also allow them to build a portfolio free of government securities.

52. **Insurance and surety companies cannot invest directly outside the country.**

However, they can invest in foreign securities that are traded through the International Quotation System of the Mexican Stock Exchange, BMV (SIC).

53. **The investment limits do not appear to hinder current investment strategy on**

the industry. The industry is mainly investing in government paper accounting for 70 percent of the investments. In all other types of admissible instruments, only 10 percent usage of the investment limit has been reached (Table 17).

Table 16. Mexico: Investment Limits for Technical Provisions

(In percent)

	Limit
I. By type of security	
Federal government	100
States, municipalities, and government agencies	60
Banks and Investments in international financial organizations (OFI)	60
Private and other securities	40
Foreign financing vehicles, foreign structured notes and foreign securities belonging to investment funds and SIC	10
Domestic structured notes	10
Securities linked to the same economic activity	20
Securitized bonds	10
Structured securities	10
Private equity, investment in equity investment societies (<i>Sociedades de Inversión de Capitales</i> , SINCAS), Derivatives	1
Repurchase agreements with government securities and securities lending	30
Next group	30
Urban real estate	25
Discount and rediscount operations	5
Credits with collateral guarantees	5
Credits with mortgage guarantees	5
Premium debit balance	Up to the corresponding obligation in each insurance operation
II. By issuer	
Federal government	100
States, municipalities, and government agencies (<i>depending on the rating</i>)	18
Banks and international financial organizations (<i>depending on the rating</i>)	18
Private debt securities (<i>depending on the rating</i>)	10
Equity	7
Shares of entity groups belong to industrial sector	20
Shares by type of economic activity	10
Related parties (<i>patrimonial links</i>)	5
Related companies (<i>related issuers</i>)	10
SINCAS	0.5
Foreign securities belonging to investment funds	1
Securities registered in the SIC	1

Source: CNSF.

Table 17. Mexico: Percentage Invested per Instrument

Investment Regime Limits	Regulatory Limit in Percent	Percentage Used of the Limit
Federal government	100	70.66
Government bonds	60	7.98
Banks and investment in international financial organizations	60	3.98
Private (corporate debt, equity, equity fund, structured notes)	40	7.94
Foreign financing vehicles, structured notes and foreign securities (SIC)	10	2.38
Repurchase agreements with government securities	30	3.63
Urban real estate	25	0.94
Credits with mortgage guarantees	5	0.28
Credits with collateral guarantees	5	0.24
Discount and rediscount operations	5	0.03

Source: CNSF.

F. Profitability and Performance

54. **The returns of the industry have been attractive and stable over the last six years.** An average return of equity of 17.2 percent and 2.6 percent return on assets has been achieved over the last six years. The worst year, 2010, showed a decline in ROE and ROA of 21 percent and 18 percent as a result of a retarded impact of the crisis on the industry.

Table 18. Mexico: Return on Assets and Equity (ROA & ROE): Insurance Sector

(In percent)

	2005	2006	2007	2008	2009	2010
ROA	2.4	2.8	2.8	2.4	2.8	2.3
ROE	17.6	18.8	17.7	16.4	18.3	14.4

Source: CNSF.

55. **The insurance industry, both life and nonlife, has shown very stable combined ratios over the last six years.** The nonlife industry has basically maintained the claims ratio and expenses at the same level over the last six years resulting in a healthy 89.6 percent combined ratio. The life industry was able to lower operational costs by over 20 percent from 9.3 percent in 2005 to 7.3 percent in 2010. As a result, the combined ratio is below 100 percent.

**Table 19. Mexico: Profitability Indicators (based on the Guidance Note):
Nonlife**

(In percent)

	2005	2006	2007	2008	2009	2010
Claims ratio	67.7	70.1	70.4	68.4	68.6	68.2
Expense ratio	21.6	22.4	22.0	21.4	21.8	21.4
Combined ratio	89.3	92.5	92.3	89.8	90.5	89.6

Source: CNSF.

Notes:

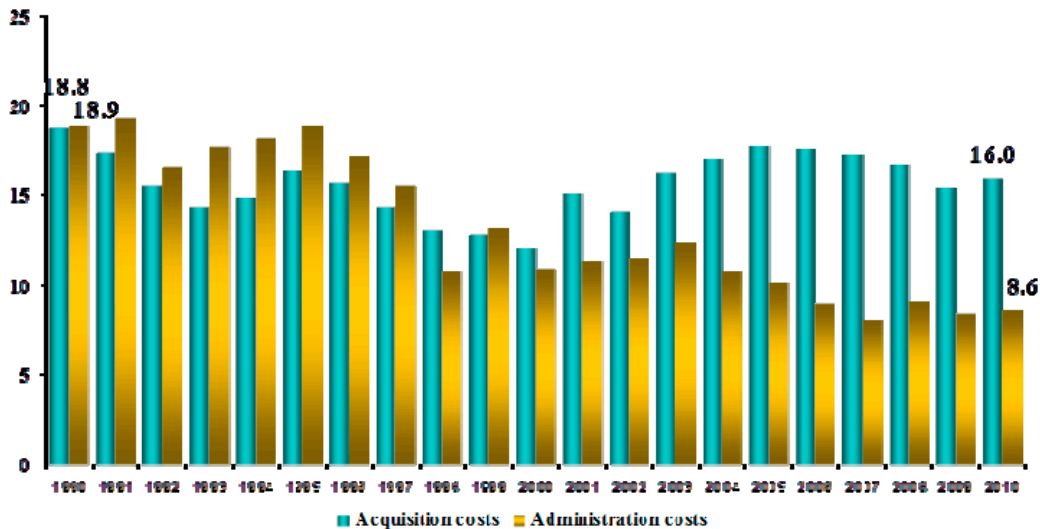
Claims Ratio: Incurred Claims/Net Premiums Earned.

Expense Ratio: Overhead Expenses/Net Premiums Earned.

Combined Ratio: (Claims+Expenses)/Net Premiums Earned.

56. **Over the last 20 years, companies have become more efficient in a competitive market.** Since 1990, the administrative costs have been constantly reduced from 18.8 percent to 8.6 percent now, which compares with international best practice. The acquisition commissions of around 16 percent have not changed much over the years, attesting to the high competitiveness of the market place.

Figure 7. Mexico: Acquisition and Administration Costs



Source: AMIS.

57. **On average, the industry is operating with sufficient income margin over costs.** A healthy margin index of income over costs of around 17.60 percent resulting from the combination of the low combine ratio and attractive investments attests for an industry that has remain profitable over the last six years.

Table 20. Mexico: Margin Index Development

(In percent)

	2005	2006	2007	2008	2009	2010
Income over Costs Margin Index 1/	20.7	21.2	21.9	18.5	16.2	17.6
Income over Costs Margin Index 2/	19.1	22.3	21.1	18.0	15.7	16.8

Source: CNSF.

Note: "Income Margin over Cost Index" or *Margen de Ingresos sobre Costos* = $(1 + (\text{Financial products/Net Premium}))$ —Combined Ratio.

1/ Using the combined ratio calculated with the guidance note's methodology.

2/ Using the combined ratio calculated with the CNSF's methodology.

58. The performance indicators in 2010 show an efficient, well-functioning industry.

The retention of the business is high for a country with large catastrophic exposure with an average of around 86 percent. Combined ratios, as mentioned before, are below 100 percent and mortality claims around 60 percent, indicating high quality underwriting and less dependence on investment return for the profitability of the business.

59. The soundness indicators attest to a resilient sound industry in 2010. The main capital ratios are those of a well-capitalized industry. The main exposure is to the government with minimal exposure to real estate and unquoted equities. The technical provisions allow for a four-time increment in claims and the liquid assets over current liabilities are three times higher.

Table 21. Mexico: Selected Performance Indicators: Insurance Sector (2010)

(In percent)

Description	Nonlife	Life 1/	Insurance market 1/
Premium Retention Ratio			
Net Premium Written/ Gross Premium Written (Prima Retenida/ Prima Emitida)	75.8	97.0	85.8
Claims Ratio			
Incurred Claims/ Net Premiums Earned (Costo Neto de Siniestralidad/ Prima Retenida Devengada)	68.2	78.4	72.3
Expense Ratio			
Overhead Expenses/ Net Premiums Earned (Costo Neto de Adquisición/ Prima Retenida Devengada)	21.4	21.7	21.5
Combined Ratio			
(Claims+Expenses)/ Net Premiums Earned (Suma de Costos)	89.6	100.1	93.8
Claims Ratio*			
A: Net Claim Costs/ Net Premium Earned (Costo Neto de Siniestralidad o Reclamaciones Netas/ Prima Retenida Devengada)	68.2	78.4	72.3
Expense Ratio*			
B: Acquisition Cost/Net Premium (Costo Neto de Adquisición/ Prima Retenida)	20.7	14.8	17.9
Combined Ratio*			
C: Operation Costs/ Written premium (Gastos de Operación/ Prima Directa)*	7.3	7.6	7.5
A+B+C*	96.3	100.9	97.7
Premium Leverage Ratio			
Net Premiums Written/ (Capital+Surplus) (Prima Retenida/ (Capital + Utilidad Neta del Ejercicio)			1.76
Net Risk Index (Indice de Riesgo Neto) = Net Premium Written/ Capital (Prima Retenida/ Capital (Mercado total))*			2.02
Mortality Experience			
Actual/ Expected Rate of Mortality**		63.2	
Costo Bruto de Siniestralidad/ Prima Retenida Bruta*		55.8	
Investment Income			
Income Margin over Cost Index 2/, 3/	18.8	17.6	19.1
Income Margin over Cost Index 2/, 4/	12.1	16.8	15.3
Leverage			
Total Equity/ Total Liabilities (Capital/ Pasivo)			19.1
Voluntary Terminations			
Surrender Values Paid/ Net Premiums Written		n.a.	

Source: CNSF.

Notes: *CNSF's methodology; ** 2007–2010 average.

1/ Does not include annuities derived from the Social Security Laws.

2/ "Income over Cost Margin Index" or *Margen de Ingresos sobre Costos* = (1 + (Financial products/Net Premium)) - Combined Ratio.

3/ Using the combined ratio calculated with the guidance note's methodology.

4/ Using the combined ratio calculated with the CNSF's methodology.

Table 22. Mexico: Financial Soundness Indicators: Insurance Sector

(In percent)

2010	Nonlife	Life*	Total insurance market*
Capital adequacy			
Net premium/ capital (<i>prima retenida/ capital</i>)			201.7
Capital/ total assets (<i>capital/ activo</i>)			16.0
Capital/ technical reserves (<i>capital/ reservas técnicas</i>)			21.2
Asset quality			
(Real estate+unquoted equities +debtors)/ total assets 1/			9.3
Debtors/ (gross premium + reinsurance recoveries) 2/			22.9
Equities/ total assets 3/			1.6
Nonperforming loans to total gross loans			<i>n.a.</i>
Reinsurance and actuarial issues			
Risk retention ratio (net premium/ gross premium) (<i>Prima Retenida/ Prima Emitida</i>)	75.8	97.4	85.8
Net technical reserves/ average of net claims paid in the last three years 4/			411.6
Net technical reserves/ average of net premium received in the last three years 5/			245.7
Claims performance ratio			
Claims outstanding/ total claims paid			<i>n.a.</i>
Management soundness			
Gross premium/ number of employees (<i>million pesos</i>) 6/			17.9
Assets per employee (total assets/ number of employees) (<i>million pesos</i>) 6/			47.6
Liquidity			
Liquid assets/ current liabilities 7/			3.74
Sensitivity to Market Risk			
Net open foreign exchange position/ capital (<i>Resultado cambiario/ capital</i>)			1.4
Duration of asset and liabilities			
Market solvency margin ratio			
Surplus capital/ required solvency in capital (<i>Activos afecto al CMG/ CMG</i>)			1.98
Group exposure			
Group debtors/ total assets			<i>n.a.</i>
Group (premiums+claims)/ total (premiums+claims)			<i>n.a.</i>

Source: CNSF.

1/ To calculate the *debtors* component in this indicator, “*deudor por prima*” is not included: *(inmobiliarias+acciones no listadas+préstamos+ (deudores-deudores por primas)+otros activos)/total de activos*.

2/ *(Debtors)/(written premium+claims and contractual liabilities recovered+claims recovered from nonproportional insurance)*.

3/ *(Public equity/total assets), (Deudores/(Prima Emitida+Siniestralidad y Obligaciones Contractuales Recuperadas + Siniestralidad Recuperada de Reaseguro no Proporcional)*.

/(Net reserve/average claim cost in the past three years), (Reserva Neta/ Promedio del Costo Neto de Siniestralidad de los últimos 3 años).

5/ *Net Reserve/average net Premium in the last three years, (Reserva Neta/Promedio de la Prima Retenida de los últimos 3 años)*.

6/ In the insurance sector, it is common practice to hire a very high percentage (in many cases close to 100 percent) of their employees by outsourcing methods. Therefore, this indicator is extremely overestimated.

7/ *Cobertura de Liquidez=Inversiones+ Inversiones para Obligaciones Laborales al Retiro+Deudores por Primas-(Inmobiliarias+Préstamos)/ {(0.2* Reserva de Riesgos en Curso Vida) + (0.5* Reserva de Riesgos en Curso Acc. y Enf.)+(0.5* Reserva de Riesgos en Curso Fianzas en Vigor)+Reserva por Siniestros y Vencimientos+(0.75*Reserva por Siniestros Ocurridos y No Reportados)+Por Dividendos sobre Pólizas+Fondos de Seguros en Administración+Por Primas en Depósitos+(0.3*Reserva de Previsión)+(0.2*Reserva de riesgos Catastróficos)+ (0.3*Reserva de Contingencia)+(0.3*Reserva Especial)}*.

60. **The solvency position of insurers indicates is sound.** With one insurer below the minimal solvency requirements and eight insurers in the observance zone of less than 10 percent solvency margin, the CNSF does not appear to be facing an important challenge.

Table 23. Mexico: Solvency Measurement (December 2010)

Solvency Margin (SM) (In percent)	Number of Insurers	Percent
≥ 150	55	56.7
[125 - 150)	18	18.6
[100 - 125)	18	18.6
< 100	6	6.2
Total	97	100.0

Source: CNSF.

G. Oversight and Regulation

61. **A comprehensive legal and institutional framework supports the regulation and supervision of the insurance sector.** Insurance business regulation and supervision are carried out in separate entities, the SHCP and the CNSF. The SHCP is in charge of setting the insurance policy and introducing primary regulation always with strong input from the CNSF. Secondary legislation and supervision is issued by the CNSF. CONDUSEF is entrusted with consumer protection in the financial sector.

62. **The authorities constantly update the legal and supervisory framework to align them with international best practice.** A major overhaul of the insurance law is in the final stage to be presented to Congress. The new proposed law will incorporate the recent international developments toward a risk sensitive solvency regime and an intrusive and continuous supervision. Further, a single Rules Book has been developed to harmonize and allow a comprehensive overview of the supervision in one source.

63. **The level of compliance with the IAIS principles and the CNSF reputation and credibility are high.** With only two partially observed and nine largely observed principles out of the 28, Mexico shows a high level of compliance in a post crisis environment. Transparent processes and an open dialogue with the industry have created the positive reputation of the agency. The powers allocated to the CNSF have been used according to the procedures with very low level of forbearance. Regular and needs based on-site inspection are strongly supported by a detailed off-site analysis. Data is collected at sufficient granularity and permanently used for supervisory and market analysis work in an effective way. The group supervision needs to further develop, but the low complexity and limited number of groups in the insurance sector does not appear to make this a priority.

64. **Significant steps have been done in preparation to achieve further increased observance with the IAIS principles.** The promulgation of the proposed LISF is strongly recommended to significantly increase compliance with the IAIS core principles. Principles 6, 9, 10, 15, 16, and 27 will be observed should LISF be passed in its proposed form and properly implemented. The full allocation of the currently collected supervisory fees would allow to a continued well functioning of the supervision, including the planed regulatory changes to the solvency regime.

IV. INSURANCE SECTOR VULNERABILITIES

A. Financial Concerns

65. **The market is well capitalized, with attractive stable returns over the last years and showing sound performance indicators.** However, insurance contribution to the financial sector remains very low and is not growing. The constant improvement on the solvency regime, together with the introduction of special reserves for catastrophic risk, has created a solid market with very low number of past liquidations, and currently only one insurer with 0.3 percent market share below the solvency requirements. However, the capacity of the industry to contribute to the development of the financial sector and real economy remain very limited with a 6 percent participation in the savings component of the financial sector, and having an insurance penetration of less than 2 percent, or around 30 percent of the OECD countries' average.

66. **Notwithstanding the applicable capital risk charge, there is an important mismatch between the duration of the assets and the liabilities that needs to be monitored.** The mismatch of 5 years and 12 years in domestic and foreign currency

respectively, as revealed by the reported data, could be explained by the investment strategy of the industry waiting for the right moment to invest in a low interest rate environment; however, a mismatch in the order of 15 years in indexed currency appears to be a source of vulnerability that needs close attention.

Table 24. Mexico: Average Maturity of Investments and Liabilities

	Average maturity of investments (years)		Average maturity of liabilities (years)	
	<i>Annuities</i>	<i>Life insurance</i>	<i>Annuities</i>	<i>Life insurance</i>
Domestic currency	<i>n.a.</i> ^{1/}	6.3	<i>n.a.</i>	11.3
Foreign currency	<i>n.a.</i>	8.2	<i>n.a.</i>	21.4
Inflation-indexed currency	20.7	14.2	35.2	29.8

Source: CNSF.

1/ n.a.: Not applicable.

B. Regulatory and Supervisory Concerns

67. **The fiscal budgetary constraints are putting pressure on the well functioning of the supervisory authority.** As a result of the last years, compensation strategy to cut on any salary increment have created level of salaries in the CNSF that when compared with the industry are reaching dangerous differences resulting in a drain of talent and hindering to acquire the needed expertise. The future performance of the CNSF will be compromised if this trend is not reversed.

68. **Continuity of the CNSF needs to be strengthened.** The lack of a procedure to appoint the chairman of the agency creates uncertainty that could impact on the operational independence of the CNSF. The appointment mechanisms of the chairman and key members need to be established, and the reasons for removal publicly disclosed when exercised.

69. **Consumer protection and financial literacy needs to be further developed.** The efforts initiated by CONDUSEF are all in the right direction in creating a better understanding of the insurance products and consumer rights. However, the impact has been limited as indicated by the non-increasing numbers of conciliations over the last years and a lack of arbitration activity. The fines and preventive actions observed in the market have limited dissuasive power, and need to be enhanced.

C. Summary of Observance of the Insurance Core Principles—ROSCs

Table 25 A. Mexico: Summary of Observance of the Insurance Core Principles—ROSCs

Insurance Core Principle	Grading
ICP1 - conditions for effective insurance supervision	Largely Observed
ICP2 - Supervisory objectives	Observed
ICP3 - Supervisory authority	Partially Observed
ICP4 - Supervisory process	Observed
ICP5 - Supervisory cooperation and information sharing	Observed
ICP6 - Licensing	Largely Observed
ICP7 - Suitability of persons	Observed
ICP8 - Changes in control and portfolio transfers	Observed
ICP9 - Corporate governance	Largely Observed
ICP10 - Internal controls	Largely Observed
ICP11 - Market analysis	Observed
ICP12 - Reporting to supervisors and off-site monitoring	Observed
ICP13 - On-site inspection	Observed
ICP14 - Preventive and corrective measures	Observed
ICP15 - Enforcement or sanctions	Largely Observed
ICP16 - Winding-up or exit from the market	Largely Observed
ICP17 - Group-wide supervision	Largely Observed
ICP18 - Risk assessment and management	Observed
ICP19 - Insurance activity	Observed
ICP20 - Liabilities	Observed
ICP21 - Investments	Observed
ICP22 - Derivatives and similar commitments	Observed
ICP23 - Capital adequacy and solvency	Observed
ICP24 - Intermediaries	Observed
ICP25 - Consumer protection	Partially Observed
ICP26 - Information, disclosure and transparency toward markets	Observed
ICP27 - Fraud	Largely Observed
ICP28 - Anti-money-laundering, combating the financing of terrorism	Largely Observed

Table 25 B. Mexico: Summary of Grading

Observed (O)	17
Largely observed (LO)	9
Partly observed (PO)	2
Not Observed (NO)	0
Total	28

Table 25 C. Mexico: Summary of Observance of the Insurance Core Principles—Detailed Assessments

Insurance Core Principle	Grading	Comments
ICP1 - Conditions for effective insurance supervision	LO	<p>The conditions for effective supervision are largely met considering current development of the insurance sector.</p> <p>The legal and judicial system is still struggling to gain full acceptance by the market and public in general.</p> <p>CONDUSEF conciliation/arbitration to deal with disputed claims is a step in the right direction creating a greater acceptance of the insurance contracts by consumers. Over the last five years both the number of claims reported and the conciliations have been stable of around 0.5 percent. It appears that more dissemination work on the benefits of conciliations needs to be done to increase its usage.</p> <p>The accounting, actuarial, and auditing standards are publicly available on the relevant professional organization's website and they are commensurate with international standards. Mexican accounting standards are partly more conservative than the IFRS like allowing the catastrophic reserve to be a liability, and recognizing the valuation of real estate.</p> <p>The actuarial profession is well established. With strong professional associations that issue codes and standards that are enforced. Close collaboration with the CNSF exists and is effective, like the introduction of actuaries' certification and continue education programs.</p> <p>After several years of macroeconomic financial stability, the amount of financial instruments has increased dramatically. However, further development is required to cover the demand for investment products. In particular, inflation index and USD nominated instrument lag in duration with respect to the market demand.</p> <p>The Laws and regulation are permanently updated to cope with relevant changes in the financial sector:</p> <p>The SSLO is a welcome document that brings all secondary legislation into one single document.</p> <p>A new Insurance and Surety Law (Ley de Seguros y de Fianzas, LISF) was submitted to Congress in September 2011.</p>

ICP2 - Supervisory objectives	O	<p>The interests of policyholders are central to the supervisory objectives with a strong focus on preserving the financial stability and solvency of the institutions. There is also an element of development in the objectives that states the requirement to promote a sound development of the surety and insurance sectors with the goal to increase its service's coverage to an increasingly share of the population.</p> <p>While the objectives on stability and development could create some tension, the approach followed by the CNSF to allow for greater coverage of insurance for a larger share of the population has been to maintain strong solvency requirements, but allowed certain distribution channels in the area of micro-insurance.</p>
ICP3 - Supervisory authority	PO	<p>The CNSF has ample powers for a largely effective discharge of its responsibility. The powers include the ability to issue secondary legislation aimed to preserve the solvency, liquidity and financial stability of the insurance institutions and mutual societies. To perform on-site inspections, impose administrative sanctions to enforce regulation to the institutions and persons under its inspection and surveillance.</p> <p>The relationship with the SHCP is that of a consultant and important voice with respect to matters related to the LGISMS and to elaborate general rules and regulations referred by such Law.</p> <p>Additional powers to increase the effectiveness of supervision are required and will be incorporated in the new insurance law. Some of these functions are:</p> <ul style="list-style-type: none"> • Issue prudential regulation that aims at preserving the solvency, liquidity and financial stability of insurance companies and mutual insurance societies. • Grant, modify or revoke the licenses to operate as an insurance company or mutual insurance society. • Determine the minimum paid in capital that insurance companies and mutual societies have to cover. • Carry out the registration at the General Registry of Foreign Reinsurers. • Carry out the registration of insurance adjusters. • Issue authorizations when insurance companies or mutual insurance societies apply to: <ul style="list-style-type: none"> (i) transfer their portfolios or liabilities and rights corresponding to the granting of sureties; and

	<p>(ii) merge or split.</p> <ul style="list-style-type: none"> • Intervene in liquidation procedures of the insurance companies and mutual societies. <p>The current lack of power to effectively intervene in liquidation procedures could create a weakness in the protection of policyholders' rights. In particular in the absence of a guarantee fund.</p> <p>The internal governance procedures are sound.</p> <p>A complete Code of Conduct applies to all CNSF's officers, and there is a clear framework for the accountability of the CNSF's staff. Violations are sanctioned.</p> <p>The CNSF is subject to regular internal and external audits. Any discrepancies are corrected without delays.</p> <p>The quality of the internal governance procedures are attested by the ISO 9001-2000 Quality Certificate maintained since 2004.</p> <p>The appointment and removal of the CNSF President or Board members is not dictated by the law and together with the absence of a term of office could become a source of lack of independence of the CNSF.</p> <p>Further, the absence of a mandate to disclose the dismissal reasons of the President or a member of the CNSF Board adds to the vulnerability of the independence of the CNSF.</p> <p>The CNSF has demonstrated technical autonomy, but is from a legal and budgetary perspectives dependent from the executive power.</p> <p>The CNSF is subject to the expenditure restrictions that are applied to the all entities of the Federal government. Therefore, the supervisory authority does not have full discretion on resource allocation in accordance to its mandate, objectives and the perceived risks. Specifically, regarding human resources, the CNSF cannot freely allocate its resources. The budgetary restrictions have lead to constrain severely the hiring of qualified professional. This situation will be exacerbated when the need for experts in supervising the new solvency regime will be needed.</p> <p>CNSF staff is financially protected against legal actions.</p> <p>During 2010, the CNSF has been granted the ISO 27001-2005 Quality Certification in accordance with the internationally recognized standard. The scope of</p>
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		the certificate covers the ISMS with regard CNSF's IT functions.
ICP4 - Supervisory process	O	Transparency and accountability in the supervisory process are at international levels.
ICP5 - Supervisory cooperation and information sharing	O	<p>The CNSF has entered a large number of MoU including the IAIS Multilateral Memorandum of Understanding (MMoU) as one of the 15 currently signatory countries.</p> <p>The CNSF active participation in Colleges of supervisors and multinational organizations, like the IAIS and OECD, has allowed it to raise the level of cooperation and coordination among the authorities responsible for and involved in the supervision of cross-border groups.</p> <p>Countries with signed commercial agreements are allowed to carry out an on-site inspection, previous official request to the CNSF. However, this has not happened yet.</p> <p>The CNSF maintains open dialogue and has provided information in advance regarding actions on parent companies that may affect foreign establishments as well as regarding actions that may affect subsidiaries, for instance in the case of unlicensed activity carried out in Mexico.</p>
ICP6 - Licensing	LO	<p>The requirements to be licensed are numerous, detailed, transparent, and operating without a license is considered a criminal offense. Cases of enforcement have been reported in the past.</p> <p>Entities that could create complex supervisory structures or increase the risk of conflict of interests, like mutual insurers, security brokers, credit organizations, pension administrators, etc. are ruled out as stockholders.</p> <p>The application of a license requires documents that allow the assessment of the viability and appropriateness of the operation:</p> <p>When the SHCP considers appropriate (with the opinion of the CNSF), it has imposed additional requirements, conditions or restrictions to an applicant.</p> <p>The licensing process is complemented by an inspection carried out by the CNSF to determine:</p> <ul style="list-style-type: none"> • If the insurance institution has in place the systems, procedures, and administrative infrastructure required to provide the authorized services and to not hinder effective supervision.

		<ul style="list-style-type: none"> • If the submitted business plan, internal controls, technical operation programs, reinsurance underwriting, organizational and ownership structure, group structure, etc. have the ability to support the long term stability and solvency of the insurance company. <p>The operations can only be started after a favorable opinion from the CNSF resulting from the inspection performed to verify that it has in place the systems, procedures, and administrative infrastructure required to provide the authorized services.</p> <p>The CNSF' inspection verifies that these requirements are maintained in a continuous basis as part of the on-site inspections.</p> <p>There is a six months return period for the license applications. The LISF project in Article 366 aims to expedite the process by transferring the licensing powers from the SHCP to the CNSF.</p> <p>The minimum capital requirements are at the current level of the Latin American region but are low compared to the OECD countries. However, there is no evidence of any negative effect related to current level of the minimum capital.</p> <p>No insurance and surety activity is out of the supervisory scope of the CNSF this includes the micro-insurance operations that in some countries are exempt from supervision.</p> <p>Insurance legislation does not allow since 2002 to operating in both life and nonlife business; however, due to grandfathering rules, currently 33 insurers accounting for 58 percent of the market still operate as composite insurers. There are no appropriate measures to warrant a segregated treatment of the risks in particular on a winding-up situation. This could create a source of additional risk for consumers.</p>
ICP7 - Suitability of persons	O	<p>The range and requirements on individuals to which fit proper conditions is appropriate according to international standards. The analysis on compliance is done off-site and monitored on a continued basis.</p> <p>The CNSF has a track record of acting determined on the removal of high rank officers of insurers and surety entities, with disregard of the size and importance of the enterprise, in occasions where the CNSF deemed that the person did not possess enough technical quality, honorable or creditworthiness for the performance of the duties.</p>

ICP8 - Changes in control and portfolio transfers	O	<p>The insurance law defines quantitatively (30 percent or more of shares) and qualitatively (dismissal and appointment of the Board) the control of an institution. To acquire the control of an insurer, authorization from the SHCP is required. In the LISF project, the authorization function is transferred to the CNSF and the percentage of the shares defining control is lower to 20 percent.</p> <p>The requirements for those pretending to acquire control over an institution are the same as those issued for constituting an insurance company and there is no distinction on the ownership requirements between foreign and national stockholders, however, some additional restrictions as stated in the international agreements between Mexico and the home country of the foreign investment may apply.</p> <p>Individuals or persons associated with others, who pretend to acquire more than 5.percent of the shares of an insurer, must get approval from the SHCP, with a favorable opinion from the CNSF. Those acquiring between 2 percent and 5 percent of the shares must notify the SHCP within three business days following the acquisition or transmission. Detailed disclosure of the persons that acquired or have the intension to acquire the shares, is required.</p> <p>When carrying out its supervisory duties, the CNSF have requested in several occasions information regarding those who directly or indirectly acquired the representative shares of its paid in capital paid according to the established conditions.</p> <p>The supervisory authority has been involved in several portfolio transfers requests. The outcome of the approvals has depended on the assessment of the equitable treatment of both policyholders and beneficiaries.</p>
ICP9 - Corporate governance	LO	<p>The insurance law entrusts the management of the company to a Board of Directors and a CEO.</p> <p>The Board of Directors has the obligation of constituting counseling committees. The CNSF requires as a minimum the Investment Committee and Integral Risk Management Committee. Chapter 6.6 of the SSLO will define functions and attributes of a Reinsurance Committee.</p> <p>The Board is required to appoint the mandatory compliance officer for the entity. The compliance officer has the responsibility to supervise the compliance with all internal and external applicable regulatory frameworks. Annually it reports to the CNSF and has</p>

	<p>direct access to the Board. The CNSF has to rely on the compliance officer and underperformance has been sanctioned in the past.</p> <p>While the law requires that the compliance officer is provided with sufficient resources to fulfill the responsibility, practice shown at a stronger entity is required for this internal surveillance position. This weakness is addressed in the new law and it replaces the Compliance Officer, with an Audit Committee in Article 72 of the LISF project. The LISF states that institutions must have an Audit Committee that will be responsible of monitoring the adherence to the internal regulations set by the Board of Directors and the compliance with the applicable laws and administrative provisions.</p> <p>The CNSF Corporate Surveillance System is used to supervise compliance with corporate governance requirements. This system allows having information related to the compliance with applicable regulations</p> <p>The CEO responsibilities are clearly defined as to elaborate and submit for the approval of the Board of Directors the policies for an efficient management of the company's human and material resources; as well as, to provide precise data and information to the Board of Directors for its adequate decision making. Professional experience of at least five years in high decision taking positions is required by law for the CEO position.</p> <p>There is disclosure of the total remuneration of Board members, CEO, CFO and other high level employees thus adding transparency to the incentives. Further, the long term character of the certain type of remuneration, like bonuses, stock options, pension, retirement, or similar plans, encourages a prudent behavior. However, regulation does not require the prohibition of incentives that would encourage imprudent behavior.</p> <p>Currently, there is no requirement to have a permanent actuarial position, but the actuarial work is required to be performed by a qualified actuary. The LISF project (Article 69 fraction IV of the LISF project) strengthens the actuarial function within the system of corporate governance by stating that institutions must have an effective and permanent actuarial function in charge of: (i) coordinating the work related to the actuarial design and technical feasibility of insurance products, or surety technical notes; (ii) coordinating the calculation and valuation of technical reserves; (iii) assessing the reliability, adequacy, quality and consistency of the</p>
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		<p>data used in the calculation of reserves, comparing the estimation of reserves with previous experience; and (iv) informing the Board about the results of their activities, and of giving their opinion to the Board on risk underwriting and reinsurance contracts. The actuarial function must be performed by persons with sufficient knowledge of actuarial and financial mathematics, and statistics.</p>
ICP10 - Internal controls	LO	<p>The requirements set on the internal controls are broad and cover the main areas like conflict of interests, delegating authority, responsibilities assignments, and segregation of duties. The CNSF reviews the internal controls and checks their adequacy to support the operation at the licensing stage. The adequacy and proper functioning of the internal controls is then supervised during on-site inspections. Any kind of irregularities are required to be corrected through a written notification.</p> <p>The Board of Directors is obliged to define and approve policies and norms on integral risk management and the mechanisms to evaluate and monitor its compliance. Further the objectives, policies and procedures for the institution's risk administration are reviewed on an annual basis.</p> <p>The Board is required to appoint the mandatory compliance officer for the entity. The compliance officer has the responsibility to supervise the compliance with all internal and external applicable regulatory frameworks. Annually, it reports to the CNSF and has direct access to the Board.</p> <p>In the current regulatory framework, the Board is implicitly the ultimate responsible for the internal controls and risk management of the company. The explicit responsibility with respect to the internal controls is stated in Article 69 of the LISF project that assigns the responsibility of the Board of Directors.</p> <p>On an annual basis, certified external auditors must present an audit report on the company's internal control. The sufficiency of the technical reserves must also be certified by an independent actuary.</p> <p>While there are indirect incentives for the Board to assume responsibility on market behavior through its overall risk management role, current legislation does not allocate explicitly the market behavior responsibility to the Board. The new law addresses this in Article 69 where it establishes the obligation of the Board of Directors to define and approve the underwriting policies, marketing and product design, among others,</p>

		<p>and to establish general policies concerning the provision of services and attention to their users, as well as policies regarding information disclosure.</p> <p>The institutions' accounts must be adjusted to the accounting rules approved by the CNSF and certified by external auditors.</p> <p>Supporting the supervisory work of the CNSF, e-documents containing the financial information, according to current catalogues provided by the CNSF are required.</p> <p>The services that could be contracted with third parties, the minimum requirements that the contracts must have, the minimum aspects that the institutions have to check when hiring such services, and the establishment of contingency plans are all regulated. Additionally, these rules establish that when insurance companies hire services and operations with third parties, they are not considered as substitutes of the obligations of the institution.</p> <p>Additional strengthening of the outsourcing regulation will be achieved when extending this responsibility to the Board. Moreover, Article 268 of the LISF project establishes that the CNSF is entitled, at any time, to perform acts of supervision, inspection and surveillance to the institution's service providers.</p> <p>Current there is no requirement to have a permanent actuarial position, but the actuarial work is required to be performed by a qualified actuary.</p>
ICP11 - Market analysis	O	<p>The CNSF webpage is a comprehensive source of information with sufficient time series and granularity to allow running detailed analysis of the market, including top down stress tests on the asset side of the insurers. The data is collected through statutory reporting forms, and this is done electronically. The data is current and run through integrity tests carried out by a dedicated area.</p> <p>The CNSF performs periodical analysis of the insurance and surety market conditions. The collected information through the statutory reporting is used to produce high quality market analyses that are conveyed to the public and other financial authorities in the form of reports and publications. The regular publications cover both quantitative aspects (Actualidad en Seguros y Fianzas), as well as qualitative aspects (Boletín de Analisis Sectorial) of the market dynamics.</p>

		<p>Quarterly, the CNSF presents to its Board an analysis of the market dynamics with explanations of any particular aspects that may arise. And periodically, the CNSF performs stress or dynamic solvency testing to identify trends and possible future scenarios and issues.</p> <p>The information is used not only to monitor possible negative trends of the sector, but also in some occasions to modify prudential regulation. Like the lowering of the technical interest after observing the 2002-2003 interest rates reduction path.</p> <p>AMIS complements the information of other technical parameters like premiums and claims. Data on investments and the sectors' participation in national savings account is published by BANXICO and other demographic and socioeconomic data by the INEGI.</p> <p>Further coordination and use of data coming from the whole financial sector to alert on systemic risks is expected to come from the recently established Financial Stability Council.</p>
ICP12 - Reporting to supervisors and off-site monitoring	O	<p>Off-site supervision is strong in Mexico and is at the core of its supervisory strategy with sufficient resources allocated to this task.</p> <p>The CNSF as the power and uses it to periodically ask for financial, statistical, actuarial information or any data of other nature for regulation, supervision, inspection, surveillance and statistical purposes.</p> <p>External and actuarial auditors must submit, as a minimum, an audit opinion annually.</p> <p>The information that companies must send periodically is required on a quarterly frequency, unless particular situation of a company which places it in a regulatory action level requiring information to be sent on a monthly basis. The CNSF has the authority to request more detailed additional information whenever there is a need and with the necessary frequency.</p> <p>The LGISMS and the LFIF, as well as applicable provisions, do not distinguish between the financial reports and the requirements of private companies and government sponsored insurers.</p> <p>The CNSF will set the basis for reporting and registration of assets, technical reserves, liabilities and capital, as well as other operations carried out by institutions, requiring that all the operations must be properly registered in their accounting books and registries previously defined by the Commerce Code</p>

		<p>and by the CNSF through diverse legal provisions according to the specific Accounts Catalogue approved, provided and updated by the CNSF.</p> <p>The “rules for the services and operations that institutions hire from or are carried out by third parties” establishes the services that could be contracted with third parties, the minimum requirements that the contracts must have, the minimum aspects that the institutions have to check when hiring such services, and the establishment of contingency plans. Additionally, these rules establish that when insurance companies hire services and operations with third parties, they are not considered as substitutes of the obligations of the institution.</p> <p>It is compulsory for insurance companies to submit reports from external auditors and actuarial auditors, regarding the financial statements, as well as an assessment related to the sufficiency and the situation of technical provisions, according to the requirements stated in the CNSF’s provisions.</p> <p>Similarly, the information should be presented by the company’s employees under declared protest of truthfulness; therefore, any detected irregularity on that information is responsibility of the company.</p> <p>The review of the CNSF’s systematic reporting requirements is done regularly to ensure its efficiency. For this purpose, when necessary, meetings with the insurance and surety sector are scheduled to discuss any suggestions or observations regarding any particular concern on this matter.</p> <p>Regulation requires insurance and surety undertakings to inform immediately any material change that affect the assessment of their financial condition.</p>
ICP13 - On-site inspection	O	<p>The law supports the on-site inspection framework of the CNSF and the authority makes full use of the powers.</p> <p>Inspections are carried out on a regular basis with a biannual cycle and focus both, on general and specific issues. The on-site inspections review, verify, check and evaluate the resources, liabilities, patrimony; as well as the operation, functioning, control system; and in general terms, all the elements that may affect the financial and legal position, in order to be compliant with applicable legal provisions and sound markets’ safe practices.</p> <p>The CNS has 81 inspectors with technical auditing and legal background.</p>

	<p>The programmed inspections are carried out according to a risk based determined supervisory plan. These are complemented by special on-site inspections as suggested by the presidency of the CNSF.</p> <p>The results of the on-site inspections, any off-site information financial and the actuarial external auditors reports are used as input for the SISI to determine the ongoing supervisory program, including the next annual on-site inspections plan and any extraordinary on-site inspections.</p> <p>The CNSF determines the content of both actuarial and financial audits. As minimum, they include the revision of the information presented to the CNSF by the insurance and surety undertakings regarding the analysis of the sufficiency of technical provisions, the analysis of financial statements, and their disclosure notes, the observance of the accounting standards, the evaluation of the audit and internal control function, crimes if detected.</p> <p>The independence of auditor is a concern of the CNSF who dictates an adequate alternation of such auditors in the insurance companies and mutual insurance societies. Article 314 of LISF project strengthens these powers by establishing that the CNSF is entitled with faculties of inspection and surveillance over the persons providing external audit services.</p> <p>During and after the on-site inspections, the CNSF's auditors discuss with the company's management any aspect related to the visit. The company's opinions are taken into consideration to determine the corresponding actions and possible sanctions. On several occasions sanctions have been waived after discussing with the management of the companies.</p> <p>The follow-up on the implementation of the corrections or recommendations given by the CNSF is strong and is done either through off-site monitoring or by considering them on the next on-site inspection. The follow-up work is supported by the compliance officer who is required to report on a monthly basis monthly to the CNSF on certain occasions.</p> <p>Article 68 of the LGISMS and 79 of the LFIF (Article 267 of LISF project) authorize the CNSF to carry out inspection and surveillance on the societies that have patrimonial links with the insurance and surety institutions.</p> <p>The SHCP rules about third parties operations and services, establish that third parties, as well as the</p>
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		<p>companies involved are subject to the CNSF's inspection and surveillance, according to the LGISMS and LFIF. On-site inspection visits to such suppliers have been carried out in certain cases when it was required to evaluate the operational relationship with the insurer.</p>
ICP14 - Preventive and corrective measures	O	<p>The CNSF has a wide range of preventive and corrective measures granted by regulation that is actively used and can lead to the revocation of the operating license.</p> <p>The process of prevention or correction is usually initiated as a result of its supervision activities through the submission of a regularization plan.</p> <p>The granted period to regularize the company's financial or operative situation should not exceed 90 days. An additional period of 15 days will be granted to receive reasons and points of view of the noncompliance with the initial 90 days period. A final 30 days period could be granted before the CNSF notifies the SHCP to start the license revocation process.</p> <p>The wide set of measures are escalating in severity and include the reduction of business, or production of new business and changes in the reinsurance program to suspension of dividend and subordinated liabilities' payments, as well as disclosure of the noncompliance with regulation at the general assembly or to the policyholders. The disclosure of noncompliance with a regularization plan to the policyholders adds an additional level of consumers' protection that is not common in other countries. This measure has only been used in the past as an effective threat to achieve compliance.</p> <p>The circumstances to implement the measures are commensurate with the severity of the situation. Drastic measures can only follow when the solvency of the institution is severely affected. The possibilities to protect policyholders' interest include ability of the CNSF's President to declare an administrative intervention and appoint a temporary administrator in place of the current management, who will be considered a "comptroller manager." This action has been taken in three occasions in the past, attesting the CNSF ability to impose this extreme measure. The measure, if required, can be implemented immediately.</p> <p>Other set of preventive and remedial measures can only be applied by the SHCP after hearing the CNSF's opinion, as well as that from the affected company.</p>

		<p>This includes cases of noncompliance during the licensing process of both, qualitative as well as quantitative regulation; as well as situations that undermine the CNSF's authority, like when the institution severely contravenes, in more than three occasions the applicable legal or administrative provisions; or in more than three occasions the company performs resistance acts that signify an improper conduct to properly undertake the obligations derived from its insurance or surety contracts.</p> <p>License modifications are also possible by the SHCP, hearing to the affected institution, and when applicable, the CNSF's opinion. The modifications will be imposed if such modification would contribute to improve the financial situation and the coverage of the company's regulatory parameters, or when the authority of the CNSF is proven to be insufficient to avoid regulatory breaches that lead the company recurrently to exceed the liabilities' limit it can assume in the specific lines of business.</p> <p>The license withdrawal and modification power granted to the SHCP will be transferred to the CNSF in the new law.</p>
ICP15 - Enforcement or sanctions	LO	<p>The CNSF enforcement ability and powers are large. A company's lack of compliance with legal and administrative provisions, as well as with the CNSF's requirements is penalized with administrative sanctions, which may consist on an admonition, a suspension and a restrictive modification of the operating license, or even its revocation. The use of admonition is a regular tool used frequently by the CNSF. In the last six years, 422 admonitions were imposed to insurers and 3148 to intermediaries.</p> <p>The CNSF powers allow for more severe enforcement measures; they include suspension of dividends' payment, deferment of payments of principal, interests of subordinated liabilities and other issued credit titles, suspension of operations, and winding up. Certain individual behavior like intentionally concealing financial information, or faking financial statements are considered crimes and managers, directors, or employees of the company acting in that manner have been reported by the CNSF to the corresponding authority for prosecution.</p> <p>Current amount of the fines is on the lower end as compared with the financial sector laws governing banking and securities markets and needs to be raised to have the intended coercive impact. However, fines related to missing capital, or gaps in the technical</p>

	<p>reserve are fined in accordance to the size of the financial deficit, and can be quite substantial.</p> <p>The CNSF has the power to suspend the marketing of new policies by revoking the registry of technical notes, and therefore, of the insurance product, when the operations performed by the company generate results that are not consistent with the corresponding technical note and that affect the policyholders or beneficiaries' interests or the company's solvency or liquidity.</p> <p>Current insurance and surety legislation does not grant the powers to the authorities to force a portfolio transfers. Thus, the supervisory and regulatory agencies do not have the power to arrange for a compulsory transfer of the obligations under the policies from a failing insurer to another willing insurer. However, it can facilitate the transfer where appropriate and where there is a willing transferee.</p> <p>The limitation in ownership of risky activities is stated in the insurance law. The CNSF can sell at an auction a company's goods, titles, securities, etc., if such company cannot sustain them as assets. This measure usually applies to surety companies if an agreement of disposal of the assets is not reached.</p> <p>The CNSF is legally entitled, and has used this power in the past with disregard of the size and importance of the company or individual, to order the suspension or removal of Board members, the compliance officer, the CEO, commissaries, directors and managers, fiduciary delegates, and functionaries with signing power, if the CNSF considers that they do not have enough technical capacities, honorable and creditworthiness. The sanctions do not delay the regularization procedures since they are independent from the sanctions.</p> <p>Current regulation does not explicitly protect an insurer from the effects of the financial difficulties affecting the financial group to which it belongs. However, the regulation has diverse preventive provisions that can be used to protection insurance and surety companies that belong to a group from the financial difficulties in other parts of the group, such as the prohibition to participate, directly or through a third person, in the authorized stockholders equity of insurance o surety companies, credit institutions, insurance mutual societies, brokerage firms, auxiliary credit organizations, mutual fund managers, savings and credit institutions, managing companies of pension funds, and savings and credit institutions.</p>
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ICP16 - Winding-up or exit from the market	LO	<p>There are clear provisions for the exit and winding up of insurers in Mexico. Policyholders have preference in a windup over other creditors. A protection fund exists only for pensions.</p> <p>Partial exiting of the market is also foreseen in the law by the possibility to revoke the license on a given line of business. The reasons are similar to the complete revocation of license adapted accordingly.</p> <p>The failing entities are addressed by either the license revocation followed by the corresponding administrative winding up of the entity, or the filing of commercial bankruptcy. The reasons leading to the revocation of the operating license have been described above. The reasons that can lead to the bankruptcy process are the same as those leading to the revocation of license, and the choice of preference is left to the SHCP process.</p> <p>As with the revocation of license, the appeal for commercial bidding of an insurance or surety company can only be ordered by the SHCP, and this power will be transferred to the CNSF in the new law.</p> <p>In the process of winding up after the license is revoked, the SHCP has strong oversight attributes: appoint a liquidator, authorize to sell the company's assets, establish the terms for the winding-up process and receive and resolve any complaint from the policyholders and beneficiaries. During the administrative liquidation, policyholders are treated with equity as they should receive a proportional amount of the company's assets, with respect to the technical reserve constituted by each policy, considering the existence of claims and proportionally</p>

		<p>to the insured amount or to the corresponding compensation when the contract is entered into a claim. Policyholders, beneficiaries, pensioners and reinsurers, are considered as priority creditors and will have preference over all other creditors when the company becomes insolvent. Policyholders, beneficiaries and pensioners rights prevail over those of reinsurers.</p> <p>Technical provisions are considered as owned by the policyholders and are used to cover any insurance or reinsurance contract commitment, and only the surplus, could be used to cover other obligations according to the respective Law.</p> <p>There are no requirements with respect to the maximization of the value of the liquidated assets or on the efficiency of the process. This could created the perception that the proceedings of the assets under liquidation were not optimized, or at least that there was no process for that.</p>
ICP17 - Group-wide supervision	LO	<p>Financial groups are subject to supervision and regulation. The supervision of financial institutions belonging to the same group is carried out by the corresponding agency: the CNBV, CNSF or CONSAR and the SHCF is required to nominate the leading supervisory agency for the financial group. The assigned leading supervisory agency is then granted with oversight powers that under current legislation are limited to the requirement of information.</p> <p>Currently, the CNBV supervises most of the Mexican domiciled financial groups, and the CNSF and CONSAR supervises the remaining. The CNBV, according to its faculties, has the power to establish agreements for information exchanges with other supervisors, therefore allowing the information sharing. The CNSF, on the contrary, does not have the same power, thus, creating some difficulties in information sharing with the other authorities.</p> <p>An important element of coordination and information exchanged is given by the structure of the Boards of the supervisory agencies.</p> <p>Every financial regulatory framework (banking, sureties, insurance, pensions, etc.) establishes the mechanisms for the supervisory oversight of the key issues like group structure and interrelationships, risk concentration, intra-group transactions and exposures. There are, however, few requirements on the group wide governance and comprehensive risk management, and there is no group capital concept.</p>

		<p>Countries with signed commercial agreements are allowed to carry out an on-site inspection, previous official request to the CNSF. The CNSF may also be asked to perform on-site inspections in companies established in foreign jurisdictions of Mexican host insurers. As of today no inspection has been carried out by foreign authorities in Mexico.</p> <p>The leading national commission designated to supervise the group's financial organization is the source of information on a consolidated basis. Main difficulties remain and are based on the different accounting principles and information gathering formats and media.</p> <p>For insurance groups the consolidated and financial information of each one of their subsidiaries is currently required and available through the CNSF website.</p> <p>The control structure needs to be clear before the license can be issued or the change in control approved. In the past, the CNSF has required changes to the ownership structure before granting the license; however, there has been no experience in applying restrictions to the ownership.</p> <p>The CNSF has no direct jurisdiction to supervise unregulated holding companies and needs to operate indirectly through the regulated entities, thus, adding complexity to their supervision and monitoring activities of groups.</p>
ICP18 - Risk assessment and management	O	<p>The licensing requirements for the insurance activity includes the existence of mechanisms that allow the identification, measurement and monitoring of risks affecting the insurance operations.</p> <p>The responsibility of the risk management systems is assigned to the Board.</p> <p>The establishment of a risks committee responsible for developing and presenting to the Board of Directors the Risk Management Manual is mandatory.</p> <p>Current regulation has strong requirements on the risk management of individual risks affecting the company, but little if nothing is required at the integrated level. The new law highlights the needs to integrate strategy, operations and risk management. This vulnerability has been addressed already under principle 10.</p> <p>Current regulation does not require insurers to adapt their risk management and internal controls as the business becomes more complex.</p>

ICP19 - Insurance activity	O	<p>According to current regulation, the Board of Directors has nontransferable obligations regarding the definition and approval of policies and norms for risk underwriting, investments, integral risk management, reinsurance, financial reinsurance, marketing, institutional development, and operations financing; as well as the strategic objectives in these matters and the mechanisms to monitor and evaluate their fulfillment.</p> <p>The CNSF monitors compliance with these requirements through the registration of the products and the corresponding technical notes. Annually there are around 1500 new technical notes submitted where 85 percent are registered without objections. Main source of objection is on deficiencies in the technical calculations.</p> <p>The SHCP, through general rules for each line of business and with the opinion of the CNSF, determines the maximum retention's limits considering a single risk. Noncompliance with retention limits is a serious offense that can lead to license revocation and has been source of fines and admonitions in the past.</p> <p>The CNSF requires the submission of detailed reinsurance information in the form of an annual general reinsurance plan, a quarterly reinsurance activity, including the results and the public disclosure of the reinsurance strategy and performance on the financial statements.</p> <p>Companies are required to establish a Reinsurance Committee; which is responsible of determining the reinsurance policies, as well as monitoring the results.</p> <p>Past experience has shown that the CNSF acts with severe fines in case of reinsurance programs that are accounted for risks that are not covered.</p> <p>In order to promote the use of suitable and dispersed reinsurers, each specific risk capital charge is multiplied by a reinsurance weight factor.</p>
ICP20 - Liabilities	O	<p>The law requires the financial reporting and the establishment of adequate technical provisions to follow sound accounting and actuarial practices, as produced by the CONAC and the CINIF and complemented by the CNSF.</p> <p>Using the backup information provided by the insurers on the valuation of the technical provisions, the CNSF, as part of the off-site inspection, confirms the results or requests clarifications or corrections.</p>

		<p>If during and off or on-site inspection, the CNSF finds insufficiency in the technical provisions, an immediate order to increase the reserves is issued that can be in the form of a regulatory plan. Not compliance with this requirement can lead to license revocation.</p> <p>Article 53 of the LGISMS states that the SHCP, with the CNSF's opinion, may order at any time a technical reserves' valuation and insurers will be obliged to register and invest them immediately, according to the results of such estimation.</p> <p>The accounting catalogue established by the CNSF indicates the way in which reinsurance balances must be registered, making a difference between net and gross balances. The catalogue does not provide enough detail and prudential guidance on the accounting for reinsurance recoverable. The recoverable is deemed as full recoverable, if it is not older than two years, after that period it is written off.</p> <p>The insurers are required to carry out stress tests to gain a prospective view on the solvency and liquidity needs.</p>
ICP21 - Investments	O	<p>The regulatory regime addresses the valuation of technical provisions, capital requirements, suitable forms of capital, quality and liquidity of assets, and asset liability matching.</p> <p>Insurance and surety companies cannot invest directly outside the country. However, they can invest in foreign securities that are traded through the SIC (International Quotation System of the Mexican Stock Exchange, BMV).</p> <p>In general, the Technical Provisions Investment Rules for Insurance Institutions and Mutual Insurance Societies (RIRT) and the Technical Provisions Investment Rules for Surety Companies (RIRTF) deal with the assets' allocation which insurance and surety institutions must keep according to their technical provisions, which, to some extent, set the standard to define the investments' policies.</p> <p>The rules for management of investments are incorporated in the law and set in the RIRT and cover the key aspects, like the creation of an investment committee.</p> <p>With respect to the permissible assets for the coverage of CMG and RMCBO, the rules establish investment limits higher than those required for technical reserves and a wider range of investment instruments susceptible to cover these solvency requirements, but</p>

		<p>still aiming for diversification in type of instruments and issuers, in order to minimize the inherent risks in the operation of debt and equity markets.</p> <p>The new law establishes that the investment policy should be based in the prudence principle to guarantee the safety, diversification, liquidity and profitability of the insurance company's portfolio.</p> <p>The Board of Directors defines and approves investments rules and policies, as well as the strategic objectives and procedures to monitor and evaluate its fulfillment.</p>
ICP22 - Derivatives and similar commitments	O	International best practice.
ICP23 - Capital adequacy and solvency	O	<p>Current Mexican solvency regime is sound and has a sufficient level of risk sensitivity to properly assess the level of capital required, as demonstrated by the reduced number of insolvencies over the last 10 years (18, most of them voluntary due to changes in structure or strategy). Currently companies have a solvency margin of less than 110 percent (eight insurers with a market share of 4.3 percent), and only one requiring capital.</p> <p>The solvency regime includes, among other: (i) actuarial sufficiency models that are used for the valuation of technical provisions; (ii) capital requirements that vary by risk and line of business; (iii) capital requirements not only for technical risk, but also for financial risks and counterparty risk, and (iv) regular stress testing analysis (dynamic solvency test).</p> <p>Capital requirements applicable to insurance and surety undertakings are stated at a sufficiently prudent level (a minimum of 97.5 percent confidence level apply) to give a reasonable security so that policyholder's interests are protected, according to the RCMG and the RMRCBO. This will be changed to the 99.5 percentage confidence level in the new law.</p> <p>The strong reliance on reinsurance in Mexico is supported by strict regulation in this area. There are charges for the credit quality and concentration.</p> <p>The CNSF has continued issuing regulations in accordance with the IAIS principles and standards, and international best practices.</p> <p>The new law will introduce a new solvency regime that incorporates stochastic models and a calibration very close to solvency II regime.</p>

ICP24 - Intermediaries	O	<p>Insurance intermediation is a regulated activity that requires the CNSF authorization. The number of intermediaries passing the examination is around 30 percent indicating an important level of expertise required for the activity.</p> <p>As of October 31, 2010 there was a total of 33,186 agents authorized for insurance and bonding business by the CNSF. This was a reduction from the June 2009 figure of 37,674.</p> <p>Intermediaries are required to buy E&O.</p> <p>A minimal level of disclosure is required, including the disclosure of the independence, or employer of the agent or broker, as well as that the agent is not an official representative of the insurer or surety firm for accepting risks and for subscribing or modifying policies, and that agents are only entitled to receive policy's payments upon the presentation of a valid insurance or surety's invoice. Also disclosure of the commission upon request is required and stated in the policies.</p> <p>The Insurance and Sureties Brokers Rules, <i>Reglamento de Agentes de Seguros y Fianzas (RASF)</i> authorizes the CNSF to impose sanctions to insurance and surety intermediaries, which gravity goes from warnings, fines, suspension, prohibition, or even revocation of the corresponding license. In the last three years, 7940 sanctions were imposed on brokers and agents. The highest fine around U\$5,000, which is deemed to be low in particular for brokers.</p> <p>It is a criminal offence for non-admitted insurers to offer their products in Mexico and the CNSF has submitted some case to the general attorney.</p> <p>Agents may collect premium payments, but only against the official premium receipt issued by the insurer. There no special provision to safeguard policyholders' money, but premium paid to an authorized broker is deemed to be paid to the insurer.</p>
ICP25 - Consumer protection	PO	<p>The LPDUSF empowers CONDUSEF to promote, advise, protect, and defend the rights and interests of such users; to arbitrate their differences in an impartial way, and to provide to the fairness in the relations between the users and the financial institutions, granting to the first elements to fortify the legal security in the operations they perform, and in the relationships they establish with the financial institutions.</p> <p>As of 2009, CONDUSEF has the powers to impose monetary sanctions for violations of the LPDUSF.</p>

	<p>Since 2011, CONDUSEF can initiate class actions.</p> <p>CONDUSEF webpage contains educational and informative information with respect to financial sector products, including the different types of insurance. Also surveys are carried out as well as presentations and publications.</p> <p>CONDUSEF has a dedicate line to attend the public questions and complaints. Also physical presence in all States of the Federation allows for face to face service.</p> <p>The adhesion contracts are scrutinized by CONDUSEF with regard to simplicity, fairness and clarity. A price comparison is also provided.</p> <p>The CNSF has issued provisions that regulate the advertising and publicity of the insurance and surety companies, and agents. It appears, however, that the monitoring of misleading advertising has no dedicated resources at CNSF or CONDUSEF, and only in sporadic occasions a wrongful advertisement has lead to its modification or suspension.</p> <p>CONDUSEF has established a conciliation procedure free of charge; as well as arbitration procedures to solve the differences between the users of financial services and institutions. Free legal advice is provided to needed persons. However, there is limited success in the usage of these alternative mechanisms. While the conciliation service has gained some acceptance, there has been no arbitration. In the last five years, a constant number of around 8000 conciliations service has been given but no insurer has agree to arbitration.</p> <p>There are minimum requirements on the disclosure of information that intermediaries need to comply with that include the working relationship of the intermediary, and disclosure of the commission at request. However, given the level of insurance literacy, not sufficient detailed guidelines pertaining the offering, sale operations, and financial services of the insurance and surety institutions seeking to protect the public has been issued.</p> <p>Given the low insurance penetration and insurance culture in Mexico, requirements for more clarity and transparency in the contracts aiming to protect insurance consumers is needed. The CNSF together with CONDUSEF should continue and increase their efforts in this area.</p> <p>The Federal Law on the Protection of Personal Data in the Possession of Private Parties establishes a regime that guarantees the individuals' privacy and</p>
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		intermediaries are required to treat personal data with due regard to confidentiality. According to applicable civil legislation, breaches of confidentiality can motivate a demand for moral damage.
ICP26 - Information, disclosure and transparency toward markets	O	International best practice.
ICP27 - Fraud	LO	<p>Mexican legislation considers insurance fraud as generic fraud; and the LGISMS identifies several actions that are considered fraud and can lead to imprisonment for up to 15 years, and fines that can reach the amount of 100,000 minimum day salaries.</p> <p>There are indirect requirements that encourage the detection and combat of fraud, like the appropriate employment and proper use of the institution's human and material resources, as well as the mechanisms to monitor and control the achievement of its aims, among other things. Companies use data bases in the case of life and health to exchange information on possible fraudulent applicants. However, there is not explicit power in the law to allow the CNSF to require that the intermediaries or institutions have specific measures to prevent or detect the frauds in their operations, including providing counter-fraud training to management and staff.</p> <p>The CNSF is enabled to work with other supervisory agencies effectively to exchange information and, more specifically, to ask for assistance in order to establish the appropriate contact with the jurisdiction's relevant fraud-combat authorities.</p>
ICP28 - Anti-money laundering, combating the financing of terrorism	LO	<p>The AML-CFT requirements applicable to insurers are broadly in line with the FATF recommendations.</p> <p>In December 2008, GAFISUD issued Mexico's levels of compliance with the international standard with the FATF 40 Recommendations plus nine Special Recommendations and a follow up document was published in December 2009. While the level of compliance is high, there are specific areas that need improvement.</p> <p>With respect to Recommendation 5 on Customer due diligence, some aspects remain to be implemented:</p> <ul style="list-style-type: none"> • No distinction in all cases between CDD requirements for business relationships and all types of occasional transactions, including a direct requirement for to aggregating linked occasional transactions.

		<ul style="list-style-type: none"> • Inadequate provisions in all the regulations with respect to CDD requirements when there are indications and/or certainty of false, erased, or altered identification documents. • No direct explicit requirement for FIs to ascertain/request that applicants for business state whether they are acting on behalf of others. • No general requirement for obtaining information on the purpose and nature of business relationships. <p>Recommendation 13 on reporting of suspicious transactions</p> <ul style="list-style-type: none"> • The obligation to report attempted transactions is not explicitly established in regulations, and not consistently implemented by financial institutions.
<p>Aggregate: Observed (O) - #, largely observed (LO) - #, partly observed (PO) - #, not observed (No) - #, not applicable (N/A) - #.</p>		

D. Recommended Action Plan

Table 26. Mexico: Recommended Action Plan to Improve Observance of the Insurance Core Principles

Principle	Recommended Action
ICP 2	The objective to promote a sound development of the surety and insurance sectors, with the goal to increase its service's coverage to an increasingly share of the population, needs special attention attested by the low insurance penetration in Mexico. This could be achieved for instance implementing mandatory motor third party liability and promoting new types of micro-insurance.
ICP 3	<p>Approve the LISF to grant required powers to the CNSF for a more efficient supervision.</p> <p>The introductions of an explicit mechanism for the appointment or withdrawal of the CNSF's president or the members of the CNSF's Board is recommended together with a mandate to publish the removal reasons whenever the president or a Board member is dismissed from duty. Consideration on the introduction of a term of office should be made.</p> <p>The supervisory authority should have full discretion on resource allocation in accordance to its mandate, objectives and the perceived risks. The supervisory agency needs to be able to hire key senior technical staff, in particular, when the new solvency regime enters in force. This could include consulting arrangements or direct salary supplements for high-level professional qualifications.</p>
ICP 6	Consideration should be made to introduce a transition period separating all life and nonlife operations, or appropriate measures should be introduced to warrant a segregated treatment of the risks on both a going-concern and a winding-up situation. Even if a transition period of many years is required, it would be a worthwhile step.
ICP 8	We also recommend that CNSF should be the agency to approve or disapprove of a particular transfer of business or merger, rather than SHCP at present. This would place the decision making authority with the organization that will be evaluating the requested transaction.
ICP 9 &10	<p>Pass the new law strengthening corporate governance and internal controls of the supervised entities.</p> <p>A more intrusive supervisory approach should accompany the new law to permit proper monitoring and enforcement of the new governance and internal controls requirements. This will required additional resources.</p>
ICP 13	Current level of inspection intensity is sufficient to reach the required level of compliance. However, as the second pillar of the new proposed solvency regime is implemented, a significant change in intrusiveness of the inspection will be required. This will include the allocation of inspectors dedicated to a given company to reach the level of understanding of the company's activities necessary to assess compliance with the new proposed requirements in the areas of investments, governance, risk management, and internal models. This will require additional resources.

Principle	Recommended Action
ICP 14	The extensive list of circumstances that lead to preventive and corrective measures could be complemented with the introduction in the new law of a general principle stating, as ground for preventive and corrective measures, any circumstance affecting the solvency of the company or undermining the policyholders' rights. This will prevent any possible legal gaps in the law when applying the supervisory measures. The current proposed LISP includes this recommendation.
ICP 15	Consider providing the CNSF with the power to arrange for a compulsory transfer of the obligations under the policies from a failing insurer to another willing insurer. This is explicitly addressed in Article 485 of the new proposed law. Current regulation does not explicitly protect an insurer from the effects of the financial difficulties affecting the financial group to which it belongs. This should be addressed in the LARF.
ICP 16	Requirements with respect to the maximization of the value of the liquidated assets and on the efficiency of the process should be included in the law to improve the procedure in winding up insurers. Article 393 of the LISF covers this recommendation.
ICP 17	Requirements on the group wide governance and comprehensive risk management and on group capital should be incorporated in the LARF. Consider including in the LARF the regulation of holding companies of insurance groups in the regulatory framework to provide requested financial and business information.
ICP 18	It is recommended to formalize the requirement to have a risk committee when a defined complexity and/or size of the institution are reached, as recommended in the LISF.
ICP 19	The thorough revision and correction of technical errors of the large amount of technical notes registered should become more efficient by strictly acting on unqualified actuaries providing the technical notes. The setting of retention limits is a technical matter and should be transferred to the CNSF. This will help expedite the implementation and possibly reduce the time between updates to a higher frequency. Article 258 of the LISF addressed this point.
ICP 20	Prudential guidance on the accounting for reinsurance recoverable should be provided by the CNSF, as well as on the assets backing up the catastrophic reserves that could require investments outside the country. Further, consideration should be made on the concentration risk in the case of affiliated parties.
ICP 21	The new law will allow more flexibility, but the analysis of the compliance with the prudent person requirements will demand higher expertise from the companies and the CNSF. Training and the hiring of experienced professional at the CNSF is recommended to avoid unnoticed increment in the investment risk exposure of the insurers. Additional resources will be required.

Principle	Recommended Action
ICP 23	<p>As the regulation moves into the solvency II type of regime, it is recommended not to underestimate the amount of preparation and expertise required in the implementation from both the industry and the CNSF to avoid a black box regime. The level of complexity inherent in the standard model could create a false confidence on the level of required capital. Simplicity and applicability of the standard model should have high priority.</p> <p>Further, as the internal model approval starts, additional care in a proper understanding of the models will be necessary.</p>
ICP 24	<p>The certification of brokers could be authorized to other respectful entities like the brokers association. This would free resources for the CNSF without adding risk to the system.</p>
ICP 25	<p>Assessment of the appropriateness of resources in CONDUSEF should be made. The arbitration mechanism should be revisited to encourage its use.</p> <p>Given the existing level of insurance literacy, more detailed guidelines pertaining the offering, sale operations and financial services of the insurance and surety institutions, seeking to protect the public should be issued.</p> <p>Given the low insurance penetration and insurance culture in Mexico, requirements for more clarity and transparency in the contracts aiming to protect insurance consumers is needed. The CNSF together with CONDUSEF should continue and increase their efforts in this area.</p>
ICP 27	<p>The new law should grant explicit power to the CNSF to require that the intermediaries or institutions have specific measures to prevent or detect the frauds in their operations including providing counter-fraud training to management and staff. This is included in the current proposed law. As well, international studies have demonstrated that the cost of padded claims and other policyholder fraud, adds significantly to the cost of insurance for the population as a whole. Many countries have therefore put in place measures designed to reduce fraudulent claims by policyholders. We recommend that Boards of directors be required to put in place systems that are reasonably designed to reduce policyholder fraud.</p>
ICP 28	<p>Implement the missing AML-CFT requirements of the FATF recommendations.</p>

E. Authorities' Response to the Assessment

70. **The Mexican financial authorities welcome the detailed assessment on the observance of the IAIS Insurance Core Principles (ICPs) conducted by the FSAP mission.** The Mexican authorities appreciate the evaluation and the recommendations for improvements and, overall, share the views expressed by the mission. The set of recommendations provides useful insights and guidance to further enhance the Mexican insurance regulatory and supervisory regime.

71. **Various suggestions and opportunities for improving the Mexican insurance regulatory and supervisory frameworks, as well as the compliance with the ICPs, have already been under the consideration of the Mexican authorities and, therefore, they were taken into account when developing the project for the new insurance and surety law (LISF Project).** Therefore, the implementation of the LISF Project will result in a higher level of observance of most of the ICPs, as assessed in the FSAP. In this sense, recommendations regarding ICPs 6, 9, 10, 15, 16, and 27, which were assessed as largely observed, have already been addressed, totally or partially, in the LISF Project.

72. **Finally, the dialogue that the FSAP mission had with the Mexican financial authorities will facilitate to move forward with the recommended actions related to ICP 3.** Additionally, the SHCP, the CNSF, and the CONDUSEF are aware of the recommendations to improve the observance of ICP 25, which will imply not only elements already included in the LISF Project, but some additional measures.

V. DETAILED ASSESSMENT

Table 27. Mexico: Detailed Assessment of Observance of the Insurance Core Principles

Conditions for Effective Insurance Supervision	
Principle 1.	<p>Conditions for effective insurance supervision</p> <p>Insurance supervision relies upon:</p> <ul style="list-style-type: none"> - A policy, institutional and legal framework for financial sector supervision, - A well developed and effective financial market infrastructure, - Efficient financial markets.
Description	<p>The National Program to Finance Development 2008-2012 (Programa Nacional de Financiamiento al Desarrollo, PRONAFIDE), issued by the SHCP states the governmental policy framework to ensure macro-financial stability. It includes provisions for effective financial sector supervision of insurance, as well as for other financial intermediaries.</p> <p>The Financial Stability Council (Consejo de Estabilidad del Sistema Financiero, FSC), established in July 2010, coordinates the response of government agencies to systemic risks to the financial system. The FSC is integrated by the Minister of Finance (Chairman of the FSC), Governor of the Central Bank, two Vice Governors of the Central Bank, the Vice-Minister of Finance, the President of the Banking and Securities National Commission (CNBV), the President of the CNSF, the President of the Retirement Savings System National Commission (CONSAR), and the Secretary Executive of the Deposit Insurance Institute (IPAB). This council aims to supervise institutions in an integrated way and consider the viability of individual financial entities and the system as a whole. The council work will allow for early identification of situations that could endanger the stability and solvency of the Mexican financial system.</p> <p>A complete legal framework exists for the different financial sectors: banking, insurance, annuities, surety, pension funds, securities, financial groups, credit institutions, among others. Insurance activity is regulated by the by the following laws:</p> <ul style="list-style-type: none"> • General Law of Insurance Institutions and Mutual Benefit Societies (Ley General de Instituciones y Sociedades Mutualistas de Seguros, LGISMS) • Insurance Contract Law (Ley Sobre el Contrato de Seguro, LSCS). • Surety Institutions Federal Law (Ley Federal de Instituciones de Fianzas, LFIF). <p>The regulatory framework also includes other regulation, such as:</p> <ul style="list-style-type: none"> • Surety and Insurance Brokers/Agents Rules (Reglamento de Agentes de Seguros y Fianzas). • Insurance and Surety National Commission By-laws (Reglamento Interior de la Comisión Nacional de Seguros y Fianzas). <p>Additionally, there are several general rules concerning different operative aspects the insurance sector issued by the SHCP and the Single secondary legislation order (Circular (Única de Seguros, SSLO) issued by the CNSF.</p>

	<p>The entire legal framework for the financial sector is disclosed and accessible to the public as required by the Law on Transparency and Governmental Public Information.</p> <p>The Mexican judicial power (court system) is independent from the executive power. Lawyers and judges are permanently trained in a specialized judicial career development system. The following institutions have some kind of inference in financial matter in Mexico: the Supreme Court of the Mexican Nation (Suprema Corte de Justicia de la Nación), the Federal Court of Administrative and Fiscal Justice (Tribunal Federal de Justicia Fiscal y Administrativa), and the Federal Judiciary Council (Consejo de la Judicatura Federal).</p> <p>The Law for the Protection and Defense of the Financial Services User (Ley de Protección y Defensa al Usuario de Servicios Financieros, LPDUSF) confers powers to conduct arbitration settlements on certain financial services disputes to CONDUSEF.</p> <p>In 2002, the Mexican Council for the Investigation and Development of Financial Information Norms (Consejo Mexicano para la Investigación y Desarrollo de las Normas de Información Financiera, CINIF) was created by public and private entities to develop clear, objective and reliable financial information rules regarding the performance of the economic and governmental entities, to carry out the process of investigation, auscultation, issuing and release of the norms of financial information, which result comparable and transparent at international level, and to achieve convergence of local accounting rules with internationally accepted financial information rules.</p> <p>There are three actuarial associations in Mexico, the National Actuaries College (Colegio Nacional de Actuarios, CONAC), the Mexican Actuaries Association (Asociación Mexicana de Actuarios, AMA) and the Mexican Consultant and Employee's Benefits Actuaries Association (Asociación Mexicana de Actuarios Consultores en Planes de Beneficios para Empleados, AMACPBE). The three associations share common interests in the development of the profession, promoting different activities and events to elevate the technical expertise of practicing actuaries. CONAC, conducts the official roles, like certification and relationship with the CNSF. Currently there are around 500 certified actuaries. CONAC issues actuarial standards of practice, which are being used by the insurance and surety institutions. Currently, there exist seven approved actuarial standards covering premium and reserve calculations as well as actuarial auditing functions.</p> <p>Auditors are members of the Mexican Institute of Public accountants (IMCP) and/or the CONAC. Both professional associations focus on high standards in auditing. IMCP main objectives are to "establish and disclose, on the public interest, the accounting norms that should be observed in the compilation and formulation of financial information for external purposes, and to promote its acceptance and observance within the country." As mentioned before, CONAC has issued standards for actuarial auditors; these standards are readily available in the corresponding web pages. The independence of the auditors is stated in the SSLO, title 15.</p> <p>Both, the CONAC and the IMCP, have issued technical and ethical standards. They have also created special bodies to monitor their compliance and they have established sanctions in case of noncompliance. In particular, actuaries have the duty to inform the CONAC's Honor Committee about the violations of the Code.</p>
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	<p>Violation of the Code can lead to private or public warning, temporary or definitive certification suspension.</p> <p>The Office of National Statistics (Instituto Nacional de Estadística, Geografía e Informática, INEGI) produces a variety of economic, social, and financial statistics. Complementing the availability of data, several authorities produced and published data corresponding to their area of influence, like BANXICO, SHCP, CNSF, CNBV, CONSAR and CONDUSEF. The industry published details data through AMIS.</p> <p>Laws, mandates and specific regulation are regularly updated. The process of updating can be initiated by congress, the regulatory and/or supervisory authority, or by the industry through its representatives.</p> <p>For the past 15 years, Mexican financial market has shown several structural changes that have contributed to strengthen the maturity of financial instruments, such as changes in regulation, inclusion of price vendors, development of new products, operations of derivatives in a settled market, and increase in the supply of long term debt securities, among others.</p> <p>As a response, the investment regime applicable to the insurance and surety sectors has been modified in order to reflect the development of the financial markets, and to promote an appropriate diversification of the investment portfolio and a proper asset-liability matching (duration and currency). In this sense, currently, the insurance institutions have a wide range of investment possibilities, among others the opening to global investment markets and the use of derivatives for hedging purposes and for better matching assets and liabilities strategies.</p> <p>The investment regime maintains control mechanisms, which provide specific limits for asset types, issuer, or related parties. The investment regime also promotes a scheme which allows institutions that operate life insurance to obtain a suitable matching of long-term assets and liabilities, by allowing them to use different types of assets to meet their obligations.</p> <p>The investment limits have not reached the 10 percent usage except in the case of government paper as the following table indicates.</p>
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Percentage Invested per Instrument		
Investment regime limits	Regulatory limit	% used of the limit
Federal Government	100%	70.66%
Government bonds	60%	7.98%
Banks and Investment in International Financial Organizations	60%	3.98%
Private (corporate debt, equity, equity fund, structured notes)	40%	7.94%
Foreign financing vehicles, Structured Notes and Foreign Securities (SIC)	10%	2.38%
Repurchase agreements with government securities	30%	3.63%
Urban real estate	25%	0.94%
Credits with mortgage guarantees	5%	0.28%
Credits with collateral guarantees	5%	0.24%
Discount and Rediscount Operations	5%	0.03%

Source: CNSF

Accounting and auditing standards are still domestic, but are in the process of international convergence and follow international best practice.

Assessment	Largely Observed
Comments	<p>The conditions for effective supervision are largely met, considering current development of the insurance sector.</p> <p>The legal and judicial system is still struggling to gain full acceptance by the market and public in general. Current existing practice that allow to file criminal charges in case of insurance disputes should be eliminated, as this has lead to serious imbalances and extreme situations not found in most countries, where such offences can only be treated as civil charges.</p> <p>CONDUSEF conciliation/arbitration to deal with disputed claims is a step in the right direction, creating a greater acceptance of the insurance contracts by consumers. Over the last five years, both the number of claims reported and the conciliations have been stable of around 0.5 percent. It appears that more dissemination work on the benefits of conciliations needs to be done to increase its usage.</p> <p>The accounting, actuarial, and auditing standards are publicly available on the relevant professional organization's website and they are commensurate with international standards. Mexican accounting standard is partly more conservative than IFRS; like allowing the catastrophic reserve to be a liability, and recognizing the valuation of real estate.</p> <p>The actuarial profession is well established; with strong professional associations that issue codes and standards that are enforced. Close collaboration with the CNSF exists and is effective, like the introduction of actuaries' certification and continued education programs.</p>

	<p>After several years of macroeconomic financial stability, the amount of financial instruments has increased dramatically. However, further development is required to cover the demand for investment products. In particular, inflation index and USD nominated instrument lag in duration with respect to the market demand.</p> <p>The Laws and regulations are frequently updated to cope with relevant changes in the financial sector:</p> <ul style="list-style-type: none"> • The SSLO is a welcome document that brings all secondary legislation into one single document. <p>A new Insurance and Surety Law (Ley de Seguros y de Fianzas, LISF) has been submitted to Congress in September 2011. LISF introduces a new solvency scheme based on the European Solvency II, advancing in the concept of risk-based supervision, and following international best practices and the principles of insurance supervision of the International Association of Insurance Supervisors (IAIS).</p>
The Supervisory System	
Principle 2. Supervisory objectives The principal objectives of insurance supervision are clearly defined.	
Description	<p>Article 1 of the LGISMS (Article 1 of the LISF project)¹ states that such law is of public interest and aim to regulate the organization and functioning of the insurance institutions and mutual societies; the activities and operations that they can carry out; as well as those of insurance brokers and other persons related to insurance activities, all the above for the protection of the insurance policy-holders and beneficiaries interests.</p> <p>Article 2 of the LGISMS and Article 1 of the LFIF (Article 3 of the LISF project) state that the SHCP, with the CNSF's corresponding intervention, should procure an equilibrated development of the insurance and surety sectors, as well as a fair competition among the institutions that integrate them.</p> <p>The objectives of the CNSF are translated into a mission statement published in its website: "Supervise, in an efficient manner, that the operation of the insurance and surety sectors comply with the applicable regulatory framework, preserving the financial stability and solvency of the institutions, aiming to protect the public interests; as well as to promote a sound development of the surety and insurance sectors with the goal to increase its service's coverage to an increasingly share of the population."</p> <p>The SSLO discloses and explains in a single document how its supervisory objective will be pursued. Further, the CNSF website posts monthly information on the fiscal and financial activities' outcomes, as well as the annual goals stated for each one of its administrative areas.</p>

¹When applicable, in this self-assessment will be specified not only the reference to the current regulation, but also to the new LISF project.

	<p>Each area of the CNSF elaborates quarterly self-assessments, in which the advances, changes, and deviations from their annual programs and goals are described. Also, in accordance to Article 7, fraction X of the LFTAIPG, the CNSF discloses in its website the results of audits performed to the budgetary exercise, as well as the consequent clarifications. Such audits may be performed by the Public Function Ministry (Secretaría de la Función Pública, SFP), the internal comptroller office and the Congress Superior Auditor (Auditoría Superior de la Federación, ASF).</p> <p>Regarding possible initiatives, and/or amendments to the regulatory framework to lift possible contradictions in the objectives, both the SHCP and the CNSF have the authority within their mandates to propose and introduce changes to increase efficiency in their duties. This would include correcting contradictory objectives. The SSLO in a sense not only simplifies, but also harmonizes the insurance regulatory framework.</p>
Assessment	Observed
Comments	<p>The interests of policyholders are central to the supervisory objectives with a strong focus on preserving the financial stability and solvency of the institutions. There is also an element of development in the objectives that states the requirement to promote a sound development of the surety and insurance sectors with the goal to increase its service's coverage to an increasingly share of the population.</p> <p>While the objectives on stability and development could create some tension, the approach followed by the CNSF to allow for greater coverage of insurance for a larger share of the population has been to maintain strong solvency requirements, but allowed certain distribution channels in the area of micro-insurance.</p> <p>On a monthly basis the CNSF website posts information on the fiscal and financial activities' outcomes, as well as the annual goals stated for each one of its administrative areas. Every quarter, the CNSF carries out self-assessments to describe the advances, changes and deviations from their annual programs and goals. In addition according to the CNSF's By-laws, Article 9, the Governance Board may ask the CNSF's President any information regarding the inspection and surveillance activities, either in general terms or related to a concrete case, regardless of the quarterly reports that the president must present to the Board.</p>
Principle 3.	<p>Supervisory authority</p> <p>The supervisory authority:</p> <ul style="list-style-type: none"> - has adequate powers, legal protection and financial resources to exercise its functions and powers; - is operationally independent and accountable in the exercise of its functions and powers; - hires, trains and maintains sufficient staff with high professional standards; and - treats confidential information appropriately.
Description	Insurance business regulation and supervision are carried out in separate entities, being the SHCP and the CNSF. The SHCP is in charge of setting the insurance policy and introducing primary regulation always with strong input from the CNSF.

<p>Secondary legislation and supervision is issued by the CNSF.</p> <p>The responsibilities of the CNSF as the supervisor for insurance and surety companies are defined in Articles 106, 107, 108, fraction I, and 109, fraction I, of the LGISMS, as well as in Articles 66, 67, and 69 of the LFIF (Articles 366, 368, 372, fraction III, 382, 383, 384, 388, and 389 of the LISF project). These articles, in general, state that the CNSF is a separated entity (<i>organismo desconcentrado</i>), but linked to the SHCP which main faculties and duties are the inspection and supervision of insurance companies and mutual societies surety institutions, as well as other persons and companies subject to its supervision and surveillance (and in accordance to the in force regulation), with the aim of achieving an effective compliance with the legal framework, and promoting the maintenance of efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders.</p> <p>Article 108, fraction IV-Bis of LGISMS and 68 IV-Bis of LFIF (Article 366 fraction III of the LISF project) state that the CNSF has the faculties to issue, within its competence, prudential regulation:</p> <ul style="list-style-type: none"> • fraction IV (fraction II of the LISF project): To issue the necessary provisions required to perform the duties assigned by law and for an efficient carrying out; as well as the required rules and regulations derived from such law; and to help, through provisions and instructions issuing to insurance institutions and mutual societies, and other persons and companies subject to its inspection and surveillance; to comply with the applicable SHCP's policies of by following instructions. • fraction IV-Bis (fraction III of the LISF project): To issue, within its competence, prudential rules aimed to preserve the solvency, liquidity, and financial stability of the insurance institutions and mutual societies. • fraction V (fraction XXXII of the LISF project): Act as a consultant entity for SHCP in insurance and sureties. To provide opinion to the SHCP related to the interpretation and application of such Law. • fraction VIII (fraction IV of the LISF project): To intervene, in the terms and conditions established by the LGISMS, in elaborating general rules and regulations referred by such Law. <p>Articles 108, fraction III, of the LGISMS and 68 of the LFIF (Article 366, fraction XIX, of the LISF project) state that the CNSF has the responsibility to impose administrative sanctions derived from nonobservance to the LGISMS and LFIF and their derived regulations, to the institutions and persons under its inspection and surveillance. Article 108 also confers the authority to the CNSF to carry out on-site inspection and surveillance of the insurance companies according to the LGISMS, the LFIF and other applicable laws.</p> <p><i>Independence and accountability</i></p> <p>The LGISMS defines, in a general scope, the CNSF's structure. The CNSF By-laws (Title 3) defines such structure more specifically. According to Article 109 of the LGISMS (Articles 372 and 373 of the LISF project) the highest CNSF's authority is its president and should exercise its functions, directly or through the vice-presidents, general directors, delegates, or other public CNSF's officers.</p>
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	<p>The supervisory process is described, in general terms, in the LGISMS and in the LFIF (and in the new LISF project), and more specifically in the SSLO.</p> <p>Internal manuals cover and document the organizational and operational procedures as well as policies and internal criteria for supervision defining the decision making processes. The CNSF's administrative provisions establish a permanent updating process in order to adequate them to the conditions, needs and dynamics shown by the market.</p> <p>The supervisory integrity is supported by the <i>Code of Conduct</i> for the CNSF's officers, and Article 109 of the LGISMS (Articles 372 and 373 of the LISF project) establishes a clear framework for the accountability of the CNSF's staff.</p> <p>The CNSF's Internal Comptroller Office enhances the institutional objectives for achievement, through the examination of the administrative management, the observation of responsibilities carried out, and the legal responsibilities for compliance of the CNSF officers. It is also responsible for evaluating and following up the working programs to promote efficiency in the CNSF's management. Specifically, the Internal Comptroller Office carries out regular audits to all CNSF's areas.</p> <p>In addition to these internal audits, the CNSF is subject to other external audits on several aspects of the budgetary execution, which are performed either by the SFP or by the ASF.</p> <p>Article 108-B of the LGISMS (Article 368 of the LISF project) state that the Minister of Finance has the faculty to appoint the CNSF's president, who will also be its Board's president. The President of the CNSF must comply with the requirements that are established in Article 108-B of the LGISMS (Article 368 of the LISF project).</p> <p>However, there is neither a term of office nor an explicit mechanism for the appointment or withdrawal of the CNSF's president or the members of the CNSF's Board. When the CNSF's president or a member of the CNSF's Board is separated from his duty, the removal reasons are not necessarily disclosed.</p> <p>The insurance law clearly specifies the functions and faculties of both organisms, the CNSF and the SHCP. The SHCP is in charge of setting the insurance policy and introducing primary regulation always with strong input from the CNSF. The CNSF has technical autonomy and executive faculties to solve specific matters within its jurisdiction, in particular by issuing secondary legislation. The legal framework specifies the established relations between the executive power and the other two powers, the legislative and the judiciary branches.</p> <p>The CNSF budget is financed by the supervised entities in the form of a levy as established in the LGISMS, the LFIF and the Duties Federal Law. The levy should cover exclusively CNSF's budgetary expenses and is paid to the Tax Administration Agency (Sistema de Administración Tributaria, SAT). Once the levy is paid to the SAT, the SHCP authorizes a budget to the CNSF and transfers the respective amount of resources. The CNSF is subject to federal government budgetary restrictions.</p> <p>The CNSF president is responsible for the financial resources management according to the budget approved by the SHCP. Therefore, the CNSF must adjust its expenses to comply with specific programs that are aimed to carry out its mandate</p>
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	<p>and objectives, as well as to face the different risks identified in the insurance and surety sectors.</p> <p>The supervisory authority does not have full discretion on resource allocation in accordance to its mandate, objectives and the perceived risks. Specifically, regarding human resources, the CNSF cannot freely allocate its resources. The CNSF has an organizational structure authorized by the SHCP which is very difficult to enlarge or modify.</p> <p>The supervisory process is described at the LGISMS and the LFIF, and in a specific way, in the CNSF On-site Inspection, Surveillance and Accounting By-laws, as well as in the CNSF's administrative provisions, that are published in the Federal Official Gazette (DOF). These provisions are subject to a permanent updating process, in order to adequate them to the conditions, needs, and dynamics shown by the market.</p> <p>Additionally, the CNSF's Supervisory Manual defines the operative and functional scheme of the surveillance and inspection activities, as well as the responsibilities and the derived decision making ensuring that the supervisory decisions are confirmable consistent.</p> <p>Until 1999, the relevant changes to the insurance regulation were subject to previous consultation by the CNSF, with the market participants as a goodwill practice. From April 2000, reforms to the Federal Law of Administrative Procedures (LFPA) were published in the DOF, adding Title 3, in which it is established a legal framework to improve the federal regulatory system, which, among other aspects, obliges every federal government organism to publicly disclose regulatory drafts for at least 30 days before of its pretended issuing date, and to clearly justify its need with a report on regulatory impact, so that any interested person may present comments and proposals. Those drafts are publicly disclosed at the COFEMER website. COFEMER is the Federal Regulatory Improvement Commission.</p> <p>In Accordance to the LFTAIPG, the CNSF discloses at its website information concerning its assigned budget, as well as the progress in pursuing its goals and objectives. The supervisory authority representatives publicly explain its policy objectives and inform about activities and performance in the achievement of those objectives.</p> <p>According to Article 107 Bis of the LGISMS (Article 390 of the LISF project), executing its inspection and surveillance functions, the CNSF will disclose information concerning the financial position of the supervised entities, as well as their compliance with the required levels of technical provisions, minimum guarantee capital and minimum paid in capital, on the terms dictated by the CNSF through general provisions. In this context, not only information is provided regarding sound insurance institutions, but also about those facing problems. That is regularly disclosed at the CNSF's website.</p> <p>Likewise, in the case of an insurer subject to a regularization plan (in order to correct observed irregularities), according to Article 74 of the LGISMS or 104 of the LFIF (Article 320 of the LISF project), once the term granted by law ends, and the observed irregularities have not been corrected, the CNSF could, for the protection of the public interest, order the institution to inform the public about the lack of compliance with the plan, in the form and terms defined by the CNSF.</p>
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Detailed information on particular problems, including the information on official actions is a more delicate issue. CNSF's public officers are obliged to exclusively use reserved information for the supervisory tasks, therefore they are also obligated to keep confidentiality on information they have access to, impeding its usage, subtraction, destruction, hiding, for improper purposes; according to Article 8, fractions III and V, of the Federal Law of Public Employees Responsibilities.

Powers

Article 109 of the LGISMS, and 69 of the LFIF (Articles 372 and 373 of the LISF project), as well as in the CNSF By-laws provide powers to the CNSF to have a rapid reaction in case of an emergency situation. In this sense, the CNSF is entitled to order the insurance institutions to take one or more remedial actions in the situations described in Article 74-Bis of the LGISMS (Article 321 of the LISF project), independently of the corresponding sanctions.

Financial resources

The CNSF's annual budget allocates resources aimed to guarantee that the functions and responsibilities of the insurance and surety supervision are performed with due diligence required to achieve its goals and comply its mandate. The CNSF is subject to the expenditure constrains that are applied to all the entities of the Federal Government.

The CNSF is also subject to the hiring process practices of the Federal Government which, since 2005, are carried out in the context of the implementation of a Career Civil Servant Service. Since 2004, in order to control the general spending of the Federal Government, saving measures have been applied. This situation has implied, on one hand, that key staff members of the CNSF have moved to other positions in the private financial sector, and, on the other, that has become more difficult for the CNSF to hire and retain qualified and skilled employees.

The CNSF is a non-autonomous administrative organism that depends on SHCP; therefore, its financial statements only reveal budgetary flows. These statements are publicly disclosed. According to Article 14 of the CNSF's By-laws, the CNSF's president must submit a quarterly report to the CNSF's Board on the activities performed by the commission, as well as on its budget expenditure, to which it will annually be complemented by the external auditor's report. Such reports should be sent to the Accounting Commission for its dictum. The financial statements are audited by external auditors.

Human resources and legal protection

The CNSF has a system which seeks to hire highly specialized human resources with high professional standards. This has resulted in a highly specialized staff, subject to permanent training and to legal provisions that state responsibilities regarding their adequate performance.

The CNSF provides legal assistance and support to its Board members and to its employees with respect to acts carried out in the exercise of their legal duties, as stated in Article 108-D of the LGISMS (Article 377 of the LISF project). This has been implemented through a trust, considered in the general guidelines approved by the Governing Board. This trust can be used in case of lawsuits, including the expenses derived from their legal defense, and liabilities arising from or relating to acts performed in good faith during the performance of their duties.

	<p>The entire CNSF staff has to abide to the established Code of Conduct that includes conflict of interest rules, such as the prohibition to deal with shares or investments of the supervised entities.</p> <p>According to Article 110 of the LGISMS, and Article 70 of the LFIF (Article 387 of the LISF project), the CNSF can hire external auditors and other professionals to provide support in the visits and on-site inspections. The bidding basis and related contracts state that the supervisory authority should be able to assess the competence, monitor the performance, and ensure the independence from the insurer or any other related party of the hired consultants.</p> <p><i>Confidentiality</i></p> <p>Article 8, fraction III and V, of the Federal Law of Public Employees Responsibilities and in a more specific way Articles 140 of the LGISMS and 112 of the LFIF (Article 492 of the LISF project) foresee that all SHCP and CNSF' employees should avoid to provide any information on operations related with misdeeds described in such articles, to persons or institutions different from the competent authorities.</p> <p>Article 108, fraction VIII Bis, of the LGISMS (Article 366, fraction XXXVII, of the LISF project) states that the CNSF is empowered to provide to foreign financial authorities, information received from the persons or the companies that it supervises, considering that an information exchange agreement exists. The CNSF should refuse to provide information in the cases where it judges that it can be used for nonsupervisory purposes, when it threatens the public order, for national security reasons, or any other cause contemplated in the corresponding agreements. Also, under the LFTAIPG (Governmental Public Information Law), any governmental office should classify its information either under confidentiality (basically personal information), reserved (information that may jeopardize national security or economic policy or interests of third parties), or public classifications. In case that any information is classified under confidential or reserved tags, the CNSF staff has prohibition to disclose it.</p> <p>Article 110 of the LGISMS and Article 70 of the LFIF (Article 387 of the LISF project), allows the CNSF to hire external auditors and other professionals, for support on supervised institutions' on-site inspections. The last paragraph of the third article of the Inspection and Surveillance Rules states that the CNSF's staff as well as the auditors and other professionals that support the institutions' visits that have access to restricted information, are obliged to keep strict confidentiality on such info. Noncompliance is subject to applicable penalties established in the Law.</p>
Assessment	Partially Observed
Comments	<p>The CNSF has ample powers, as provided by Articles 106, 108, 109 and 132 of the LGISMS and 66, 69 and 80 of the LFIF (Articles 366, 368, 371, 382, 383 and 384 of the LISF project), for a largely effective discharge of its responsibility. The powers include the ability to issue secondary legislation aimed to preserve the solvency, liquidity, and financial stability of the insurance institutions and mutual societies, to perform on-site inspections, and to impose administrative sanctions to enforce regulation to the institutions and persons under its inspection and surveillance. The relationship with the SHCP is acting as a consultant and important voice with respect to matters related to the LGISMS and to elaborate general rules and regulations referred by such law.</p> <p>Additional powers to increase the effectiveness of supervision and regulation will be incorporated in the new insurance law. Article 366 of the LISF project transfers some</p>

of the functions that are currently carried out by the SHCP to the CNSF, in order to integrate the regulatory and supervisory cycle. Some of these functions are:

- Issue prudential regulation that aims at preserving the solvency, liquidity and financial stability of insurance companies and mutual insurance societies.
- Grant, modify or revoke the licenses to operate as an insurance company or mutual insurance society.
- Determine the minimum paid in capital that insurance companies and mutual societies have to cover.
- Carry out the registration at the general registry of foreign reinsurers.
- Carry out the registration of insurance adjusters.
- Issue authorizations when insurance companies or mutual insurance societies apply to; transfer their portfolios or liabilities and rights corresponding to the granting of sureties; merge or split.
- Intervene in liquidation procedures of the insurance companies and mutual societies.

The current lack of power to effectively intervene in liquidation procedures could create a weakness in the protection of policyholders' rights. In particular, in the absence of a guarantee fund. As mentioned above this deficiency will be corrected in the new law.

The internal governance procedures are sound. Detailed internal manuals cover and document the organizational and operational procedures, as well as policies and internal criteria for supervision defining the decision making processes. The CNSF's administrative provisions are regularly updated to adequate them to the conditions, needs, and dynamics shown by the market.

A complete Code of Conduct applies to all CNSF's officers, and there is a clear framework for the accountability of the CNSF's staff. Violations are sanctioned.

The CNSF is subject to regular internal and external audits. The Internal Comptroller Office carries out continuous evaluations on the observation of responsibilities accomplishment and the legal responsibilities compliance of the CNSF officers. It is also responsible for evaluating and following up the working programs to promote efficiency in the CNSF's management. Recommendations of the Internal Comptroller Office are followed with corrective actions, and major violations are sanctioned. External audits focus on budgetary execution. Any discrepancies are corrected without delays.

The quality of the internal governance procedures are attested by the ISO 9001-2000 Quality Certificate maintained since 2004.

The appointment and removal of the CNSF President or Board members is not dictated by the law, and together with the absence of a term of office could become a source of lack of independence of the CNSF. Further, the absence of a mandate to disclose the dismissal reasons of the president or a member of the CNSF Board adds to the vulnerability of the independence of the CNSF.

The CNSF has demonstrated technical autonomy, but is from a legal and budgetary perspectives dependent from the executive power. The sources financing the CNSF come from the supervised entities, but are channels through the SHCP that

	<p>determines the ultimate allocation of the resources. The CNSF is subject to the expenditure restrictions that are applied to the all entities of the Federal Government. Therefore, the supervisory authority does not have full discretion on resource allocation in accordance to its mandate, objectives, and the perceived risks. Specifically, regarding human resources, the CNSF cannot freely allocate its resources. The budgetary restrictions have lead to severely constrain the hiring and retaining of qualified professional. This situation will be exacerbated when the need for experts in supervising the new solvency regime will be required.</p> <p>In general, the CNSF has been able to have a constant adoption of new technologies, particularly regarding Information Technology (IT), and strategic supervisory projects.</p> <p>CNSF staff is financially protected against legal actions. The trust fund can be used in case of lawsuits and liabilities arising from or relating to acts performed in good faith during the performance of their duties. Staff is also adequately protected to cover the expenses derived from their legal defense through the trust fund.</p> <p>The CNSF has introduced standards and controls to eliminate, mitigate, transfer and monitor the risks related to information management activities with the establishment of a new Information Security Management System (ISMS) in 2010. During 2010, the CNSF has been granted the ISO 27001:2005 Quality Certification in accordance with the internationally recognized standard. The scope of the certificate covers the ISMS with regard CNSF's IT functions.</p>
<p>Principle 4.</p>	<p>Supervisory process The supervisory authority conducts its functions in a transparent and accountable manner.</p>
<p>Description</p>	<p>The supervisory processes are stated, in a general manner, in the LGISMS and LFIF and, specifically, at the CNSF's On-site Inspection, Surveillance and Accounting Bylaws, as well as the CNSF's administrative provisions. All these regulatory provisions are subject to a permanent updating process in order to adequate them to the conditions, needs and dynamics shown by the market.</p> <p>The supervisory framework of the CNSF is based on a risk-based supervisory methodology. Using the Information System for Integrated Supervision (SISI), the solvency position of an institution based on objective main risk factors is monitored. According to findings, the risk profile of each of the supervised entities is determined and classified according to the regulatory stages. These stages show the solvency risk position of the supervised institutions, and characterize different situations ranging from "financial strength" to "serious solvency problems." A Level of Regulatory Actions (NAR) corresponds to each regulatory stage, i.e., depending on the NAR assigned to an institution, the CNSF implements specific regulatory actions and specific supervisory measures to correct and monitor the problems detected.</p> <p>The specific procedures are included in the CNSF's Supervision Manual, Policies and Internal Criteria for Supervision (PCIS), which is updated regularly.</p> <p>Mexican legal framework establishes mechanisms required, by interested parties, to bring disagreements regarding the decisions taken by the supervisor. The competent judicial authority can review them. Nevertheless, such kind of actions does not unduly impede the ability of the CNSF to make timely interventions in order to protect policyholders' interests. The "amparo judicial" can only be issued on a particular action, but not on the whole supervisory actions initiated by CNSF.</p>

	<p>The CNSF (through its website www.cnsf.gob.mx) publishes the legal framework applicable to its organization, operation and the compliance of its activities. The public has access to the CNSF's By-laws (<i>Reglamento Interior de la Comisión Nacional de Seguros y Fianzas</i>) and the Organization's Manual (<i>Manual de Organización de la Comisión Nacional de Seguros y Fianzas</i>). Moreover, annually, the CNSF publishes a document entitled Activities Memoir (<i>Memoria de Labores</i>) that summarizes the activities performed by the CNSF during the year. Also, as part of its supervisory activities, quarterly, the CNSF publishes the reports of the compliance, with the regulatory parameters, of each of the supervised institutions and discloses information on the financial and technical status of the supervised sectors, as well as from every supervised institution.</p> <p>The CNSF's decision making responsibility is established in Articles 109 of the LGISMS and 69 of the LFIF, (Article 372 of the LISF project), as well as in the CNSF's By-Laws in which the attributions and responsibilities for each administrative unit of the CNSF are defined, allowing to implement in an expedite way the action or actions that are necessary in any given emergency situation.</p> <p>The operative and functional scheme of surveillance and inspection activities and the derived responsibilities and decisions, are defined in the CNSF's Supervision Manual, Policies and Internal Criteria for Supervision (<i>Políticas y Criterios Internos de Supervisión</i>, PCIS). Accordingly, the CNSF can issue formal directions for supervised entities to take particular actions, or to desist from taking particular actions, enforcing corrective actions and, when needed, imposing sanctions that are based on clear and objective criteria that are publicly disclosed.</p> <p>In particular, Articles 108, fraction III, of the LGISMS and 68, fraction V, of the LFIF, (Article 484 of the LISF project) state that in response to the sanctions imposed by the CNSF, the option to appeal for revocation is available, and should be filed, in writing, within 15 working days following their notification, and must be used up before proceeding to exercise any other means to contest. The resolution of the appeal for revocation can be rejected, confirming, ordering replacement of a new one, or cancelling the contested measure. If the institution is not satisfied with the resolution, it could use other legal instances.</p> <p>Annually, the CNSF publishes its Activities Memoir, where the results obtained from the supervisory activities, as well as the objectives for the following year, are described. Additionally, an Annual Work Program containing quarterly goals is prepared and its progress is quarterly reported to the Internal Comptroller Office.</p> <p>Quarterly, through its website, the CNSF publishes a Sector Analysis Bulletin (<i>"Boletín de Análisis Sectorial"</i>), which provides the analysis of the behavior of the insurance and surety sectors. It also publishes a quarterly magazine called <i>"Actualidad en Seguros y Fianzas,"</i> that presents financial statements, at sector and company level, and the main economic and financial indicators associated with those financial statements, by line of business.</p> <p>The CNSF publishes in its website, for each institution, quarterly information regarding compliance with the regulatory parameters of the coverage of their technical reserves, minimum capital requirement, and minimum paid in capital. It also presents a summary of the sanctions imposed to each institution.</p>
Assessment	Observed
Comments	There is a high degree of transparency about the activities of the CNSF. The supervisory processes are stated and available to the public in the CNSF website.

	<p>These regulatory provisions are subject to permanent updating in order to adequate them to the conditions, needs and dynamics shown by the market.</p> <p>The consistent and equitable application of supervisory measures is warranted by the risk based supervisory approach followed by the CNSF. This supervisory framework allows to assigning objective risk profiles to the each supervised entity. Different risk profile corresponds to a given regulatory stage. The regulatory stages are determined by clear metrics and trigger predetermined supervisory actions. The specific procedures are included in the CNSF's Supervision Manual PCIS, which is updated regularly.</p> <p>The "amparo judicial" can only be issued on a particular action but not on the whole supervisory actions initiated by CNSF, thus, limiting its possibility to hinder supervisory activities.</p> <p>There is ample access to the internal manuals and supervisory activities of the CNSF through its website. The Annual Work Program containing quarterly goals is public and its progress is quarterly reported to the Internal Comptroller Office. In addition, an annual Activities Memoir summarizing its activities is published.</p> <p>Well defined decision making responsibility is established in the insurance law and further detailed attributions and responsibilities for each administrative unit of the CNSF are defined in the internal By-Laws. This framework supports well the implementation in an expedite way of the action or actions that are necessary in any given emergency situation.</p> <p>All sanctions imposed by the CNSF are subject to appeal for revocation, and should be filed, in writing, within 15 working days following their notification, and must be used up before proceeding to exercise any other mean to contest. The appeals for revocation have been rejected and also confirmed in past occasions, attesting for a well functioning process.</p> <p>The quarterly publications Sector Analysis Bulletin ("<i>Boletín de Análisis Sectorial</i>") and "<i>Actualidad en Seguros y Fianzas</i>," present a thorough analysis of the development of the sector including financial statements, at sector and company level, and the main economic and financial indicators associated with those financial statements, by line of business. It also presents a summary of the sanctions imposed to each institution.</p>
Principle 5.	<p>Supervisory cooperation and information sharing The supervisory authority cooperates and shares information with other relevant supervisors subject to confidentiality requirements.</p>
Description	<p>The CNSF has been negotiating and has signed several Memorandums of Understanding (MoUs) with supervisory agencies from those jurisdictions in which the holding companies of insurance subsidiaries operating in Mexico are domiciled. The CNSF has signed MoUs with the following supervisors: the Directorate General of Insurance and Pension Funds (DGSFP) in Spain, the Superintendency of the Financial System (SFF) of El Salvador, the Superintendency of Banks, Insurance and Pension (SBS) of Peru, Florida Office of Insurance Regulation (FLOIR), General Superintendency of Banks and Insurance (SUGESE) of Costa Rica, the Superintendency of Banks and Insurance of Ecuador, Superintendency of Banks of Guatemala. The Memoranda under negotiation are with the following agencies: the Financial Services Commission of the Republic of Korea (FSC), the Superintendency of Finance (SF) of Colombia; Office of the Commissioner of Insurance of Puerto Rico, as well as with various insurance commissions of the</p>

	<p>United States of America, among which are Iowa, Maryland, Michigan, New Jersey, and New York.</p> <p>In June 2010, the CNSF became a signatory of the Multilateral Memorandum of Understanding (MMoU) of the IAIS. This MMoU is intended to establish a formal basis for cooperation and information exchange between the signatory authorities, regarding the supervision of insurance companies, where cross-border aspects arise.</p> <p>In February 2006, the CNSF became signatory of the “Guidance for the Coordination between Financial Authorities, regarding financial institutions information requirements.” This Guidance was originally signed in July 2000 by the Ministry of Finance (SHCP), the Banking and Securities National Commission (CNBV), the Mexican Central Bank (BANXICO), the Deposit Insurance Institute (IPAB) and the National Commission for the Protection and Defense of the Financial Services’ Users (CONDUSEF). This Guidance aims to share relevant supervisory information and work together in order to get, maintain, share, and disclose financial institutions information in a coordinated manner. In addition, coordination and cooperation mechanisms with other supervisory bodies of the Mexican financial system follow institutional channels. Further, each one of the Boards of the supervisory agencies has representatives from all the other financial agencies. In particular, specific cooperation issues between the CNSF and the CONDUSEF (Financial System User’s Defense Commission) have been established under written agreements.</p> <p>Article 108, fraction VIII-Bis, of the LGISMS (Article 366, fraction XXXV, of the LISF project), allows the CNSF to provide to foreign financial authorities information received from supervised persons and companies, as long as it has a subscribed information exchange agreement with such authority, which includes a reciprocity principle. However, it should refuse to provide information in the cases where it judges that it can be used for nonsupervisory purposes, that it threatens public order, or under the LFTAIPG limitations. Regarding other financial sector’s supervisory bodies in Mexico, the CNSF, through the established coordination mechanisms, is able to exchange information.</p> <p>In the cases of insurance and surety foreign subsidiaries from countries with which Mexico has signed a commercial agreement, Articles 33-N of the LGISMS and 15-N of the LFIF foresee that, (Article 85 of the LISF project), when supervisory authorities from the home jurisdiction wish to carry out an on-site inspection, they can request an authorization from the CNSF to perform it on their behalf, and in the terms of the law. Such authorities might also ask the CNSF to perform on-site inspections of companies established in their jurisdiction. The countries with which Mexico has signed a commercial agreement are: Austria, Belgium, Bolivia, Canada, Chile, Colombia, Costa Rica, Denmark, El Salvador, Finland, France, Germany, Greece, Guatemala, Honduras, Ireland, Island, Israel, Italy, Japan, Liechtenstein, Luxemburg, Netherlands, Nicaragua, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States of America, and Venezuela.</p> <p>The CNSF will discretionally permit the visit either by its conduct or without its participation. The visit request should be in writing with at least 30 days prior to the pretended visit. Such request should include: (i) Description of the operation that is going to be inspected; and (ii) The pertinent legal provisions to the inspection act. The CNSF may request the authorities that have made the on-site visit to present a report on the visit’s results.</p>
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	<p>The CNSF participates in several supervisory colleges. For example MAPFRE’s supervisory college ,organized by the Directorate General of Insurance and Pension Funds (DGSFP)) in Spain; Zurich supervisory college, organized by the Federal Office of Private Insurance (FOPI) in Switzerland; QBE supervisory college, organized by the Australian Prudential Regulation Authority in Australia; and BNP Paribas supervisory college, organized by “Autorité de Contrôle Prudentiel” in France.</p> <p>Under specific circumstances and according to established mechanisms, the CNSF can perform consultations with other financial supervisors within the country regarding related financial companies or companies pertaining to the same group, or when it is considered necessary. The reports submitted to the CNSF’s Board, include a rigorous analysis of companies facing problems, thus, allowing the other financial supervisors to be aware, at an early stage, of the companies status.</p> <p>In terms of the applicable legislation, the CNSF may provide information in advance regarding actions on parent companies that may affect foreign establishments, whenever such actions do not jeopardize public interest, national security, or other causes.</p> <p>In terms of the applicable legislation, the CNSF may provide information in advance regarding actions that may affect subsidiaries, whenever such actions do not jeopardize public interest, national security or other causes.</p>
Assessment	Observed
Comments	<p>The CNSF has entered a large number of MoUs, including the IAIS Multilateral Memorandum of Understanding (MMoU), as one of the 15 currently signatory countries.</p> <p>The CNSF active participation in Colleges of supervisors has allowed it to raise the level of cooperation and coordination among the authorities responsible for and involved in the supervision of cross-border groups.</p> <p>The existence of a formal agreement with another supervisor is not a prerequisite for the exchange of information. According to the LFTAIPG, such exchange must be subject to the classification and use of the information that the CNSF had previously determined.</p> <p>Cooperation and information exchange among the supervisors of the financial sector in Mexico follow institutional channels and structures having each one of the Boards of the supervisory agencies representatives from all the other financial agencies and is underpinned by the “Guidance for the Coordination between Financial Authorities, regarding financial institutions information requirements” that explicitly allows to share relevant supervisory information and work together in order to get, maintain, share and disclose financial institutions information in a coordinated manner. Article 108, fraction VIII-Bis, of the LGISMS (Article 366, fraction XXXV, of the LISF project), allows the CNSF to provide, to foreign financial authorities, information received from supervised persons and companies, as long as it has a subscribed information exchange agreement with such authority, which includes a reciprocity principle.</p> <p>Countries with signed commercial agreements are allowed to carry out an on-site inspection, previous official request to the CNSF. The CNSF may also be asked to perform on-site inspections in companies established in foreign jurisdictions of Mexican host insurers. However, this has not happened yet.</p>

	The CNSF maintains open dialogue and has provided information in advance regarding actions on parent companies that may affect foreign establishments, as well as regarding actions that may affect subsidiaries, for instance in the case of unlicensed activity carried out in Mexico.
Principle 6.	Licensing An insurer must be licensed before it can operate within a jurisdiction. The requirements for licensing are clear, objective and public.
Description	<p>Articles 5 of LGISMS and the LFIF, (Article 11 of the LISF project) establish that in order to operate as insurance or Surety Company, a license is required and should be granted by the SHCP. Articles 3 of the LGISMS and the LFIF (Articles 20 to 24 and 33 of the LISF project) and Articles 141 of the LGISMS and 112-Bis of the LFIF (Articles 495 y 496 of the LISF project) establish that carrying out insurance and surety activities unauthorized is considered a criminal offense.</p> <p>The law allows the establishment of both joint stock and mutual insurers (Articles 5, 16, 16 Bis and 18 of the LGISMS) (Articles 25, 36, 37, 41, 42, 46 and 47 of the LISF project).</p> <p>The SHCP is responsible for granting or denying licenses to perform insurance and surety activities, after hearing the CNSF's opinion as the specialized consulting body, as stated in Articles 5, 16, 16 Bis and 18 of the LGISMS and 5, 7, 8, of the LFIF (Articles 25, 36, 37, 41, 46 and 47 of the LISF project).</p> <p>The regulation establishing the requirements to be licensed to operate in Mexico as an insurance or surety institution are stated in the LGISMS (Articles 1, 3, 7, 8, 14, 29 Bis, 29 Bis-1, 33-A, 33-B and 33-C) and the LFIF (Articles 1, 2, 3, 5, 7, 15, 15 Bis, 15 Bis-1, 15-A, 15-B and 15-C). (LISF, Articles 1, 15, 20 to 27, 32, 33, 36, 37, 41, 48, 49, 50 to 59, 70, 71, 72, 74 y 75).</p> <p>Article 18 of the LGISMS and Article 8 of the LFIF (Article 47 of the LISF project) establish that, in order to start operating, the insurance companies, mutual insurance societies, and surety companies must have a favorable report from the CNSF. The report is based on the inspection of the existence of the systems, procedures and administrative infrastructure that are needed to provide the services that correspond to their corporate objectives.</p> <p>Article 366 of the LISF project transfers the licensing power, including modifications and revocations, from the SHCP to the CNSF.</p> <p>The appointment of Board's members and the compliance officer must rely on persons that comply with fit & proper tests, with the appropriate technical capabilities, honesty, creditworthiness, as well as wide knowledge and experience on financial, legal, or administrative matters. (Articles 29, fraction VII-Bis of the LGISMS and 15, fraction VIII-Bis of the LFIF-Articles 56 y 57 of the LISF project).</p> <p>The CEO and the senior managers that have positions up to two levels below must demonstrate creditworthiness, honesty, and must have at least five years of experience in decision making positions, for which performance requires knowledge and experience on financial, legal or administrative matters (Articles 29, fraction VII Bis 1 of the LGISMS and 15, fraction VIII Bis-1 of the LFIF-Article 58 of the LISF project).</p>

	<p>Financial and actuarial independent auditors must have an in-force certificate issued by their respective professional association. In the specific case of actuaries, they can prove to the CNSF that they have the sufficient knowledge required to perform their tasks (Articles 105 of the LGISMS and 65 of the LFIF-Articles 310, 311 y 316 of the LISF project).</p> <p>In the case of stockholders, certain type of persons, like mutual insurers, security brokers, credit organizations, pension administrators, etc. are not allowed to have shares of an insurance or surety company; it also states that all stockholders should provide information on their financial resources' origin (Articles 29, fraction II of the LGISMS and 15 fraction III of the LFIF-Article 50 of the LISF project).</p> <p>The Law states in Articles 29, fraction I of the LGISMS and 15, fraction II of the LFIF (Article 49 of the LISF project) that institutions should have a Minimum Paid in Capital for each line of business for both sectors, insurance and sureties. The Minimum Paid in Capital is expressed in UDIs, an investment unit used indexed to inflation, which should be paid in Mexican pesos within a term that will be also defined by the same authority during each year's first quarter. The amount is determined such as to allow to support an adequate service provision, under consideration of the sum of all paid in capital and the capital provisions for all insurance and surety institutions, the country's economic situation, and the aim to seek a sound and equilibrated development of the system and its competitiveness.</p> <p>The application of a license must be accompanied by a strategic implementation program of policies and rules regarding risk subscription, investments, integral risk management, reinsurance, marketing, institutional development and operations' financing, as well as the strategic objectives in such issues, and the mechanisms to evaluate and monitor its compliance. Applicants must also present an action plan that should consider at least, the following: the starting or seed capital, the basis for its organization and internal control, the anticipated geographical coverage and market segments they aim to attend, as well as the technical operation programs and the insurance underwriting in the business lines for which they are applying (Articles 16 of the LGISMS and 7 of the LFIF -Article 41 of the LISF project).</p> <p>In the case of foreign subsidiaries, specific provisions like the need for a commercial agreement between the home country and Mexico that allow the establishment of insurance subsidiaries, the obligation to inform the financial resources origin, and the type of operations performed by the parent company, are contained in Chapter I Bis of both laws (Title III, Section III, Chapter II of the LISF project). Mexican authorities might request additional information if they deem it necessary. (See Articles 33-A of the LGISMS and 15-A of the LFIF, -Articles 74 y 75 of the LISF project).</p> <p>Inspection and surveillance of insurance and surety institutions, both local and subsidiaries, as well as of the persons and enterprises to whom the LGISMS and the LFIF make reference, is carried out by the CNSF, according to applicable laws and its respective internal regulation. No insurance and surety activity is out of the supervisory scope of the CNSF.</p> <p>Regarding the supervision of international groups, the CNSF supervises their subsidiaries established in Mexico. It also participates in the supervision of groups and international insurance companies by means of mechanisms of information exchange and supervisory colleges. Several MoUs with supervisory agencies from those jurisdictions in which the holding companies of insurance subsidiaries</p>
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	<p>operating in Mexico are domiciled have been signed. Mexico is signatory of the IAIS MMoU (see Principle 5).</p> <p>Foreign investment in insurance and surety businesses can only be performed by establishing foreign subsidiaries. Foreign investment has to come from countries allowing the establishment of insurance subsidiaries and with existing commercial agreements with Mexico. Cross-border operations are prohibited. (See Articles 3 and 33-A of the LGISMS and 4 and 15-A of the LFIF, -Articles 20, 24, 34, 74 and 75 of the LISF project).</p> <p>A foreign insurer applying for a license to operate through a subsidiary in Mexico must provide, among other information, a confirmation from the home supervisory authority to the CNSF, stating that the insurer is authorized to carry out the lines of insurance business proposed; information that the insurer is solvent and meets all the regulatory requirements in the home jurisdiction, and the information and documentation required to be licensed (Art 33 and the derived rules).</p> <p>Insurance legislation states that the same institution cannot acquire a license to perform both life and nonlife business lines. (See Article 8 of the LGISMS, and Article 26 of the LISF project). For insurance undertakings licensed prior to this legal provision (introduced in 2002), regulation establishes that risks and accounting must be handled separately.</p> <p>The LGISMS and the LFIF state the requirements and procedures that must be met to properly establish an insurance institution (Articles 16 and 29 of the LGISMS and 7 and 15 of the LFIF, and Articles 41, 48 to 58, 65, 66, 67 and 68 of the LISF project). When the SHCP considers it appropriate (with the opinion of the CNSF), it can impose additional requirements, conditions, or restrictions to an applicant. This might include restrictions on non-insurance activities, or permissions to make, in the terms set forth by the SHCP, analogous and related authorized transactions according to Articles 34 and 81 of the LGISMS like paying dividends, investing the reserves, etc. (See Articles 118 and 341 of the LISF project).</p> <p>When revising the applications, the SHCP hears the CNSF's opinion and has a six months term to issue its resolution which should be properly supported. (See Articles 2, 2 Bis, 5 and 18 of the LGISMS and 5 and 8 of the LFIF, Articles 3, 6, 25, 36, 37 and 47 of the LISF project).</p> <p>Incomplete applications not fulfilling the requirements stated by the corresponding laws are denied by the SHCP. To grant the authorization, the SHCP must obtain a favorable opinion issued by the CNSF. This opinion is only granted if the insurance institution has in place the systems, procedures, and administrative infrastructure required to provide the authorized services, and to not hinder effective supervision. Further, the submitted business plan, internal controls, technical operation programs, reinsurance underwriting, organizational and ownership structure, group structure, etc. have to be able to support the long term stability and solvency of the insurance company.</p> <p>If a company does not comply with the above mentioned requirements, the license is denied or suspended. (See Articles 16, 18 and 17 of the LGISMS and 7, 8, and 105 of the LFIF -Articles 11, 41, 47 and 334 of the LISF project).</p> <p>The licensing of an insurance or surety institution will be conditioned to the fact that the institution is fully organized and starts operations within a three months term from the issuing of its constitutive act. The operations can only be started after a</p>
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	<p>favorable opinion from the CNSF resulting from the inspection performed, to verify that it has in place the systems, procedures, and administrative infrastructure required to provide the authorized services, such as policy underwriting, operation and accounting booking, assets and liabilities valuation, electronic accounting, statistical, financial and technical information processing, infrastructure for claim payment, and all those other that correspond to its specialized operations (See Articles 18 of the LGISMS and 8 of the LFIF-Article 47 of the LISF project).</p> <p>The CNSF' supervision process verifies that these requirements are maintained in a continuous basis. If not, the insurance or surety undertaking might be subject to the revocation of the license.</p>
Assessment	Largely Observed
Comments	<p>The requirement to be licensed to operate in insurance and surety is established in the law. The license requirement is a sensitive issue, as operating without a license is considered a criminal offense. Cases of enforcement have been reported in the past.</p> <p>The license process is transparent with publicly available requirements through the CNSF website. The suitability and technical experience of the Board and key officers is assessed, as well as the qualifications and independence of the actuarial auditors. Entities that could create complex supervisory structures or increase the risk of conflict of interests, like mutual insurers, security brokers, credit organizations, pension administrators, etc. are ruled out as stockholders. The financial resources' origin is always requested.</p> <p>The application of a license requires documents that allow the assessment of the viability and appropriateness of the operation:</p> <ul style="list-style-type: none"> • A strategic implementation program of policies and rules regarding risk subscription, investments, integral risk management, financial reinsurance, marketing, institutional development and operations' financing, as well as the strategic objectives in such issues, and the mechanisms to evaluate and monitor its compliance. • An action plan that should consider at least, the following: the starting or seed capital, the basis for its organization and internal control, the anticipated geographical coverage and market segments that they aim to attend, as well as the technical operation programs and the insurance underwriting in the business lines for which they are applying. <p>When the SHCP considers appropriate (with the opinion of the CNSF), it has imposed additional requirements, conditions or restrictions to an applicant. In the past, restriction have been imposed on non-insurance activities, or permissions to make, in the terms set forth by the SHCP, analogous and related authorized transactions like paying dividends, investing the reserves, etc.</p> <p>The licensing process is complemented by an inspection carried out by the CNSF to determine:</p>

- If the insurance institution has in place the systems, procedures, and administrative infrastructure required to provide the authorized services and to not hinder effective supervision.
- If the submitted business plan, internal controls, technical operation programs, reinsurance underwriting, organizational and ownership structure, group structure, etc., have the ability to support the long term stability and solvency of the insurance company.

The licensing of an insurance or surety institution will be conditioned to the fact that the institution is fully organized and starts operations within a three month term from the issuing of its constitutive act. The operations can only be started after a favorable opinion from the CNSF resulting from the inspection performed, to verify that it has in place the systems, procedures, and administrative infrastructure required to provide the authorized services, such as policy underwriting, operation and accounting booking, assets and liabilities valuation, electronic accounting, statistical, financial and technical information processing, infrastructure for claim payment, and all those other that correspond to its specialized operations.

The final inspection carried out by the CNSF has discovered deficiencies in several occasions and lead to license withdrawals or important changes in the infrastructure of business plans of the applicants.

The CNSF' inspection verifies that these requirements are maintained in a continuous basis as part of the on-site inspections.

When revising the applications, the SHCP hears the CNSF's opinion and has a six months term to issue its resolution which should be properly supported. The term of six months appears to be on the long side, where international best practice is close to 60 days. The LISF project in Article 366 aims to expedite the process by transferring the licensing powers to the CNSF. Accordingly, it is proposed that the CNSF should be empowered to grant, modify, or revoke the license to organize, operate, and function as an insurance company or mutual insurance society. In Addition, Article 11 of the LISF project establishes that, in order to be organized and operate as an insurance company or mutual insurance society, an authorization from the Federal Government is required. The authorization will discretionally be granted by the CNSF, with the agreement of its Board.

The minimum capital requirements are at the current level of the Latin American region, but are low compared to the OECD countries. The minimum capital requirements are stated in inflation index currency UDIS. The UDIS amounts have not changed at least since 2001. The inflation has raised the level of the minimum capital in USD to the average level of the Latin American region, but it is low compared to OECD countries. For instance in the nonlife sector it is at around 75 percent of the EU level, but only around 30 percent in the case of life insurance. However, there is no evidence of any negative effect related to current level of the minimum capital.

No insurance and surety activity is out of the supervisory scope of the CNSF; this includes the micro-insurance operations that in some countries are exempt from supervision.

Insurance legislation does not allow since 2002 operating in both life and nonlife business; however, due to grandfathering rules, currently 33 insurers accounting for 58 percent of the market still operate as composite insurers. There are no

	<p>appropriate measures to warrant a segregated treatment of the risks, in particular on a winding-up situation. This could create a source of additional risk for consumers. Some countries have provided lengthy transition periods for composites to be converted to separate legal entities. For example, the Canadian supervisor required that when any composite wanted to enter into a transaction requiring supervisory approval, a condition for approval would be the replacement of the composite by the creation of separate legal entities for life and nonlife. Over a period of 20 or so years, virtually all composites were replaced by life and nonlife insurers. It would be desirable to have a specific plan for the conversion of composites, even if the process would have to take place over many years.</p>
<p>Principle 7.</p>	<p>Suitability of persons The significant owners, Board members, senior management, auditors, and actuaries of an insurer are fit and proper to fulfil their roles. This requires that they possess the appropriate integrity, competency, experience and qualifications.</p>
<p>Description</p>	<p>According to the LGISMS and the LFIF, insurance institutions' Board members and normative comptroller's appointments must be filled by persons that comply with fit and proper tests (technical quality, honesty, creditworthiness, a broad knowledge and experience on financial, legal or administrative matters). Likewise, the appointment of an institution's general director or an equivalent position must rely on a creditworthy and honest person, who also complies with other legal and technical requirements.</p> <p>Senior managers that have positions that are two levels below to that of the general director or its equivalent, must meet requirements of creditworthiness and honesty, aside of other specifically stated by law and must have at least five years experience and knowledge in subjects related to their assigned tasks. (Articles 29, fraction VII Bis and VII Bis, 1 of the LGISMS, as well as 15, fractions VIII Bis and VIII Bis 1, of the LFIF, and Articles 56 to Articles 58 of the LISF project).</p> <p>Article 138 Bis of the LGISMS and 110 Bis of the LFIF (Article 51 of the LISF project) establish that those persons that acquire shares, violating the prohibitions established in the laws, cannot exercise the corporate and economic rights that correspond to those shares, and the insurance companies will not register them in the shareholders registry. The insurers have to inform the CNSF about such situation. This provision remains in Article 51 of the LISF.</p> <p>The CNSF, by agreement of its governing Board can, at any time, determine the removal of or adjourn any member of a company's Board, its compliance officer, general director, commissary, directors, and managers, fiduciary's representative or senior managers, who may compromise the firm with their signature, in the cases where the CNSF deems that they do not possess enough technical quality, honesty or creditworthiness for the performance of their duties; when they do not comply with the requirements, or when they seriously or repeatedly infract the Law or its derived general provisions.</p> <p>Likewise, the Commission may, with the agreement of its governing Board, order the removal or adjourn of insurance institutions' external auditors, as well as disqualify such persons, when they seriously or repeatedly infract the law or its derived general provisions. (Articles 31 of the LGISMS and 82 of the LFIF -Article 64 of the LISF project).</p> <p>The CNSF, through general provisions, states the norms that institutions must follow to verify the compliance with the respective requisites, as well as the criteria for the</p>

	<p>integration of files aimed to prove the fit & proper tests. Additionally, institutions must inform the CNSF about any new appointment (Articles 29 VII Bis and VII Bis 1 of the LGISMS; as well as 15 VIII Bis and VIII Bis 1 of the LFIF, and Articles 56 to 58 of the LISF project).</p> <p>The CNSF can request information to other federal authorities, regarding appointments by financial institutions, even without a formal procedure. That information is used to evaluate the fitness and propriety of key officers. Also, when necessary, this information can be requested to international supervisors.</p> <p>Legal provisions establish impediments to Board members, officers, independent auditors, in exercising their duties within the institution, and to their relatives to avoid conflict of interests. Additionally, they state that Board members should avoid situations that may imply conflict of interests. (Articles 29 VII Bis, VII Bis 1, 32 and 105 of the LGISMS; as well as 15 VIII Bis, VIII Bis 1, 83 and 65 of the LFIF -Articles 56 to 58, 60, 310 to 312, 314 to 317 of the LISF project).</p> <p>Institutions are responsible for the fit and proper requirements compliance of Board members and functionaries. Institutions should verify that Board members and officers comply with such requirements at least annually, and must submit a report on the compliance with these requirements to the CNSF. (Arts. 29 VII Bis 4 of the LGISMS and 15 VIII Bis 4 of the LFIF -Article 61 of the LISF project).</p> <p>Financial and actuarial independent auditors must have a professional certification issued by their respective professional associations (IMCP or CONAC, respectively). In the specific case of actuaries, they can also prove to the CNSF that they have the sufficient knowledge required to perform their tasks (Articles 105 of the LGISMS and 65 of the LFIF-Articles 310, 311 y 316 of the LISF project); in this latter case, requirements are equivalent to those required by the CONAC.</p> <p>Legal provisions foresee that independent actuarial and financial auditor's certifications should be granted by their respective professional association, IMCP or CONAC, respectively (Articles 105 of the LGISMS and 65 of the LFIF-Articles 310, 311 y 316 of the LISF project). Both organizations issue standards that have codes of conduct and they have disciplinary bodies that monitor their compliance.</p>
Assessment	Observed
Comments	<p>The range of individuals to whom fit and proper requirements apply is appropriate according to international standards. It includes Board members; the normative comptroller, the CEO, and senior management who have positions which are two levels below that of the general director or its equivalent.</p> <p>The actions allowed by regulation to be taken by the CNSF against those persons that acquire shares, violating the prohibitions established in the laws, like the disallowance to exercise corporate and economic rights that correspond to those shares, can be deemed equivalent to a disposal of their interests. Actions in the past in this respect have been taken and resulted in the non-acquisition of shares.</p> <p>The CNSF has a track record of acting; determined on the removal of high rank officers of insurers and surety entities, with disregard of the size and importance of the enterprise, in occasions where the CNSF deemed that the person did not possess enough technical quality, honesty or creditworthiness for the performance of the duties.</p>

	<p>The CNSF requirements to file the approval of the fit & proper tests are concise; and include police records, credit reports and professional qualifications.</p> <p>The CNSF has requested and used information in several occasions, from other federal authorities and foreign supervisors, regarding appointments by financial institutions even without a formal procedure.</p> <p>Insurance companies are required to establish internal controls that address conflict of interests and also more directly the CNSF requires for Board members to avoid situations that may imply conflict of interests.</p> <p>As part of the reporting, institutions verify that Board members and officers comply with fit and proper requirements at least annually, however, CNSF's expectation is to receive negative information on an immediate knowledge basis.</p> <p>The cooperation with the professional associations IMCP or CONAC works well for the CNSF having similar expectations on the quality and ethic standards that these professionals should apply. Both organizations have codes of conduct and they have disciplinary bodies that monitor effectively their compliance.</p> <p>With the introduction of the new solvency regime, with the stronger focus on governance, consideration should be made to include an interview as part of the fit and proper process for key officials.</p>
<p>Principle 8.</p>	<p>Changes in control and portfolio transfers</p> <p>The supervisory authority approves or rejects proposals to acquire significant ownership or any other interest in an insurer that results in that person, directly or indirectly, alone or with an associate, exercising control over the insurer.</p> <p>The supervisory authority approves the portfolio transfer or merger of insurance business.</p>
<p>Description</p>	<p>The LGISMS and the LFIF state that the control of an insurance or surety institution is obtained with at least 30 percent of the representative shares; when control is exercised over the stockholders' general meeting; when someone has the power to appoint or remove directors from the Board and other executive committees, or when control over the institution is exercised by any other mean. (Articles 29, fraction II of the LGISMS and 15, fraction III of the LFIF-Article 50, fraction II of the LISF project.)</p> <p>Authorization is required to acquire the control of an insurer. Those aiming to control an insurance institution should be previously authorized by the SHCP, with a favorable opinion from the CNSF and should meet all legal requirements. Additionally, institutions should provide, to the SHCP and to the CNSF, all the information required about the persons that acquired the shares, directly or indirectly, in the form and terms established by the general provisions (Articles 29, fraction II of the LGISMS and 15, fraction III of the LFIF-Article 50 fractions I and II of the LISF project).</p> <p>Individuals or persons associated with others, who pretend to acquire more than 5 percent of the shares of an insurer, must get approval from the SHCP, with a favorable opinion from the CNSF. Those acquiring between 2 percent and 5 percent of the shares must notify the SHCP within three business days following the acquisition or transmission. (Articles 29, fraction II of the LGISMS and 15, fraction III of the LFIF-Article 50 fraction II of the LISF project).</p>

	<p>There is no distinction in the law on foreign stockholders; and as such, foreign ownership should meet the same requirements as those applicable to domestic shareholders. However, some additional restrictions, as stated in the international agreements between Mexico and the home country of the foreign investment, may apply (Articles 29, fraction II and 33-F of the LGISMS and 15, fraction III of the LFIF-Article 50 fraction II and 78 of the LISF project).</p> <p>The requirements issued for those pretending to acquire control over an institution are the same as those issued for constituting an insurance company. Regulation also establishes the information that the insurers must provide regarding the persons that acquire, directly or indirectly, shares representing their paid in capital, or in the event that one or more shareholders seek to control the administration of those institutions. This required reporting includes, among other things:</p> <ul style="list-style-type: none"> • The list of shareholders that pretend to take the control of the insurance or surety institution. The list must contain: full name, nationality, address and occupation; the subscribed capital of each purchaser, and how they will pay it, as well as the origin of those resources. • The curriculum vitae must be attached if the buyers are individuals.; and, in the case of legal entities, they must submit a certified copy of the official document that establishes the setting up of the company, as well as their credit history as issued by a credit bureau. • The list of the members of the Board of Directors, the general director, officials two levels below the general director and the comptroller officer, in case that they are different from those that have been working in the institution. <p>The LGISMS, the LFIF, and the Law that Regulates Financial Groups (Ley para Regular las Agrupaciones Financieras, LRAF), state provisions that are related to transparency requirements for shareholders, as well as for clarifying the origin of financial resources. These provisions are applicable to persons who directly or indirectly acquire shares from an institution (Article 41 of the LISF project).</p> <p>The SHCP has the power to grant or deny the approval if an applicant does not meet the requirements adequately, and if any aspect related to shareholder's transparency and proof of the origin of financial resources is not explained (Articles 29, fraction II of the LGISMS and 15, fraction III of the LFIF)-Article 50, fraction II of the LISF project)</p> <p>The companies that have control over an insurance or surety institution will be subject to the inspection and supervision of the CNSF, and the provisions established in the LGISMS and the LFIF will apply to them, as well as to its shareholders. Institutions must provide the SHCP and the CNSF with the information they require regarding those who directly or indirectly acquired the representative shares of its paid in capital paid according to the established conditions.</p> <p>Requirements for the approval to acquire the control of an institution are stated in detail in Articles 29, fraction II of the LGISMS and 15, fraction III of the LFIF (Article 50, fraction II of the LISF project). In particular, the control of the entity should at any time be well determined.</p> <p>Institutions must provide to the SHCP and to the CNSF the information that has been requested relative to persons that directly or indirectly had acquired shares,</p>
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	<p>according to the forms and terms established through general provisions. (Articles 29, fraction II of the LGISMS and 15, fraction III of the LFIF, -Article 50, fractions I and II of the LISF project)</p> <p>A previous authorization from the SHCP is required for any portfolio transfer from one insurance institution to another. The SHCP will grant or deny such authorization on a discretionary basis (Articles 66 of the LGISMS and 15, fraction XI of the LFIF, Article 270 of the LISF project).</p> <p>In order to be approved, a portfolio transfer must meet the legal requirements as well as the procedures established for that purpose (Articles 66 of the LGISMS and 15 of the LFIF-Article 270 of the LISF project).</p> <p>The supervisory authority requires that the interests of both policyholders and beneficiaries are protected when the insurance business is transferred. They can, within the terms and conditions issued by Law, argue in their own defense, granting or not their agreement for the transfer, or in its case, ask the liquidation of their policies (Articles 66 of the LGISMS and 15, fraction XI of the LFIF -Article 270 of the LISF project).</p>
Assessment	Observed
Comments	<p>The insurance law defines quantitatively (30 percent or more of shares) and qualitatively (dismissal and appointment of the Board) the control of an institution. To acquire the control of an insurer, authorization from the SHCP is required. In the LISF project, the authorization function is transferred to the CNSF and the percentage of the shares defining control is lower than 20 percent.</p> <p>The requirements for those intending to acquire control over an institution are the same as those issued for constituting an insurance company and there is no distinction on the ownership requirements between foreign and national stockholders; however, some additional restrictions as stated in the international agreements between Mexico and the home country of the foreign investment may apply.</p> <p>Individuals or persons associated with others, who intend to acquire more than 5 percent of the shares of an insurer, must get approval from the SHCP, with a favorable opinion from the CNSF. Those acquiring between 2 percent and 5 percent of the shares must notify the SHCP within three business days following the acquisition or transmission. Detailed disclosure of the persons that acquired or have the intension to acquire the shares, is required. The information required includes: full name, nationality, address and occupation; the subscribed capital of each purchaser and how they will pay it, as well as the origin of those resources. For individuals, their curriculum vitae must be attached, and, in the case of legal entities, the constitutive act is required, as well as their credit history as issued by a credit bureau.</p> <p>The CNSF, when carrying out its supervisory duties, have requested on several occasions information regarding those who directly or indirectly acquired the representative shares of its paid in capital paid according to the established conditions.</p> <p>The supervisory authority has been involved in several portfolio transfer requests. The outcome of the approvals has depended on the assessment of the equitable treatment of both policyholders and beneficiaries.</p>

	<p>We also recommend that CNSF should be the agency to approve or disapprove of a particular transfer of business or merger, rather than SHCP as at present. This would place the decision making authority with the organization that will be evaluating the requested transaction.</p>
<p>Principle 9</p>	<p>Governance The corporate governance framework recognizes and protects the rights of all interested parties. The supervisory authority requires compliance with all applicable corporate governance standards.</p>
<p>Description</p>	<p>Corporate governance is required for the supervised entities in Articles 29, 29 Bis, and 29 Bis-1 of the LGISMS and 15, 15 Bis and 15 Bis-1 of the LFIF (Articles 70 and 72 of the LISF project).</p> <p>The CNSF makes use of its Corporate Surveillance System to supervise compliance with corporate governance requirements.</p> <p>The Board of Directors is responsible for defining and approving: a) the norms and policies regarding investment risk, underwriting, integral risk management, reinsurance, financial reinsurance, commercialization, institutional development and financing of its operations, as well as the strategic targets on these matters and the mechanisms to monitor and evaluate its compliance policies; b) the rules for avoiding conflicts among the different areas of the institution when exercising their corresponding functions; c) the constitution of counseling committees that report directly, or through the general director, to the Board of Directors in order to define the policy and strategy regarding investments, integral risk management, and reinsurance. The members of the Board and other committee members must abstain from participating in the deliberation and voting on any matter that implies to them a conflict of interest. They shall keep total confidentiality regarding those acts related to the insurance institution, as well as regarding all deliberations done by the committees, without prejudice of the institution's duty to give all the information requested to it according to Law; d) financial reinsurance operations and the emission of subordinated obligations or other credit titles; appointment of the company's compliance officer.</p> <p>The Board is also responsible for approving, with the vote of at least 75 percent of the members and the majority of the independent members, the norms to prevent and avoid conflict of interests, as well as for the contracts or operations with related firms, when such operations exceed the amount defined by the shareholders' assembly.</p> <p>There must be independent advisors as members of the Board of Directors. Article 29 VII of the LGISMS and 15 VIII of the LFIF, (Article 55 of the LISF project) establishes that the number of members in the Board of Directors must be between five and 15 and, at least, 25 percent of them must be independent advisors. The law establishes the requirements common to all members of the Board, which were made compatible, when applicable, to those established in the regulatory framework of other sectors of the financial market. These include the requirement of high technical quality, honorable, good credit history, as well as knowledge of financial, legal and administrative matters; hold their residence in Mexican territory for the independent Board members; the prohibition of being members of the Board of another insurance institution. In order to constitute a meeting of the Board of Directors, 51 percent of the members must be present including, at least, one independent member.</p>

The Board of Directors has the obligation of constituting counseling committees which should report directly or through the CEO to it, and their main purpose is to help the Board designing the investments, general risk management, and reinsurance policies and strategies. As stated by law, the CNSF has identified the minimum required committees that must be established by the Board of Directors, specifying their functions, norms of integration, frequency of meetings and information to be considered; at present, the Investment Committee and Integral Risk Management Committee are specified in Chapter 6.6 of the SSLO.

The requirement for every insurance company to have a compliance officer with responsibility for supervising the compliance with all internal and external applicable regulatory frameworks is established in Articles 29, VII BIS-3, BIS-1 of the LGISMS and 15 VII BIS-3, BIS-1 of the LFIF, (Article 72 of the LISF project). The compliance officer, who is appointed by the Board of Directors, should be provided with sufficient resources for an adequate performance of the position duties:

- propose to the Board adopting measures to prevent conflict of interests and to avoid an improper use of information;
- receive the external actuarial and accountant auditors' reports; and, when applicable, the commissary's reports, for his information and analysis;
- receive and monitor the regularization plans according to the provisions of Articles 74, 74 Bis of the LGISMS and 104, 104 Bis of the LFIF; (Articles 320 and 321 of the LISF project);
- give opinion and monitor self-correction programs that the company must follow in order to correct irregularities or nonfulfillment of internal and external applicable regulations, as it is mentioned in Article 74 Bis-2 of the LGISMS and 104 Bis 2 of the LFIF; (Article 322 of the LISF project);
- present annually to the CNSF a report on his duties' compliance; and
- inform the Board of Directors, the CNSF, and when applicable, the CEO of any serious irregularity detected while carrying out his duties.

The compliance officer can be sanctioned for not performing adequately the duties, according to the LGISMS and LFIF.

According to Articles 29 of the LGISMS and 15 of the LFIF (Article 55 of the LISF project) the CEO must elaborate and submit for the approval of the Board of Directors, the policies for an efficient management of the company's human and material resources; as well as provide precise data and information to the Board of Directors for its adequate decision making.

Professional experience is required by law for the CEO position.

Article 29 Bis of the LGISMS and 15 BIS of the LFIF (Article 70 of the LISF project) establish that the Board of Directors has the obligation of constituting counseling committees which should report directly or through the CEO to it, and their main purpose is to help the Board in designing the investments, general risk management, and reinsurance policies and strategies.

Chapter 14.3 of the SSLO establishes that the institutions must disclose, as part of the disclosure notes in their annual financial statements, the total amount, as a whole, of the remuneration and any other compensation received, within that year, by their Board members, CEO, CFO and other high level employees. The

	<p>remuneration and compensation should be paid as bonuses or stock options, or as pension, retirement, or similar plans, the institutions must disclose the nature of the remunerations and compensations that, as a whole, were received by the above mentioned persons.</p> <p>Currently, there is no requirement for insurers to have a permanent actuarial position.</p>
Assessment	Largely Observed
Comments	<p>The insurance law entrusts the management of the company to a Board of Directors and a CEO. The duties of the Board are well defined and include defining and approving policies and rules for risk subscription, investments, integral risk management, reinsurance, financial reinsurance, marketing, institutional development and financing its operations; as well as to define the strategic objectives in this matter; and the mechanisms for monitoring and evaluating its progress.</p> <p>The Board skills and independence is guaranteed with the requirement on its composition to include 25 percent of independent Board members; and on the members to have high technical knowledge, be honest with good credit history, and knowledgeable in financial, legal and administrative matters. Further, in order to constitute a Board meeting, 51 percent of the members must be present including, at least, one independent member.</p> <p>Conflict of interests is at the Board level. The Board is also responsible for approving, with the vote of at least 75 per cent of the members and the majority of the independent members, the norms to prevent and avoid conflict of interests, as well as for the contracts or operations with related firms, when such operations exceed the amount defined by the shareholders' assembly.</p> <p>The Board of Directors has the obligation of constituting counseling committees. The CNSF requires as a minimum the Investment Committee and Integral Risk Management Committee. Chapter 6.6 of the SSLO will define functions and attributes of a Reinsurance Committee.</p> <p>Additionally, the LISF project establishes that the Board has the duty, which cannot be delegated, to set up advisory committees that will report, directly or through the general director of the institution, to the Board. These committees must aim to provide advice on the design, operation, monitoring and evaluation of the policies and strategies that integrate the aspects of the corporate governance system.</p> <p>The Board is required to appoint the mandatory compliance officer for the entity. The compliance officer has the responsibility to supervise the compliance with all internal and external applicable regulatory frameworks. Annually, it reports to the CNSF and has direct access to the Board. The CNSF has to rely on the compliance officer and underperformance has been sanctioned in the past.</p> <p>While the law requires that the compliance officer is provided with sufficient resources to fulfill the responsibility, practice has shown that a stronger entity is required for this internal surveillance position. This weakness is addressed in the new law and it replaces the Compliance Officer, with an audit committee in Article 72 of the LISF project. The LISF states that institutions must have an audit committee that will be responsible of monitoring the adherence to the internal regulations set by the Board of Directors, and the compliance with the applicable laws and administrative provisions. This committee must be composed of at least three, and not</p>

	<p>more than five, Board members and must be chaired by an independent Board member. Among the functions of the audit committee, it must monitor the compliance with the internal audit and internal control activities of the institution. The audit committee must keep the Board informed about the performance of its duties.</p> <p>The CNSF Corporate Surveillance System is used to supervise compliance with corporate governance requirements. This system allows having information related to the compliance with applicable regulations. In this system, institutions are required to report, at least quarterly, among other things, information regarding their shareholders (e.g., number of shares, proceedings and resolutions of the assembly); their Board of Directors (e.g. meetings, integration, fulfillment of the requirements to be members of the Board); committees (e.g. integration, sessions); top officials (e.g., compliance with requirements, position and main data); external auditors; legal comptroller; price vendors used to valuate investments.</p> <p>Further strengthening of the Board is pursued in Article 70 of the LISF project adding to the responsibilities of the Board.</p> <ul style="list-style-type: none"> • The definition and approval of: the system of corporate governance of the institutions and mechanisms to monitor and evaluate, permanently, their operation and compliance, and the necessary measures for their correct functioning; the policies and rules regarding the subscription and the design of insurance, surety and reinsurance products, as applicable, financial reinsurance, marketing, development of the institutions and funding of their operations and strategic objectives in these areas; and mechanisms to monitor and evaluate, permanently, their operation and compliance; general policies concerning the provision of services and the attention of their users, and the information disclosure; the request for the authorization of internal models to calculate the solvency capital requirement; the appointment of the actuary and the independent actuary, who will pass judgment on the situation and adequacy of technical reserves that the institution must constitute according to the legislation, and the appointment of independent external auditors, who will pass judgment on the annual financial statements of the institution. • The establishment of mechanisms to control, permanently the design and technical and financial feasibility of insurance products or sureties of the institution; the valuation and registration of assets and investments of the institution; the setting up, valuation and registration, as well as the adequacy of technical reserves; the adequacy of assets and investments to cover the Investment Base of the institution; the calculation of solvency capital requirement; the adequacy of the eligible own funds to support the solvency capital requirement of the institution; investments and adherence to the investment policy approved by the Board; the risks assumed by the institution; the financial capacity to retain them, and reinsurance. • The revision and evaluation, at least annually, of the results of the dynamic solvency test of the institution. <p>The CEO responsibilities are clearly defined as to elaborate and submit for the approval of the Board of Directors, the policies for an efficient management of the company's human and material resources; as well as to provide precise data and information to the Board of Directors for its adequate decision making.</p>
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	<p>Professional experience of at least five years in high decision taking positions is required by law for the CEO position.</p> <p>There is disclosure of the total remuneration of Board members, CEO, CFO and other high level employees, thus, adding transparency to the incentives. Further, the long term character of the certain type of remuneration, like bonuses or stock options or pension, retirement or similar plans, encourages a prudent behavior. However, regulation does not require the prohibition of incentives that would encourage imprudent behavior.</p> <p>Current, there is no requirement to have a permanent actuarial position, but the actuarial work is required to be performed by a qualified actuary. The LISF project (Article 69 fraction IV of the LISF project) strengthens the actuarial function within the system of corporate governance by stating that institutions must have an effective and permanent actuarial function in charge of coordinating the work related to the actuarial design and technical feasibility of insurance products or surety technical notes; coordinating the calculation and valuation of technical reserves; assessing the reliability, adequacy, quality and consistency of the data used in the calculation of reserves; comparing the estimation of reserves with previous experience; informing the Board about the results of their activities; and giving their opinion to the Board on risk underwriting and reinsurance contracts. The actuarial function must be performed by persons with sufficient knowledge of actuarial and financial mathematics, and statistics.</p> <p>One of the objectives of the LISF project is to enhance the corporate governance of the institutions according with the Article 69 of the LISF project. It establishes that the institutions need to have a corporate governance system to ensure sound and prudent management of their business. The implementation and monitoring of this system is the responsibility of the Board of Directors.</p>
Principle 10	<p>Internal control</p> <p>The supervisory authority requires insurers to have in place internal controls that are adequate for the nature and scale of the business. The oversight and reporting systems allow the Board and management to monitor and control the operations.</p>
Description	<p>When applying for a license, the application must be accompanied by a strategic implementation program of policies and rules regarding risk subscription, investments, integral risk management, financial reinsurance, marketing, institutional development and operations' financing, as well as the strategic objectives in such issues and the mechanisms to evaluate and monitor its compliance. Applicants must also present an action plan that should consider at least, the following: the starting or seed capital, the basis for its organization and internal control; the anticipated geographical coverage and market segments that they aim to attend, as well as the technical operation programs and the insurance underwriting in the business lines for which they are applying (Articles 16 of the LGISMS and 7 of the LFIF -Article 41 of the LISF project). Requirements are set on the internal controls. Among the requirements, internal controls need to address conflict of interests, delegating authority, responsibilities assignments, and segregation of duties.</p> <p>According to its Inspection and Surveillance Rules, the CNSF has the authority to perform (either ordinary, special or investigation) on-site inspections to the surety and insurance institutions which aim is to review, verify, revise and evaluate the resources, liabilities and assets, as well as its procedures, ongoing operations, control systems, or in general terms, any factor that might affect the financial, actuarial, legal or reinsurance position, no matter it is registered or not. The above</p>

<p>aims to adjust the parameters to comply with legal, regulatory, administrative and good practice provisions.</p> <p>Additionally, according to Articles 74 Bis of the LGISMS and 104 Bis of the LFIF (Article 321 of the LISF project) when, as a result of its inspection and surveillance activities, the CNSF identifies any kind of irregularities different from those specified in the above mentioned articles, it is entitled to grant the institution a 10-day period, starting from the notification date, to explain and justify such irregularities, and to submit a regularization plan that should contain remedial actions for the approval of the CNSF.</p> <p>The Board is required to appoint the mandatory compliance officer for the entity. The compliance officer has the responsibility to supervise the compliance with all internal and external applicable regulatory frameworks. Annually, it reports to the CNSF and has direct access to the Board.</p> <p>External auditors must present an audit report on the company's internal control. And according to Articles 105 of the LGISMS and 65 of the LFIF, (Article 305 of the LISF project) the submission and publication of financial statements is under stick responsibility of the administrators, commissaries and external auditors who should judge the authenticity of the information contained in such financial statements.</p> <p>The institutions must obtain an independent actuary's dictum regarding the situation and sufficiency of technical provisions that the institutions must integrate according to legal provisions. The actuarial dictum must be in accordance to the actuarial practices' standards pointed out by the CNSF through general provisions, as Chapters 7.7, 15.3 and 5.2 of the SSLO for insurance institutions. In addition, these articles state that the CNSF may, through general provisions, determine the dictums and the content of other reports issued by independent external auditors, and determine the information that should be disclosed at their dictums, about other services, and, in general terms, about professional and business relations that the auditors may have with its audited institutions or related enterprises.</p> <p>According to Articles 29 Bis of the LGISMS and 15 Bis of the LFIF, (Article 70 of the LISF project), the Board of Directors is obliged to define and approve policies and norms on integral risk management, as well as the definition of strategic objectives in such issues, and the mechanisms to evaluate and monitor its compliance. According to Chapter 8.6 of the SSLO, each institution's administrative Board should review, at least annually, the objectives, policies and procedures for the institution's risk administration.</p> <p>The Board is also responsible to integrate a committee aimed to manage the risks faced by the institution, quantifiable or not, as well as to oversee that the operations are carried out within the risk administration limits, policies, and procedures approved by the Administrative Board.</p> <p>The above mentioned committee will be convened by the institution's internal auditor or comptroller, who will be invited to its meetings and who will have voice but not a voting right.</p> <p>Additionally, Chapter 8.6 of the SSLO sets out prudential procedures for integral risk management that permits the measurement, monitor and control of different kinds of quantifiable risks, which have to be approved by the Board of Directors.</p> <p>The regulation requires that insurers must have an agile and timely internal</p>
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	<p>mechanism to carry out the processing and to provide a follow up to the reception and follow up of the insured's claims.</p> <p>The LPDUSF in Articles 1 to 4 and 11, fraction VII, establishes the protection and defense of the interests of financial services' users, among them, the insurance and surety policyholders and beneficiaries, which main task is to promote, advise, protect and defend the rights and interests of such users; to arbitrate their differences in an impartial way; and, to provide to the fairness in the relations between the users and the financial institutions, granting to the first elements to fortify the legal security in the operations they perform, and in the relationships they establish with the financial institutions, establishing by that, incentives that motivate the Board of Directors to provide suitable oversight of market conduct activities.</p> <p>According to the in-force legislation, the Board of Directors should receive reports on a regular basis, regarding the effectiveness or deficiencies of internal controls.</p> <p>Based on Article 101 of the LGISMS and 64 of the LFIF (Article 300 of the LISF project), the institutions' accounts must be adjusted to the accounting rules approved by the CNSF. In addition, Articles 105 of the LGISMS and 65 of the LFIF (Article 305 of the LISF project) state that both the submission and publication of financial statements will be the responsibility of managers, commissaries and external auditors, from the institution or company that sanctioned or reported on the authenticity of the information reported in the financial statements. They must verify that they disclose, reasonably, the financial and accounting position of the society and they will be subject to sanctions in the event that their presentation or publication does not conform to the requirements.</p> <p>Additionally, the Chapter 16.32 of the SSLO, institutions must send e-documents containing their financial information, according to the in-force Account Catalogue and other catalogues provided by the CNSF, which are used to capture such information.</p> <p>Articles 68 of the LGISMS and 79 of the LFIF (Article 267 of the LISF project) state that after obtaining the SHCP's authorization, institutions may invest in companies' equity which provide them services or with which they perform any operation. Such societies must be under the services and operations that the SHCP considers as complimentary or auxiliary to the ordinary institution's operations, the SHCP general rules and the CNSF's inspection and surveillance.</p> <p>In this regard, the SHCP issued the "Rules for the services and operations that institutions hire from or are carried out by third parties" (<i>Reglas sobre los servicios y operaciones que contraten o efectúen con terceros las instituciones</i>). It establishes the services that could be contracted with third parties, the minimum requirements that the contracts must have, the minimum aspects that the institutions have to check when hiring such services, and the establishment of contingency plans. Additionally, these rules establish that when insurance companies hire services and operations with third parties, they are not considered as substitutes of the obligations of the institution.</p> <p>The CNSF requires that insurance institutions have in place the internal auditory functions mentioned in the Chapter 8.6 of the SSLO. A compliance officer should provide a permanent surveillance to the control measures which are integrated to the daily operation processes, related to the record, documentation and liquidation of operations that imply any kind of risk, quantifiable or not, according to policies and</p>
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	<p>procedures established at the institution's manuals, as well as to be within the risk exposition limits. Explicit duties of the compliance officer are explained in Principle 9.</p> <p>Article 107 of the LGISMS and 67 of the LFIF, (Article 389 of the LISF project) state that institutions and other persons that, in terms of the applicable laws, are subject to the inspection and surveillance of the CNSF, must submit to the SHCP and to the Commission, in specific forms and terms, reports on its organization, operations, accounting, investments, or stock that may be asked for purposes of regulation, supervision, control, inspection, surveillance, statistics, and any other set established by the Law.</p> <p>In Mexico, the "appointment actuary" does not exist. However, the regulation requires an actuary to be responsible of the actuarial function, to comply with various obligations. It is important to note that Article 69, fraction IVf of the LISF project, creates the actuarial function within the system of corporate governance by stating that institutions must have an effective and permanent actuarial function in charge of: coordinating the work related to the actuarial design and technical feasibility of insurance products or surety technical notes; coordinating the calculation and valuation of technical reserves; assessing the reliability, adequacy, quality and consistency of the data used in the calculation of reserves; comparing the estimation of reserves with previous experience; informing the Board about the results of their activities; and of giving their opinion to the Board on risk underwriting and reinsurance contracts. The actuarial function must be performed by persons with sufficient knowledge of actuarial and financial mathematics, and statistics.</p>
Assessment	Largely Observed
Comments	<p>The CNSF reviews the internal controls and checks their adequacy to support the operation at the licensing stage. The adequacy and proper functioning of the internal controls is then supervised during on-site inspections. The requirements set on the internal controls are broad and cover the main areas like conflict of interests, delegating authority, responsibilities assignments, and segregation of duties. Any kind of irregularities are required to be corrected through a written notification.</p> <p>The Board of Directors is obliged to define and approve policies and norms on integral risk management and the mechanisms to evaluate and monitor its compliance. Further the objectives, policies and procedures for the institution's risk administration are reviewed on an annual basis.</p> <p>The Board is also responsible for establishing a committee aimed to manage the risks faced by the institution, quantifiable or not, as well as to oversee that the operations are carried out within the risk administration limits, policies and procedures approved by the Administrative Board.</p> <p>The Board is required to appoint the mandatory compliance officer for the entity. The compliance officer has the responsibility to supervise the compliance with all internal and external applicable regulatory frameworks. Annually, it reports to the CNSF and has direct access to the Board.</p> <p>The LISF project replaces the compliance officer with an audit committee. The above mentioned committee will be convened by the institution's internal auditor or comptroller, who will be invited to its meetings and who will have voice but not a voting right.</p> <p>In the current regulatory framework, the Board is implicitly the ultimate responsible for the internal controls and risk management of the company. The explicit</p>

	<p>responsibility, with respect to the internal controls, is stated in Article 69 of the LISF project that assigns the responsibility of the Board of Directors to define and adopt the corporate governance system, which includes the system of the internal control, and the responsibility to monitor and evaluate its operation and compliance, permanently, and to take the necessary measures for its functioning.</p> <p>On an annual basis, certified external auditors must present an audit report on the company's internal control. , The sufficiency of the technical reserves must also be certified by an independent actuary.</p> <p>Through Chapter 8.6 of the SSLO, the CNSF sets out prudential procedures for integral risk management that permits the measurement, monitor and control of different kinds of quantifiable risks, which have to be approved by the Board of Directors. These provisions are wide ranging and include the main risks.</p> <p>The LISF project applies a principle based approach rather than providing an exhaustive set of requirements. It establishes that the insurance companies must have an effective system that includes the policies, strategies, processes and reporting procedures that are necessary to monitor, manage, measure, control, mitigate and inform the Board of Directors, continuously, about the risks to which, at individual and aggregate level, the company is exposed. The integral risk management system should be handled by a specific area within the organizational structure of the institution.</p> <p>While there are indirect incentives for the Board to assume responsibility on market behavior through its overall risk management role, current legislation does not allocate explicitly the market behavior responsibility to the Board. The new law addresses this in Article 69, where it establishes the obligation of the Board of Directors to define and approve the underwriting policies, marketing and product design, among others, and to establish general policies concerning the provision of services and attention to their users, as well as policies regarding information disclosure.</p> <p>The institutions' accounts must be adjusted to the accounting rules approved by the CNSF and certified by external auditors. The managers, commissioners and auditors must verify that the financial statements disclose, reasonably, the financial and accounting position of the society under the penalty of a sanction. Similarly, the institutions and mutual insurance societies must obtain the opinion of an independent actuary on the status and adequacy of technical reserves that institutions and companies must constitute in accordance with the regulations. The completion of the actuarial opinion must conform to the standards of actuarial practices established by the CNSF.</p> <p>Supporting the supervisory work of the CNSF, e-documents containing the financial information, according to current catalogues provided by the CNSF. are required.</p> <p>The services that could be contracted with third parties, the minimum requirements that the contracts must have, the minimum aspects that the institutions have to check when hiring such services, and the establishment of contingency plans are all regulated. Additionally, these rules establish that when insurance companies hire services and operations with third parties, they are not considered as substitutes of the obligations of the institution.</p> <p>Additional strengthening of the outsourcing regulation will be achieved when extending this responsibility to the Board. Moreover, Article 268 of the LISF project</p>
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	<p>establishes that the CNSF is entitled, at any time, to perform acts of supervision, inspection and surveillance to the institution's service providers. Also, the article states that the CNSF will establish provisions to re-establish the requirements related to operational and control processes that the institutions should require from the third parties contracted.</p> <p>Article 269 of the LISF project, establishes that contracting services with third parties does not exempt the insurance companies, their directors, or employees from their legal obligations.</p> <p>The internal audit function is required for insurers and a compliance officer should provide a permanent surveillance to the control measures which are integrated to the daily operation processes that imply any kind of risk, quantifiable or not. Explicit duties of the compliance officer are explained in Principle 9.</p> <p>The Article 69 fraction II of the LISF project strengthens the role of internal audit, noting that insurance companies must have an effective and permanent system to review the compliance with internal and external regulations. Internal audit should be objective and independent of the operational functions of the institution, and will be responsible, among others, of verifying the right functioning of the internal control system, its consistency with the objectives and guidelines, and whether it is sufficient and appropriate for the activity of the institution.</p> <p>Current, there is no requirement to have a permanent actuarial position, but the actuarial work is required to be performed by a qualified actuary. The LISF project (Article 69 fraction IV of the LISF project) strengthens the actuarial function within the system of corporate governance by stating that institutions must have an effective and permanent actuarial function.</p>
Ongoing Supervision	
Principle 11 Market analysis Making use of all available sources, the supervisory authority monitors and analyses all factors that may have an impact on insurers and insurance markets. It draws the conclusions and takes action as appropriate.	
Description	<p>The Internal CNSF's Bylaws state that the CNSF should: analyze the financial status of the insurance and surety sectors; perform studies on specific financial issues that affect those sectors, persons and entities that provide services to such markets or are related to them; perform economic and actuarial studies related to insurance and surety matters; compile, study, design, disclose and publish statistics related to surety and insurance sectors; among others.</p> <p>Similarly, the CNSF issues several publications,(mainly through its website, such as a journal on the current status of the insurance and surety sectors (<i>Actualidad en Seguros y Fianzas, ASyF</i>), and a market analysis release (<i>Boletín de Analisis Sectorial, BAS</i>) that analyses the performance of both sectors.</p> <p>Every quarter (the periodicity required to receive financial information from the companies), the CNSF presents to its Board an analysis of the market dynamics with explanations of any particular aspects that may arise.</p> <p>The CNSF monitors the market conditions constantly and aims to identify trends and possible future scenarios, so the supervisory authority is well prepared to take action at an early stage, if required. Periodically, the CNSF performs stress or dynamic solvency tests to identify trends and possible future scenarios and issues.</p> <p>In preparing its studies, the CNSF uses the quantitative and qualitative information</p>

it receives concerning the insurance and surety sectors, aiming to perform a complete analysis of the market. The market analysis is public, although reserved data from private companies is used.

The CNSF current publishes financial, technical and statistical information of the business lines that integrate the insurance and surety sectors. Such information is public and can be consulted at the CNSF website; the CNSF's main publications are:

- “*Actualidad en Seguros y Fianzas*,” a journal on the current status of the market;
- “*Boletín de Análisis Sectorial*,” a market analysis release (quantitative and qualitative);
- “*Reporte Informativo Trimestral*,” a quarterly press release; and
- “*Anuario Estadístico de Seguros y Fianzas*,” “The Insurance and Surety Statistics Yearbook.”

Likewise, current and historical financial information is publicly available, financial statements per company, as well as the regulatory parameters derived from them. As well, statistics for each business lines is also available.

Some other organisms disclose aggregated data on these sectors: BANXICO publishes data on investments and the sectors' participation in national savings account; INEGI publishes on the sectors' growth and its participation in the aggregated demand and supply, among other.

AMIS provides information on premiums, claims, and other general statistics from the different insurance business lines.

The CNSF submits to its Board, at least quarterly, a report on the insurance and surety markets performance and regulatory compliance. Such report analyzes both particular and general situations that had influenced the performance of the whole market, a particular business line or even a single company.

Regular information is provided to international organizations and other national agencies that require it to carry out their corresponding analyses. Additionally, the CNSF conducts regular stress testing analysis (*Dynamic Solvency Tests*) at market level every six months, in order to identify trends and potential risks affecting insurance markets

The recently established Financial Stability Council coordinates the response of government agencies to systemic dangers to the financial system. This council aims to supervise institutions in an integrated way and consider the viability of individual financial entities and the system as a whole.

The CNSF performs comparative international analysis—on specific subjects, mainly in insurance regulatory and supervisory matters—as part of the regulation and supervision process drafting. The CNSF also takes into consideration the international organizations analysis to foresee and learn how the development of the sectors can be affected.

In this sense, for many years the CNSF has maintained an active participation in different international organizations related to insurance regulation and supervision. Since 1994, the CNSF is member of the Executive, Technical and Implementation

	<p>(former Emerging Markets) Committees of the International Association of Insurance Supervisors (IAIS); during 2001-2004, the CNSF's president was chair of IAIS executive Committee. The CNSF is also member of the Latin American Association of Insurance Supervisors (ASSAL), and currently chairs this organization. Finally, since 2007, the CNSF's president chairs the Insurance and Private Pensions Committee (IPPC) of the Organization for Economic Co-operation and Development (OECD).</p> <p>The CNSF maintains a continuous monitoring of the macroeconomic risks that may affect insurance and surety companies, as well as to their policyholders and beneficiaries (i.e. inflation, interest rates, economic growth, etc.) As well, particular risks of insurance companies, or financial groups that may affect the financial solvency and stability of the whole sectors, are analyzed (i.e., fusions and acquisitions, insolvency, portfolio transfers, hardening of the reinsurance market, etc.).</p>
Assessment	Observed
Comments	<p>The CNSF webpage is a comprehensive source of information with sufficient time series and granularity to allow running detailed analysis of the market, including top down stress tests on the asset side of the insurers. The data is collected through statutory reporting forms, and this is done electronically. The data is current and run through integrity tests carried out by a dedicated area.</p> <p>The CNSF performs periodical analysis of the insurance and surety market conditions. The collected information through the statutory reporting is used to produce high quality market analyses that are conveyed to the public and other financial authorities in the form of reports and publications. The regular publications cover both quantitative (<i>Actualidad en Seguros y Fianzas</i>) aspects, as well as qualitative aspects (<i>Boletín de Análisis Sectorial</i>) of the market dynamics.</p> <p>Quarterly, the CNSF presents to its Board an analysis of the market dynamics with explanations of any particular aspects that may arise. And periodically, the CNSF performs stress or dynamic solvency testing to identify trends and possible future scenarios and issues.</p> <p>The information is used not only to monitor possible negative trends of the sector but also in some occasions to modify prudential regulation. Like the lowering of the technical interest after observing the 2002-2003 interest rates reduction path. Another example where information has been used for supervisory preventive actions is toward the end of 2008 through December 2009, in response to the financial turmoil, the CNSF implemented preventive measures to provide insurance companies with flexibility in the re-composition of their investment portfolios, if necessary, when they could not cover their regulatory parameters due to the economic situation and with the purpose of re-establishing financial stability.</p> <p>In addition to the CNSF webpage containing current and historical financial information that includes financial statements per company, the regulatory parameters derived from them, as well as the statistics for each business lines; AMIS complements the information of other technical parameters like premiums and claims. Data on investments and the sectors' participation in national savings accounts is published by BANXICO and other demographic and socioeconomic data by the INEGI. Further coordination and use of data coming from the whole financial sector to alert on systemic risks is expected to come from the recently established Financial Stability Council.</p>

<p>Principle 12. Reporting to supervisors and off-site monitoring</p> <p>The supervisory authority receives necessary information to conduct effective off-site monitoring and to evaluate the condition of each insurer as well as the insurance market.</p>	
<p>Description</p>	<p>Articles 107 of the LGISMS and 67 of the LFIF (Articles 388 and 389 of the LISF project) entitle the CNSF to periodically ask for financial, statistical, actuarial information, or any data of other nature for regulation, supervision, inspection, surveillance and statistical purposes. In this respect, the CNSF has issued diverse regulatory provisions that specifically state the form, terms and frequency of the reports that the institutions must submit to the CNSF.</p> <p>External and actuarial auditors must submit, as a minimum, an audit opinion annually. The information that companies must send periodically is required on a quarterly frequency, unless particular situation of a company which places it in a regulatory action level requiring information to be sent on a monthly basis. In addition, Article 107 of LGISMS and Article 67 of LFIF (Article 389 of the LISF project) give the CNSF the authority, which is exercised as required, to request more detailed additional information whenever there is a need and with the necessary frequency.</p> <p>The LGISMS and the LFIF, as well as applicable provisions do not distinguish between the financial reports and the requirements of private companies and government sponsored insurers.</p> <p>Articles 99, 101, 102, 103, 104 of the LGISMS and 63, 64, and 65 of the LFIF (Articles 296, 300, 301, 302 and 303 of the LISF project) state that the CNSF will set the basis for reporting and registration of assets, technical reserves, liabilities and capital, as well as other operations carried out by institutions, requiring that all the operations must be properly registered in their accounting books and registries previously defined by the Commerce Code and by the CNSF through diverse legal provisions according to the specific Accounts Catalogue approved, provided and updated by the CNSF. This catalogue includes entries for off-balance sheet operations and is based on general accepted accounting principles.</p> <p>Regarding outsourced operations, these are considered in Article 69 of LGISMS and 79-Bis of LFIF (Article 268 of the LISF project). The "Rules for the services and operations that institutions hire from or are carried out by third parties" establishes the services that could be contracted with third parties, the minimum requirements that the contracts must have, the minimum aspects that the institutions have to check when hiring such services, and the establishment of contingency plans. Additionally, these rules establish that when insurance companies hire services and operations with third parties, they are not considered as substitutes of the obligations of the institution.</p> <p>On the other hand, it is compulsory for insurance companies to submit reports from external auditors and actuarial auditors regarding the financial statements, as well as an assessment related to the sufficiency and the situation of technical provisions, according to the requirements stated in the CNSF's provisions.</p>

	<p>Similarly, the information should be presented by the company's employees under declared protest of truthfulness; therefore, any detected irregularity on that information is responsibility of the company. In case that the information analysis detects an irregularity or data inaccuracy, it can be returned for its correction, implying by this, that the company must seek to replace it in order to ensure the truthfulness of the CNSF's database systems. The need for data correction can generate an administrative sanction.</p> <p>The review of the CNSF's systematic reporting requirements is done regularly to ensure its efficiency. For this purpose, meetings with the insurance and surety sector are scheduled, when necessary, to discuss any suggestions or observations regarding any particular concern on this matter.</p> <p>Articles 105, 107 of the LGISMS and 65 of the LFIF (Articles 304 and 389 of the LISF project) state that the CNSF is entitled to determine the terms and form for the presentation of periodical financial reports and annual financial statements. To do so, the CNSF requests in a quarterly basis financial statements reflecting the company's situation. In those cases, where the CNSF deems that there is a need of a close company's follow-up, the information request can be done on a monthly basis. Independently, regulation requires insurance and surety undertakings to inform immediately any material change that affect the assessment of their financial condition.</p>
Assessment	Observed
Comments	<p>The CNSF has sufficient powers to request the necessary supervisory data, in the required level of granularity and at the frequency that deems necessary, according to the conditions of both, the market and the supervised entity. Key financial ratios are readily available and the data is effectively used to carry out in-depth market analyses and to assess the solvency of the system.</p> <p>Since the past few years the CNSF has been working in a continuous effort to increase the effectiveness of the way the data is collected, the use it is given through the support of modern information systems. At present, most of the financial and technical information that companies are required to periodically provide the CNSF with is sent by internet with validation and security protocols clearly defined.</p> <p>External and actuarial auditors must submit, as a minimum, an audit opinion annually. Several measures were introduced in order to strengthen the capacity and independence of external financial and actuarial auditors, and precisions were made as to their obligations and reports that they must submit to CNSF for analysis. With regard to these, modifications to normative provisions in 2004 state very explicitly the minimum content and standards, as well as the timing for reporting.</p> <p>The information that companies must send periodically is required on a quarterly frequency, unless a particular situation of a company, which places it in a regulatory action level, requires information to be sent on a monthly basis. In addition, the CNSF has the authority, which is exercised as required, to request more detailed additional information whenever there is a need and with the necessary frequency.</p> <p>Private national and foreign entities, as well as government sponsored insurers underlie the same reporting requirements.</p> <p>The reporting includes annual audited financial statements and off balance sheet operations, based on general accepted accounting principles. Article 68 of the</p>

	<p>LGISMS and 79 of the LFIF (Article 267 of LISF project) authorizes the CNSF to carry out inspection and surveillance on the societies that have patrimonial links with the insurance and surety institutions.</p> <p>Allowed outsourced operations are well defined, the minimum requirements to outsourced functions are regulated and responsibilities cannot be outsourced.</p> <p>The information is presented under declared protest of truthfulness; therefore, any detected irregularity on that information is responsibility of the company, and hence of the Board and the CEO. In case that the information analysis detects an irregularity or data inaccuracy, its correction is required and can lead to an administrative sanction. This type of sanction is regularly applied.</p> <p>The collected data is also used to feed into the Information System for Integrated Supervision to calculate and monitor the solvency position of an institution. According the findings, the risk profile of each of the supervised entities is determined and classified according to the Regulatory Stages leading to different supervisory actions.</p> <p>The CNSF in dialogue with the industry is searching for constant improvement on the reporting systematic.</p> <p>Regulation requires insurance and surety undertakings to inform immediately any material change that affect the assessment of their financial condition. The noncompliance with this request has lead in several occasions to administrative sanctions.</p>
<p>Principle 13. On-site inspection The supervisory authority carries out on-site inspections to examine the business of an insurer and its compliance with legislation and supervisory requirements.</p>	
Description	<p>A wide range of powers to perform on-site inspection and gather detailed information for this purpose is granted to the CNSF through Articles 106, 107, 108, 109 110 of the LGISMS as well as Articles 66, 67, 68, 69 70 of the LFIF (Articles 366, 371-374, 382-387, 389 and 390 of LISF project).</p> <p>Articles 107 of LGISMS and 67 of the LFIF (Articles 389 of LISF project), state that insurance and surety institutions and other entities subject to the CNSF's inspection and surveillance, must provide the CNSF reports and evidence regarding their organization, operations, accounting, investments or patrimony, requested for regulation, supervision, control, inspection, surveillance and statistics purposes; as well as any other aim contemplated by these laws or other legal and administrative provisions.</p> <p>Supported by Article 110 of the LGISMS and 70 of the LFIF (385 of LISF project), every year a program with the planned on-site inspections is elaborated and approved by the Board of Directors of the CNSF. This plan considers the general situation of the insurance and surety sectors, as well as the particular requirements of each supervised entity. In addition, there are special visits to examine specific operational aspects, or investigation visits to examine special situations of companies, or entities presumed to be operating insurance products without authorization.</p> <p>Reinsurance institutions are also subject to on-site inspection. The CNSF performs on-site inspection to those companies operating in national territory, as well as to the representation offices of foreign reinsurers and reinsurance brokers addressed</p>

in Mexico, according to Articles 26, 27 and 28 of the LGISMS (Articles 106, 107 and 108 of LISF project), and derived to SHCP's rules related to the foreign reinsurers offices' establishment, and the ones related to the reinsurance intermediaries' licensing and operation requirements.

As part of the on-site inspections program, the CNSF considers the verification of the regulatory reports filed by the supervised insurance and surety undertakings.

Article 105 of the LGISMS and 65 of the LFIF (Article 304 of LISF project) state that both, the submission and publication of financial statements, are on the strict responsibility of managers, commissaries and external auditors. External auditors who review financial statements must have an in force professional license issued by the professional college and must be registered in the CNSF. This register may be cancelled or suspended when the external auditors no longer meet the requirements laid down, or fail in the compliance with the relevant obligations.

According to different provisions issued by the CNSF, the external auditors, both actuarial and financial (Article 317 of the LISF project), must provide the CNSF complete information about the result of performed audits. The CNSF is entitled to establish the contents that the reports and dictums of the independent external auditors (actuarial and financial) should include, and measures to guarantee an adequate alternation of such auditors in the insurance companies and mutual insurance societies, as well as to point out which information must be disclosed in the reports, regarding any other services, and in general, about the professional or business relationships that provide or maintain with the insurance companies and mutual insurance societies, or with related companies that they audit. In this sense, *SSLO* (Chapter 15.2) and *Circular Única de Fianzas* (Chapters 11.1 and 11.2) state that the CNSF can approach the external auditor company to request the necessary information, regarding the audits they perform.

On-site inspections can be conducted in three different ways:

- Ordinary inspections (full scale) (i.e., carried out following the annual program).
- Special inspections (i.e., performed when the Presidency of the CNSF deem it necessary to examine and correct operative's special situations).
- Investigation inspection which has the purpose to clarify a specific situation).

Regarding surety institutions, according to Article 70 of the LFIF (Article 385 of LISF project), CNSF's inspectors are entitled to carry out ordinary and special on-site inspections; therefore they are enabled to attend specific concerns.

During on-site inspections, the CNSF's auditors are entitled to discuss with the company's management any aspect related to the visit, allowing an information feedback. Additionally, when the inspections end, a meeting between the company's staff and CNSF's representatives is carried out in order to make comments and observations on the facts concerning the outcome of the visit.

Immediately after signing the closing act, in accordance to Articles 138 of the LGISMS, 110 of the LFIF (Article 477 of LISF project) and to the CNSF's rules related to on-site inspection and surveillance, the CNSF must hear the company's opinions before determining the corresponding sanctions and take into account the offender's intention, as well as the importance of the infraction. At the same time, CNSF initiates the necessary regulatory actions for the correction of the irregularity

	<p>by the company.</p> <p>In specific cases, whenever it is considered necessary, the CNSF's officers may require the presence of the company's top executives in order to comment specific issues.</p> <p>The CNSF follows up on the implementation of the corrections or recommendations given, either through off-site monitoring, or by considering them on the next on-site inspection. In addition, when necessary, the CNSF may request to the company the submission of a regularization plan to correct problems detected during the on-site inspection, in accordance to the Articles 74-Bis of the LGISMS, or 104-Bis of the LFIF (Article 321 of the LISF project). The CNSF is empowered to monitor the actions and of the timelines included in this plan. The compliance officer is required to follow up on the above-mentioned plan and report monthly to the CNS</p> <p>Articles 68 of the LGISMS and 79 of the LFIF (Article 267 of LISF project) authorize the CNSF to carry out inspection and surveillance on the societies that have patrimonial links with the insurance and surety institutions.</p> <p>Regarding outsourcing services, the current regulation states that such suppliers must adjust to those activities considered by the SHCP as complementary or auxiliary to an insurance company. In this sense, the SHCP issued rules about third parties operations and services, and established that third parties, as well as the companies involved, are subject to the CNSF's inspection and surveillance, according to the LGISMS and LFIF.</p>
Assessment	Observed
Comments	<p>The law supports the on-site inspection framework of the CNSF and the authority makes full use of the powers. The consumer protection mandate requires the performance of on-site inspections as states in Articles 110 of the LGISMS and 70 of the LFIF (Article 382 of the LISF project).</p> <p>Inspections are carried out on a regular basis with a biannual cycle and focus both, on general and specific issues. The on-site inspections review, verify, check, and evaluate the resources, liabilities, patrimony; as well as the operation, functioning, control system; and in general terms, all the elements that may affect the financial and legal position, in order to be compliant with applicable legal provisions and sound markets' safe practices.</p> <p>The CNS has 81 inspectors with technical auditing and legal backgrounds.</p> <p>Annual on-site inspections are carried out according to a risk based determined supervisory plan. This plan considers the general situation of the insurance and surety sectors, as well as the particular requirements of each supervised entity. At any given time, to examine special situations or to verify compliance, on-site inspections are carried out as suggested by the presidency of the CNSF.</p> <p>The results of the on-site inspections, any off-site information, financial and the actuarial external auditors reports are used as input for the SISI to determine the ongoing supervisory program, including the next annual on-site inspections plan and any extraordinary on-site inspections.</p> <p>The CNSF determines the content of both actuarial and financial audits. As minimum, they include the revision of the information presented to the CNSF by the insurance and surety undertakings regarding the analysis of the sufficiency of technical provisions, the analysis of financial statements and their disclosure notes,</p>

	<p>the observance of the accounting standards, the evaluation of the audit and internal control function, and crimes if detected.</p> <p>The independence of auditors is a concern of the CNSF who dictates an adequate alternation of such auditors in the insurance companies and mutual insurance societies. The CNSF has direct access to the external auditor company. Article 314 of LISF project strengthens these powers by establishing that the CNSF is entitled with faculties of inspection and surveillance over the persons providing external audit services to review financial statements, and the sufficiency and situation of technical reserves, including the employees and partners of the audit team, in order to verify the compliance with the LISF and the applicable legislation.</p> <p>During and at the end of the on-site inspections, the CNSF's auditors discuss with the company's management any aspect related to the visit. The company's opinions are taken into consideration to determining the corresponding actions and possible sanctions. On several occasions sanctions have been waived after discussing with the management of the companies.</p> <p>The follow-up on the implementation of the corrections or recommendations given by the CNSF is strong and is done either through off-site monitoring or by considering them on the next on-site inspection. The follow-up work is supported by the compliance officer who is required to report on a monthly basis, to the CNSF on certain occasions.</p> <p>Article 68 of the LGISMS and 79 of the LFIF (Article 267 of LISF project) authorizes the CNSF to carry out inspection and surveillance on the entities that have patrimonial links with the insurance and surety institutions.</p> <p>The SHCP rules about third parties operations, and services establish that third parties, as well as the companies involved are subject to the CNSF's inspection and surveillance, according to the LGISMS and LFIF. On-site inspection visits to such suppliers have been carried out in certain cases when it was required to evaluate the operational relationship with the insurer.</p> <p>In order to strengthen the CNSF's supervision powers, the LISF project has new Articles (265 to 269 of LISF project) related to the investment in other entities and contracting services with third parties. The chapter transfers from the SHCP to the CNSF the power to authorize and to supervise these operations. In this sense, the CNSF may request to the supplier of this services for information about the services provided, including books, registers and documents. The CNSF could carry out on-site inspection and establish the measures that the insurance companies must observe to outsource functions.</p>
<p>Principle 14.</p>	<p>Preventive and Corrective Measures</p> <p>The supervisory authority takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.</p>
<p>Description</p>	<p>In situations when the CNSF determines, as a result of its supervision activities, the existence of any kind of irregularities within the company's operations, it is empowered to require the company to submit a regularization plan (Articles 74, 74 Bis of the LGISMS and 104, 104-Bis of the LFIF (Articles 320 y 321 of the LISF project)). Such plan must be made known to the compliance officer (Articles 72, 320 y 321 of the LISF project, establish this duty for Audit committee) and should be authorized by the company's Board of Directors, before it is submitted for the</p>

CNSF's approval. Such *regularization plan* should contain, at least, the administrative, financial and any other measure that the company will adopt to correct the deficiencies that originated the irregularity; the capitalization program that, if such is the case, may be required to solve the problem, the specific objectives, as well as a detailed implementation schedule.

According to Articles 74 of the LGISMS and 104 of the LFIF (Article 320 of the LISF project), when the term granted to the company that it should not exceed 90 days, in order to regularize its financial or operative situation. has elapsed and the problem continues, the CNSF will grant the company a fifteen day period starting from the notification date, so that the company may express its reasons and points of view and submit for approval complimentary remedial measures to correct the irregularities within a period plan that should not exceed 30 days from the date the CNSF approved such measures.

If the company has not corrected the problems that originated the plan during the additional granted term, the CNSF will notify the SHCP, which will start a revocation process of the operating license.

Articles 74 Bis 1 of the LGISMS and 104 Bis 1 of the LFIF (Article 323 of the LISF project) confer the CNSF with the power, under certain circumstances, to:

- order the company to refrain from registering new products;
- suspend dividends' payment to its shareholders;
- reduce partially or totally the premium's writing or retention;
- reduce partially or totally the acceptance of reinsurance operations to levels that are compatible to the company's capital resources;
- convene a meeting with the Board of Directors or with the General Assembly, at which a CNSF's representative will describe the company's situation; and
- defer the payment of the principal and/or interests of subordinated liabilities or other credit titles that had been issued by the company; or when applicable, arrange an anticipated stock conversion.

The circumstances to implement the above mentioned control measures are:

- deficit in the constitution of reserves which implies a lack of coverage in technical reserves greater than 10 percent of the technical reserve requirement;
- lack of coverage of technical reserves greater than 10 percent;
- lack of coverage of the minimum guarantee capital requirement (solvency margin) greater than 10 percent;
- lack of coverage of the paid in minimum capital greater than 15 percent;
- net income presenting an accumulated loss greater than 25 percent of paid social capital and capital reserves; and
- accounting or administrative irregularities that greatly hinder or prevent knowing the true financial situation of the company or the coverage of regulatory parameters.

According to Articles 113 of the LGISMS and 73 of the LFIF (Article 325 of the LISF project), when the CNSF believes that the irregularities may affect the solvency and

stability of the company and threaten the policyholders and beneficiaries interests, the CNSF's president is entitled to, with the prior approval of the CNSF's Board, declare an administrative intervention, and appoint a temporary administrator in place of the current management, who will be considered a "comptroller manager."

Articles 74-Bis of the LGISMS and 104-Bis of the LFIF (Article 321 of the LISF project), state that if the company has not corrected its irregularities in the term granted at the regularization plan, the CNSF, independently of the sanctions that it can impose, may, on behalf of public interest, order the company to inform its clients about the lack of compliance with the plan, in the form and terms indicated by the same CNSF.

Additionally, based on Article 75 of the LGISMS (Article 332 of the LISF project), the SHCP with the CNSF's previous opinion, as well as that of the affected company, might proceed to revoke the license, in cases where the company does not maintain adequate technical provisions in the terms set by applicable laws; or in the case it does not cover the minimum capital requirement or the minimum paid in capital in the terms set by Articles 29 of the LGISMS and 15 of the LFIF (Article 49 of the LISF project).

Articles 74, 74 Bis of the LGISMS and 104, 104 Bis of the LFIF (Articles 320 y 321 of the LISF project) state that, when as a result of its inspection and surveillance activities the CNSF detects any kind of irregularities in a company's operation, it has the power to request the company to adopt preventive and corrective measures through the submission of a regularization plan.

Articles 138 of the LGISMS and 110 of the LFIF (Articles 477 y 478 of the LISF project) establish that if, as a result of the inspection and surveillance, irregularities are detected at the supervised companies, the CNSF must confer ten working days for the companies to manifest according to the law, offering and presenting, in each case, the proof that it considers convenient. If the interested party does not manifest its right to a hearing within that period, and with the existing elements in the process, the corresponding resolution will be issued.

In addition, the CNSF's By-laws establish that the areas responsible for the supervision are empowered to make the observations derived from the surveillance and inspection, proposing the corrective measures that may apply.

Besides the enforcement actions and sanctions scheme prevented in the LGISMS and in the LFIF, based on Articles 75 of the LGISMS (Article 332 of the LISF project) and 105 of the LFIF (Article 333 of the LISF project), the SHCP hearing the CNSF's opinion, as well as that from the affected company, might proceed to revoke the license when, for example:

- The company did not submit for the SHCP's license, the Title Deed of becoming an incorporated entity within a three months term following the authorization; if it did not present the documents according to the applicable laws; if it carries out operations without a favorable dictum; if it has not initiated operations within a three months period following its incorporation's Title Deed or the SHCP's license; or if at the time it receives its incorporation's Title Deed, its constituting capital determined by the SHCP has not been written or paid.
- Fails to maintain: adequately constituted technical provisions in terms of the applicable laws; the minimum capital requirement; the technical provisions; or

	<p>the minimum paid in capital, all the above in terms of the applicable laws.</p> <ul style="list-style-type: none"> • Regardless of the CNSF's observations, the company recurrently exceeds the liabilities' limit it can assume, carries out non-authorized operations; and fails to maintain the assets' proportion set up by law; or if the SHCP deems that the company does not carry out its authorized activities adequately, because it scarcely increases its premium's writing, or it fails to diversify the risks it is exposed to its investments, according to sound practices. • For reasons imputable to the company, the financial operations are not opportunely and adequately registered in its financial statements; and therefore the statements do not reflect the real financial position; • The institution severely contravenes, in more than three occasions the applicable legal or administrative provisions. • If more than three times the company performs resistance acts that signify an improper conduct to properly undertake the obligations derived from its insurance or surety contracts. <p>According to Articles 75-Bis of the LGISMS and 105-Bis of the LFIF (Article 335 of the LISF project), the SHCP, hearing to the affected institution, and when applicable, the CNSF's opinion, can modify the license under which the company operates to suppress the authorization of one or more lines of business, when:</p> <ul style="list-style-type: none"> • In the cases when any of the situations foreseen in Articles 74 Bis-1 of the LGISMS and 104 Bis-1 of the LFIF the CNSF (Article 323 of the LISF project) deems that such modification would contribute to improve the financial situation and the coverage of the company's regulatory parameters. • Regardless of the CNSF observations, the company recurrently exceeds the liabilities' limit it can assume in the specific lines of business. • The CNSF deems that the company does not carry out the specific business' lines due to its scarce premium writing. <p>In any of the above-mentioned assumptions, the required measures should be adopted to protect the interests of the policyholders, the insured and the beneficiaries.</p>
Assessment	Observed
Comments	<p>The CNSF has a wide range of preventive and corrective measures granted by regulation that is actively used and can lead to the revocation of the operating license. The process of prevention or correction is usually initiated as a result of its supervision activities through the submission of a regularization plan. The plan is authorized by the company's Board of Directors and known by the compliance officer before it is submitted for the CNSF's approval. The plan to be approved must contain feasible objective to address the deficiencies, as well as a detailed implementation schedule.</p> <p>The granted period to regularize the company's financial or operative situation should not exceed 90 days. An additional period of 15 days will be granted to receive reasons and points of view of the noncompliance with the initial 90 days period. A final 30 days period could be granted before the CNSF notifies the SHCP to start the license revocation process.</p>

The wide set of measures are escalating in severity and include the reduction of business or production of new business and changes in the reinsurance program to suspension of dividend and subordinated liabilities' payments, as well as disclosure of the noncompliance with regulation at the general assembly or to the policyholders. The disclosure of noncompliance with a regularization plan to the policyholders adds an additional level of consumers' protection that is not common in other countries. This measure has only been used in the past as an effective threat to achieve compliance.

The circumstances to implement the measures are commensurate with the severity of the situation. Drastic measures can only follow when the solvency of the institution is severely affected, like a deficit in the constitution of reserves greater than 10 percent of the technical reserve requirement; lack of coverage of the paid in minimum capital greater than 15 percent; net income presenting an accumulated loss greater than 25 percent of paid social capital and capital reserves; or when accounting or administrative irregularities greatly hinders or prevents knowing the true financial situation of the company or the coverage of regulatory parameters.

The possibilities to protect policyholders' interest include ability of the CNSF's president to declare an administrative intervention and appoint a temporary administrator in place of the current management, who will be considered a "comptroller manager." This action has been taken on three occasions in the past, attesting to the ability of CNSF to impose this extreme measure. The measure, if required, can be implemented immediately.

Other sets of preventive and remedial measures can only be applied by the SHCP after hearing the CNSF's opinion, as well as that from the affected company. This includes cases of noncompliance during the licensing process of both, qualitative, as well as quantitative regulation and situations that undermine the CNSF's authority, like when the institution severely contravenes, on more than three occasions, the applicable legal or administrative provisions; or on more than three occasions the company performs resistance acts that signify an improper conduct to properly undertake the obligations derived from its insurance or surety contracts.

The listed circumstances which may lead to the adoption of strong preventing or corrective measures will be further enhanced in Articles 332 and 333 of the LISF project establishing additional circumstances, such as when the Board of Directors, audit committee or investment committee do not comply with the LISF; do not invest their assets according to the investment policy approved by the Board of Directors or by the LISF; do not have the infrastructure or internal controls that are necessary to carry out the services and operations in accordance to the applicable provisions; do not comply with any of the requirements to initiate operations and the corresponding services; conduct unauthorized transactions; perform services that involve conflict of interest to the detriment of the client, or are involved in prohibited activities which are prohibited by the LISF.

The already wide range of power to apply corrective and preventive measure will be further enhanced through the LISF project. Article 324 establishes that the CNSF can also order the company to suspend the extra compensation and special bonus payments to the general director and the staff two levels below the general director managers, and to stop granting further compensations to the general director and functionaries, until such institution corrects the situation that originated their problem, at the discretion of the CNSF. This provision must be included in the

	<p>contracts and other documentation governing the work conditions; and refrain, totally or partially, from selling or taking the institution’s assets.</p> <p>License modifications are also possible by the SHCP, hearing the affected institution, and when applicable, the CNSF’s opinion. The modifications will be imposed if such modification would contribute to improve the financial situation and the coverage of the company’s regulatory parameters, or when the authority of the CNSF is proven to be insufficient to avoid regulatory breaches that lead the company recurrently to exceed the liabilities’ limit it can assume in the specific lines of business.</p> <p>The license withdrawal and modification power granted to the SHCP will be transferred to the CNSF in the new law.</p> <p>Article 383 of the LISF project, strengthens the CNSF’s faculties to order corrective measures that must be adopted as a result of the inspection and surveillance activities, noting that the Commission, as a result of its inspection and surveillance faculties, may observe and order the adoption of any measures that must be adopted to correct the facts, omissions or irregularities detected.</p>
<p>Principle 15. Enforcement or sanctions</p> <p>The supervisory authority enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.</p>	
<p>Description</p>	<p>A company’s lack of compliance with legal and administrative provisions, as well as with the CNSF’s requirements, is penalized with administrative sanctions, which may consist on an admonition, a suspension, and a restrictive modification of the operating license or even its revocation (Articles 57,75,75-Bis, 108 fraction III, 109 fraction XVIII, 138, 139, 139-Bis and 140 of the LGISMS and 59, 68 fraction XI, 69 fraction XI, 110, 111 and 112 of the LFIF; —LISF project: Articles 332-335, 366 fractions XIX-XXII, XXVII and XXIX, 369 fractions VII-IX, XIV and XVII, 371 fractions XV and XVI, and 477-492).</p> <p>Articles 74, 74 Bis, and 112 of the LGISMS and 72, 104 and 104 Bis of the LFIF (Articles 320 321 and 325 of the LISF project) foresee the possibility of carrying out actions for the protection of insurance and surety users and beneficiaries, by empowering the CNSF to order insurance and surety companies to publicly inform, in the forms and terms specified by the CNSF, their noncompliance with a Regularization Plan required by the Commission. Additional possible actions include a prohibition on issuing new products, suspending dividend payments, reducing premium writings either totally or partially, and the acceptance of reinsurance operations, convening a Board meeting or a General Shareholders’ Assembly, at which the CNSF’s representatives will explain the company’s regulatory status, defer payments of principal, interests or subordinated liabilities, and other issued credit titles, suspend operations, or proceed to the winding up. Moreover, Articles 112-118 of the LGISMS and 72-77 of the LFIF (Articles 325 to 331 of the LISF project) state that, if judged convenient, the company may be intervened, and measures are taken to proceed with debt recoveries and to normalize operations and documents.</p> <ul style="list-style-type: none"> • CNSF’s officers are explicitly authorized so that in their functions’ performance, they use compelling measures such as fines and others (Articles 132 of the LGISMS and 80 of the LFIF, —LISF project: Articles 472 and 473). Certain behaviors are typified as crimes performed by managers, directors or employees of the company. (Articles 143, 144, 145, 146, 147 and 147-Bis of the

	<p>LGISMS and 112-Bis I, 112-Bis 2, 112-Bis 3, 112-Bis 5, 112-Bis 6 and 112-Bis 9 of the LFIF, —LISF project: Articles 492-510).</p> <p>The CNSF has the power to suspend the required registry of insurance products and order its technical and legal adequacy to the applicable regulation, imposing to the company the obligation to stop marketing and subscribing contracts until the changes are implemented. (Article 36 D of the LGISMS and 86 of the LFIF; —LISF project: Articles 205 and 212).</p> <p>Additionally, the CNSF can refrain from registering new products, to order to totally or partially reduce the premiums' writing or retention and to accept reinsurance operations (Articles 74-Bis I of the LGISMS and 104-Bis I of the LFIF, —LISF project: Articles 323 and 324).</p> <p>Further, the SHCP, with the opinion of the CNSF, can modify a license in order to suppress the operation of one or more business lines (Articles 75-Bis of the LGISMS and 105-Bis of the LFIF, —LISF project: Article 335).</p> <p>The decision and execution of a portfolio transfer is a company's management resolution and should be authorized by the SHCP, with the opinion of the CNSF (Articles 52-Bis1, fraction II, bullet d, 66, 95, and 122 of the LGISMS and 15 fraction XI and 106 fraction II of the LFIF; —LISF project: Articles 270, 275, fraction VIII, 360 and 432). Mexican insurance and surety legislation does not have any prevention for compulsory portfolio transfers. According to control laws, the supervisory and regulatory agencies are not empowered to force a portfolio transfer, neither to oblige another company to accept such transmission.</p> <p>Articles 74 Bis 1 of the LGISMS and 104 Bis 1 of the LFIF (Article 323 of the LISF project) confer the CNSF with the power, under certain circumstances, to:</p> <ul style="list-style-type: none"> • order the company to refrain from registering new products; • suspend dividends' payment to its shareholders; • reduce partially or totally the premium's writing or retention; • reduce partially or totally the acceptance of reinsurance operations to levels that are compatible to the company's capital resources; • convene a meeting with the Board of Directors or with the General Assembly, at which a CNSF's representative will describe the company's situation; and • differentiate the payment of the principal and/or interests of subordinated liabilities or other credit titles that had been issued by the company; or when applicable, arrange an anticipated stock conversion. <p>The circumstances to implement the above mentioned control measures are:</p> <ul style="list-style-type: none"> • deficit in the constitution of reserves which implies a lack of coverage in technical reserves greater than 10 percent of the technical reserve requirement; • lack of coverage of technical reserves greater than 10 percent; • lack of coverage of the minimum guarantee capital requirement (solvency margin) greater than 10 percent; • lack of coverage of the paid in minimum capital greater than 15 percent;
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- net income presenting an accumulated loss greater than 25 percent of paid social capital and capital reserves; and
- accounting or administrative irregularities that greatly hinders or prevents knowing the true financial situation of the company or the coverage of regulatory parameters.

Companies are legally prohibited to partnership with unlimited responsibility entities, as well as to exploit metallurgical mines, plants, mercantile or industrial establishments or rustic property, without the faculty's impairment to have bonds, obligations, stock or other titles from such companies according to the respective laws. (Articles 62 fraction X of the LGISMS and 60, fraction VIII of the LFIF; —LISF project: Articles 294 fraction IX and 295 fraction IX)

The CNSF can sell at an auction a company's goods, titles, securities, etc. if such company cannot sustain them as assets. (Article 62 fraction XI of the LGISMS and 60 fraction IX of the LFIF; —LISF project: Articles 294 fraction X and 295 fraction X).

If irregularities affect the company's stability or solvency and jeopardize the interest of its policyholders and beneficiaries and/or creditors, the CNSF might proceed to declare the firm's administrative intervention, and designate a comptroller manager responsible to correct irregularities. (Articles 52-Bis 1, fraction II, bullet d, 113 and 118 of the LGISMS and 73 to 77 of the LFIF; —LISF project: Articles 275 fraction VIII, 325-331)

The CNSF is legally entitled to intervene or take over a company's management, when the irregularities affect the firm's stability or solvency and jeopardize the interests of policyholders and beneficiaries and/or creditors, by designating a comptroller manager with all the powers that normally corresponds to the Board of Directors, as well as general powers to execute acts of domain, administration, legal conflicts, collection, to grant general or specific powers; and to revoke those granted by the intervened company and those that he himself had conferred; all the above without being subordinated to the shareholders' General Assembly (Articles 113 to 118 of the LGISMS and 73 to 77 of the LFIF; —LISF project: Articles 325-331).

The CNSF is legally entitled to ask the companies information regarding the fulfillment of both, regularization and self-correction programs, as well as to require the respective proofs for regularization, supervision, control, inspection, surveillance and statistical aims. (Articles 107 of the LGSIMS and 67 of the LFIF; LISF project: Article 389) The CNSF is also authorized to perform on-site inspection for the same purpose (Articles 110 of the LGISMS and 70 of the LFIF; —LISF project: Articles 385-387).

Additionally, the CNSF is explicitly authorized to require information regarding the companies' financial situation, as well as their fulfillment with technical reserves and guaranteed capital requirements, in the form and terms that the same CNSF specifies by means of general provisions (Articles 107-Bis of the LGISMS and 67-Bis of the LFIF; —LISF project: Article 390).

The CNSF is legally entitled to apply administrative fines when a company breaks applicable laws and derived provisions (Articles 57, 138, 139, 139-Bis and 140 of the LGISMS and 59, 110, 111 and 112 of the LFIF; —LISF project: Articles 252, 477-479, 481-483, 485-491).

	<p>The legal framework foresees administrative penalties to insurance and surety companies that fail to provide or not provide, or provide outdated the supervisory required information and documentation (Articles 105,107,139, fractions XVII, XVIII and XXI, and 140 of the LGISMS and 111 fractions XIX, XX y XXI and 112 of the LFIF; —LISF project: Articles 305, 389, 482, 485, fraction I, paragraph a) and e), and 492).</p> <p>The CNSF is legally entitled to order the suspension or removal of Board members, the compliance officer, the CEO, commissaries, the directors and managers, the fiduciary delegates, and the functionaries with signing power, if the CNSF considers that they do not have enough technical capacities, honorable and creditworthiness, required to properly carry out their activities, or when they repeatedly or seriously fail to meet applicable legal provisions. The CNSF might also order the suspension or removal of the external independent auditors, when they repeatedly or seriously fail to meet legal provisions. As well, the CNSF can also suspend or cancel the external auditors' registry when they fail to meet with legal requirements or fail to comply with their obligations (Articles 31 and 105 of the LGISMS and 65 and 82 of the LFIF; —LISF project: Articles 64 and 313).</p> <p>The regularization procedures are independent from the sanctions regarding the committed infractions. The relevant Laws foresee that the irregularities, exposed during the terms of a regularization plan or self-correction program that has been approved by the CNSF, are not subject to be sanctioned (Articles 74, 74-Bis and 74-Bis 2 of the LGISMS and 104, 104-Bis and 104-Bis 2 of LF IF; —LISF project: Articles 320-322).</p> <p>The SHCP is legally entitled, based on the CNSF's opinion, to withdraw an operation license to an insurer, in the cases foreseen in the applicable laws, or to restrict the license by suppressing the authorization to operate some business lines (Articles 75, 75-Bis and 97 of the LGISMS and 105 and 105-Bis of the LFIF; LISF project: Articles 332, 333, 335 and 363).</p> <p>Besides the enforcement actions and sanctions scheme prevented in the LGISMS and in the LFIF, based on Article 75 of the LGISMS (Article 332 of the LISF project) and 105 of the LFIF (Article 333 of the LISF project), the SHCP hearing the CNSF's opinion, as well as that from the affected company, might proceed to revoke the license when, for example:</p> <ul style="list-style-type: none"> • The company did not submit for the SHCP's license, the Title Deed of becoming an incorporated entity within a three months term following the authorization; if it did not present the documents according to the applicable laws; if it carries out operations without a favorable dictum; if it has not initiated operations within a three months period following its incorporation's Title Deed or the SHCP's license; or if at the time it receives its incorporation's Title Deed, its constituting capital determined by the SHCP has not been written or paid. • Fails to maintain adequately constituted technical provisions in terms of the applicable laws, the minimum capital requirement, the technical provisions, or the minimum paid in capital, all the above in terms of the applicable laws. • regardless of the CNSF's observations, the company recurrently exceeds the liabilities' limit it can assume, carries out non-authorized operations, and fails to maintain the assets' proportion set up by law; or if the SHCP deems that the company does not carry out its authorized activities adequately, because it
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scarcely increases its premium's writing, or it fails to diversify the risks it is exposed to its investments, according to sound practices.

- For reasons imputable to the company, the financial operations are not opportunely and adequately registered in its financial statements, and therefore the statements do not reflect the real financial position.
- The institution severely contravenes, in more than three occasions, the applicable legal or administrative provisions.
- If more than three times the company performs resistance acts that signify an improper conduct to properly undertake the obligations derived from its insurance or surety contracts.

According to Articles 75-Bis of the LGISMS and 105-Bis of the LFIF (Article 335 of the LISF project), the SHCP, hearing the affected institution, and when applicable, the CNSF's opinion, can modify the license under which the company operates to suppress the authorization of one or more lines of business, when:

- In the cases when any of the situations foreseen in Articles 74 Bis-1 of the LGISMS and 104 Bis-1 of the LFIF the CNSF (Article 323 of the LISF project) deems that such modification would contribute to improve the financial situation and the coverage of the company's regulatory parameters.
- Regardless of the CNSF observations, the company recurrently exceeds the liabilities' limit it can assume in the specific lines of business.
- The CNSF deems that the company does not carry out the specific business' lines due to its scarce premium writing.

In any of the above mentioned assumptions, the required measures should be adopted to protect the interests of the policyholders, the insured, and the beneficiaries.

The applicable regulation has diverse preventive provisions that can be interpreted as protection to insurance and surety companies that belong to a group from the financial difficulties in other parts of the group, such as: the prohibition to participate, directly or through a third person, in the authorized stockholders equity of insurance or surety companies, credit institutions, insurance mutual societies, brokerage firms, auxiliary credit organizations, mutual fund managers, savings and credit institutions, managing companies of pension funds, and savings and credit institutions (Articles 29, fraction II, paragraph 1 of the LGISMS and 15 fraction II Bis, of the LFIF; —LISF project: Article 50 fraction I).

There is also a prohibition, with the exceptions provided in the Law that Regulates Financial Groups (Ley para Regular las Agrupaciones Financieras, LRAF), to participate, directly or indirectly, in the capital of societies comprising the insurance or surety institution, other company of the same type, insurance mutual societies, credit or surety institutions, brokerage firms, financial societies of limited object, managing companies of investment societies, auxiliary credit organizations, managing companies of pension funds, savings and credit institutions, savings and credit institutions, and in those companies that the SHCP determinates through general provisions as incompatible due to their activities (Article 29, fraction II, six paragraph of the LGISMS and 15, fraction III, six paragraph of the LFIF; —LISF project: Article 50 fraction III).

	<p>Other legal restrictions complete the scheme aimed to protect insurance and surety undertakings that belong to a group from financial difficulties in other parts of the group: limits the social object to authorized activities; prohibition against giving titles or portfolio assets as guarantees, and to partner with unlimited responsibility entities, as well as to exploit metallurgical mines, plants, mercantile or industrial establishments, rustic property or other risky business; requirement to observe the investment regime established by the SHCP regarding the investment of technical reserves and guaranty capital; as well, such investments should only be made with the surpluses of the minimum paid in capital; portfolio transfer and companies' amalgamations should be authorized by the SHCP. (Articles 34, 56, 57, 58, 66, 67 and 68 of the LGISMS and 15, 16, 40 and 59 of the LFIF; —LISF project: Articles 118, 122, 123, 124, 144, 148, 149, 150, 247-253, 265, 266, 267, and 270).</p> <p>The CNSF, with the approval of its Board, through general provisions may prohibit or limit the institutions from acquiring assets representing excessive risks to their portfolio according to the prevailing characteristics of the financial markets conditions, the lack of enough information to assess their risk or the operations nature of the lines of business, undertaken by the institution (Article 249).</p> <p>The fines imposed by the CNSF are collected by the SHCP's agencies through a procedure established at the Federation's Fiscal Code (Articles 138 of the LGISMS and 110 of the LFIF; —LISF project: Articles 473 and 477).</p> <p>The Federal Treasury and the Tax Administration Service (SAT) are agencies of the SHCP, and they have the function of collecting the fines, in terms of what is provided on the Ley del Servicio de Tesorería de la Federación (Article 1, 2, 4 and 15) and the Ley del Servicio de Administración Tributaria (Articles 1-3 and 7, fraction I). Once settled, the fines have the legal status of tax debt under the terms of the Código Fiscal de la Federación (Articles 3 and 4).</p> <p>The CNSF has general applicable criteria approved by its president and vice-presidents to sanction different type of norms' infringement, in such a way that sanctions are individualized complying with legal parameters, and providing identical treatment to similar offences and offenders, regarding economic conditions, importance of the offence, intentionality, and antecedents.</p> <p>Applicable laws specifically forbid the performance of any insurance or surety activity within the country to any person that has not the required license; the infringement of such legal provisions is considered as a criminal offence; the closing of the non-authorized company is ordered and nullifies any signed contract (Articles 3, fraction I, II and IV, 4 and 141 of the LGISMS and 3, 4, 1 12-Bis of the LFIF; —LISF project: Articles 19, 20, 21, 23, 24, 495 and 496).</p>
Assessment	Largely Observed
Comments	<p>The CNSF enforcement ability and powers are broad. A company's lack of compliance with legal and administrative provisions, as well as with the CNSF's requirements is penalized with administrative sanctions, which may consist of an admonition, a suspension, and a restrictive modification of the operating license, or even its revocation. The use of admonition is a regular tool used frequently by the CNSF. In the last six years, 422 admonitions were imposed to insurers and 3148 to intermediaries.</p> <p>The CNSF powers allow for more severe enforcement measures which include suspension of dividend payments, deferment of payments of principal and interest of subordinated liabilities and other issued credit titles, suspension of operations</p>

and winding up. Capital is not required to be increased. Certain individual behavior like intentionally concealing financial information or faking financial statements are considered crimes and managers, directors, or employees of the company acting in that manner have been reported by the CNSF to the corresponding authority for prosecution.

In the LISF project, the favorable ruling by the CNSF, to allow insurance or surety institutions to start their operations, due to a change or expansion of their operations or business lines, is conditioned to proving that they are up to date with all the fine payments related to the imposed sanctions that were settled (LISF project: Article 47, fraction V).

Current amount of the fines is on the lower end, as compared with the financial sector laws governing banking and securities markets, and needs to be raised to have the intended coercive impact. This will be achieved in the new catalogue for specific infractions in which the insurance and surety institution can incur. (LISF project: Articles 474 to 491). The fines will vary in amount according to the severity of the noncompliance. They are between 200 to 2,000 minimum salaries for minor issues like delays in the reporting; from 1,000 to 5,000 minimum salaries for the use of nonregistered agents; from 3,000 to 15,000 for selling products without the appropriate registered technical note, and from 5,000 to 20,000 for intentionally providing misleading or wrong financial information. However, fines related to missing capital or gaps in the technical reserve are fined in accordance to the size of the financial deficit, and can be quite substantial.

The CNSF has the power to suspend the marketing of new policies by revoking the registry of technical notes, and therefore, of the insurance product when the operations performed by the company generate results that are not consistent with the corresponding technical notes, and that affect the policyholders or beneficiaries' interests or the company's solvency or liquidity.

Current insurance and surety legislation does not grant the powers to the authorities to force portfolio transfers. Thus, the supervisory and regulatory agencies are not empowered to force a portfolio transfer, neither to oblige another company to accept such transmission. The decision and execution of a portfolio transfer is a company's management resolution that should be authorized by the SHCP, with the opinion of the CNSF. However, the liquidator has encouraged portfolio transfers in the past.

The LISF project provides the Board of the CNSF with the powers to authorize the portfolio transfer from one insurance company to another, or the transfer of liabilities or rights corresponding from one surety institution to another (LISF, Article 270). The Board explicitly authorizes the administrative liquidator of an insurance institution to transfer the insurance and reinsurance portfolios within 30 days following the administrative liquidation (Arts. 369, fraction IV, and 432). The LISF project also foresees the portfolio transfer, so that the insurance company administrators can obtain the necessary resources from the special insurance fund to support the reconstruction of the technical reserves before the authorization of those companies is revoked and the administrative liquidation begins. (Articles 274, fraction VI, section a), subsection 1 y 275, fraction VIII)

The limitation in ownership of risky activities is stated in the insurance law. Companies are legally prohibited from entering into partnerships with unlimited responsibility entities, as well as from exploiting metallurgical mines, plants,

mercantile or industrial establishments or rustic property, without the faculty's impairment to have bonds, obligations, stock or other titles from such companies according to the respective laws. The CNSF can sell at an auction a company's goods, titles, securities, etc. if such company cannot sustain them as assets. This measure usually applies to surety companies if an agreement of disposal of the assets is not reached.

The CNSF is legally entitled to intervene or take over a company's management, when the irregularities affect the firm's stability or solvency and jeopardize the interests of policyholders and beneficiaries and/or creditors, by designating a comptroller manager with all the powers that normally corresponds to the Board of Directors.

The LISF project expressly provides new specific situations related to governance issues in which the CNSF can take over the company's management. These conditions can be as broad as lack of performance, with respect to its duties of the Board of Directors.

The CNSF is explicitly authorized to require information regarding the companies' financial situation, as well as their fulfillment with technical reserves and guaranteed capital requirements, in the form and terms that the same CNSF specifies.

The CNSF is legally entitled, and has used this power in the past with disregard of the size and importance of the company or individual, to order the suspension or removal of the Board members, the compliance officer, the CEO, the commissaries, directors and the managers, the fiduciary delegates, and the functionaries with signing power, if the CNSF considers that they do not have enough technical capacities, honorable and creditworthiness, required to properly carry out their activities, or when they repeatedly or seriously fail to meet applicable legal provisions. The CNSF has also suspended external independent auditors when they repeatedly or seriously fail to meet legal provisions.

The sanctions do not delay the regularization procedures since these procedures are independent from the sanctions.

Current regulation does not explicitly protect an insurer from the effects of the financial difficulties affecting the financial group to which it belongs. However, the regulation has diverse preventive provisions that can be used to protect insurance and surety companies that belong to a group from the financial difficulties in other parts of the group, such as: the prohibition to participate, directly or through a third person, in the authorized stockholders equity of insurance or surety companies, credit institutions, insurance mutual societies, brokerage firms, auxiliary credit organizations, mutual fund managers, savings and credit institutions, managing companies of pension funds and savings and credit institutions. There is also a prohibition in the LRAF to participate, directly or indirectly, in the capital of societies that the SHCP determines through general provisions as incompatible due to their activities. Further, Article 19 of the LRAF limits the investments in the controller entity or the other groups' members stock allowed to surety and insurance institutions belonging to a financial group. The investments should be done upon reserve's charges and not higher than a 10 percent of the total amount of stocks or subordinated bonds issued by the controller and the other group's participants.

These provisions are helpful but cannot cover all different group structures.

	<p>The LISF project provides additional and more effective tools to protect insurers and surety entities from the financial difficulties of the group to which they belong. Accordingly, the CNSF Board will be allowed to issue general provisions regarding the institution's investment policy (Article 247); that the portfolio transfers and mergers will require the prior authorization of the CNSF and approval of its Board (Article 270).</p> <p>The fines imposed by the CNSF are collected by the SHCP's agencies through a procedure established at the Federation's Fiscal Code (Articles 138 of the LGISMS and 110 of the LFIF; —LISF project: Articles 473 and 477).</p> <p>The Federal Treasury and the Tax Administration Service (SAT) are the agencies of the SHCP collecting the fines; and in case of a delayed payment, punitive interest apply.</p> <p>The catalogue of fines warrants certain level of equity, providing identical treatment to similar offences and offenders, regarding economic conditions, importance of the offence, intentionality, and antecedents. A senior officer further revises the consistency of the fine applications.</p> <p>The CNSF acts forcefully on any accusation of insurance or surety activity within the country without the required license.</p>
Principle 16.	<p>Winding-up and exit from the market</p> <p>The legal and regulatory framework defines a range of options for the orderly exit of insurers from the marketplace. It defines insolvency and establishes the criteria and procedure for dealing with insolvency. In the event of winding-up proceedings, the legal framework gives priority to the protection of policyholders.</p>
Description	<p>The legal framework foresees scenarios in which it is no longer possible for an insurance or surety undertaking to continue its business, and therefore when a winding-up process must be initiated. License revocation notice is made by the SHCP, based on the CNSF's opinion, and for the case of insurance companies specialized in health, it should also be based on the Ministry of Health's opinion.</p> <p>The causes for revocation, foreseen in Articles 75, 97, and 135-Bis, fraction VIII of the LGISMS and 105 of the LFIF (LISF project: Article 332), are the following: when an institution has not initiated operations during the period established by Law or when its underwriting prevails at low levels; if the institution does not fulfill the elements or infrastructure required to operate; if it does not meet the solvency parameters required by Law (paid in capital, technical provisions, minimum guaranteed capital); when a serious breach in accounting exists, or other major irregularities as well as the existence of insolvency or dissolution.</p> <p>Another reason for initiating the process of license revocation relates to the institutions exhausting the term given in a regularization plan based on Article 74 of LGISMS or 104 of LFIF (LISF project: Article 320) concerning deficit in the constitution of technical provisions or lack of coverage of technical reserves or capital requirements.</p> <p>Article 75 Bis of LGISMS and 105 Bis of LFIF (LISF project: Article 335) allows for the possibility of revoking the authorization granted to an institution of a particular line of business when specific circumstances are present: request by the institution; to protect the interests of their insured when specific circumstances described in Article 74 Bis-1 or 104 Bis-1 (LISF project: Articles 323 and 324) are taking place; when the institution exceeds the limits of the</p>

	<p>obligations that it may accept, notwithstanding the observations made by CNSF; and if the institution, as judged and demonstrated by CNSF does not satisfy the functions authorized having a very limited premium level.</p> <p>The LGISMS and the LFIF set up diverse control measures addressed to correct insolvency problems:</p> <ul style="list-style-type: none"> • <i>Management intervention:</i> Once the CNSF estimates the existence of irregularities that affect the stability or solvency of the company and jeopardize the interest of policyholders and beneficiaries and/or creditors, it can declare an intervention of the company by appointing a comptroller manager (Articles 52-Bis 1, fraction II, bullet d, 113 to 118 of the LGISMS and 73 to 77 of the LFIF; LISF project: Articles 275 fraction VIII, 325-331). • <i>Regularization plan:</i> The CNSF has the faculty to require institutions a regularization plan when the solvency requirements show deficits. According to Article 74 of LGISMS and 104 of LFIF (LISF project: Article 320), once the initial 90 day term set to correct irregularities has elapsed, or the complementary 30-day term granted by the CNSF has gone by, and the institution has not corrected such irregularities, the CNSF should notify such situation to the SHCP, who will then ask for another 30 to 60 day term. In case the irregularities are not solved, the institution's revocation process should begin in order to protect the policyholders and beneficiaries interests. If the institution had not complied with the regularization program, the CNSF has the power to order an administrative intervention and/or require the company to inform their clients about its lack of compliance with the regularization program. (Articles 74 of the LGISMS and 104 of the LFIF; LISF project: Article 320). • <i>Other regulatory measures:</i> When an institution's solvency deficit is higher than the level defined by law and its accounting results show a net accumulated loss higher than 25 percent of the paid in capital and capital provisions or when companies show accounting or administrative irregularities which delay or impede the appreciation of the real financial position of the company, then the CNSF can apply the following measures: order the company to refrain from registering new products, suspend dividends' payment to its shareholders; reduce partially or totally the premium's writing or retention; as well as the acceptance of reinsurance operations to levels that are compatible to the company's capital resources; convene a meeting with the Administrative Board or with the General Assembly, at which a CNSF's representative will describe the company's situation; and, differ the payment of the principal and/or interests of subordinated liabilities or other credit titles that had been issued by the company; or when applicable, arrange an anticipated stock conversion (Articles 74 Bis-1 of LGISMS and 104 Bis-1 of the LFIF -LISF project: Articles 323 and 324). <p><i>License revocation:</i> The SHCP can revoke a company's license when it doesn't fulfill the elements or infrastructure required to operate and/or doesn't meet the solvency parameters required by Law. (Articles 75, fraction I, II, II-Bis, V and 97, fraction II, V of the LGISMS and 105 fraction I, II and VIII of the LFIF; LISF project: Articles 332 fractions I, II, III and VIII, 333 fractions I, II and III, and 363 fractions I, II and III) As well, Articles 52-Bis 1, fraction II, bullet b, last paragraph, 75, 97, 124, 126 to 129, 131 of the LGISMS and 105, 106, 107, 109</p>
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and 109-Bis of the LFIF (LISF project: Articles 275 fraction VIII, 332, 363, 393-442) foresee compulsory winding-up process when a license is revoked.

- *Bankruptcy process (appeal for commercial bidding)*: In accordance with the respective Law, The SHCP is the only entity that can order a bankruptcy process of an insurance or surety company. This strategy is only applicable when the license was not revoked. (Articles 120 and 124 of the LGISMS and 109-Bis of the LFIF; LISF project: Articles 446-471).

In the process of winding up a failed insurers or surety company, the SHCP has the following attributes: appoint a liquidator, authorize to sell the company's assets, establish the terms for the winding-up process and receive and resolve any complaint from the policyholders and beneficiaries.

The CNSF is a SHCP's consultant body that supervises liquidators' activities in coordination with such ministry.

Regarding the insurance business, the rights of the policyholders will be assessed to the date in which the company is dissolved. In this regard, policyholders should receive a proportional amount of the company's assets with respect to the technical reserve constituted by each policy, considering the existence of claims and proportionally to the insured amount or to the corresponding compensation when the contract is entered into a claim.

Policyholders, beneficiaries, pensioners and reinsurers, are considered as priority creditors and will have preference over all other creditors when the company becomes insolvent. Policyholders, beneficiaries and pensioners rights prevail over those of reinsurers.

Technical provisions of the insurance companies should be addressed to cover any insurance or reinsurance contract commitment. Only the surplus could be used to cover other obligations according to the respective Law.

As for surety business, the SHCP will determine a term for the beneficiaries to substitute their guarantees or to arrange their transfer to another surety company. Once the term has elapsed, they will have a 60-day term to demand the recognition of their credits, or to register their nonclaimed policies with the liquidator, otherwise they would lose their privileges granted by law and would be considered as ordinary creditors.

The beneficiaries of non-re-claimable sureties and the unearned premiums' creditors existing at the time when the revocation agreement was published at the DOF are considered as creditors with effective rights over the assets that comprise the in-force surety reserve or sale's proceeds. Payments will be made at the moment in which obligations become reclaimable, with previous SHCP's authorization.

Surety creditors, who can reclaim after the publication of the mentioned agreement, are considered as creditors with effective rights over the assets that comprise the contingency reserve or over the sale's proceeds.

Beneficiaries and unearned premiums' creditors will have preference over the rest of creditors for the company's remaining assets.

Surety creditors have direct action over the assets and against individuals which had constituted or who had granted guarantees in the same terms as a surety

	<p>company; this could only be possible, if the surety is paid. However, if those creditors decide to apply direct action, they can only be addressed as ordinary creditors in an administrative winding-up, or in the bankruptcy process, if applicable.</p> <p>Regarding the bankruptcy process (<i>commercial bidding</i>), the SHCP is the only entity that can request a bankruptcy process of an insurance or surety company. This strategy is only applicable when the license was not revoked (Articles 120 and 124 of the LGISMS and 109-Bis of the LFIF; LISF project: Articles 446-471).</p> <p>The Mexican Bankruptcy Law ("<i>Ley de Concursos Mercantiles, LCM</i>") in its transitory Article 4, foresees that insurance and surety companies should be regulated by their own specific Laws and derived provisions.</p> <p>The main characteristics are the following: The SHCP will require the magistrate of the Bankruptcy Court, to order provisional measures in order to protect creditors' interests, infrastructure and assets of the company. In this process the CNSF is a SHCP's consultant body.</p> <p>Once the commercial bidding is announced, the SHCP on behalf of creditors can either start a bankruptcy process or an anticipated conclusion of the conciliation process.</p> <p>The assets liquidation proposals presented by the Court's appointed "receiver" must be authorized by the SHCP.</p> <p>The bankruptcy announcement will cancel the insurance contract, if during the conciliation period the portfolio transfer was not arranged.</p> <p>When defining the creditors' priorities, the "receiver" should take into consideration the LGISMS or the LFIF, depending on the case.</p>
Assessment	Largely Observed
Comments	<p>The legal framework foresees scenarios in which it is no longer possible for an insurance or surety undertaking to continue its business, and therefore when a exiting of the market must be initiated. There are two ways for exiting the market and both can be only initiated by the SHCP: license revocation and bankruptcy process. Voluntary exiting is not explicitly indicated in the law insurance law but rather in the overarching mercantile law. There have been cases where the license was returned on a voluntary basis. Current role of the CNSF is that of an advisor to the SHCP in these processes.</p> <p>In order to strengthen the supervisory functions of the CNSF, the LISF project gives it the power, with the agreement of its Board, to revoke the license authorization to operate as an insurance or surety institution (Articles 332, 333, and 363).</p> <p>The law indicates several situations that could cause the revocation of license. Current reasons that can lead to the revocation of the operating license include none or very low level of business, insolvency, accounting breaches and the exhausting of the term given in a regularization plan based concerning deficit in the constitution of technical provisions or lack of coverage of technical reserves or capital requirements without addressing the issues.</p> <p>Partial exiting of the market is also foreseen in the law by the possibility to revoke the license on a given line of business. The reasons are similar to the complete revocation of license adapted accordingly.</p>

The LISF project also provides the CNSF, with the agreement of its Board, full powers to modify the authorization to suppress the insurance and surety institutions of the practice of one or more of their authorized line of business.

The LGISMS and the LFIF set up diverse measures addressed insolvency problems that allow for a high level of protection to policyholders and beneficiaries. These measures include:

- management intervention;
- issuing a regularization plan;
- issuing different orders to protect the further deterioration of the financial position of the company like;
- refraining from registering new products, reduce partially or totally the premium's writing or retention, as well as to accept reinsurance operations to levels that are compatible to the company's capital resources;
- suspending dividends' payment to its shareholders, to differ the payment of the principal and/or interests of subordinated liabilities or other credit titles that had been issued by the company; or when applicable, arrange an anticipated stock conversion; and
- informing the policyholders of the delicate situation by convening a meeting with the Administrative Board or with the General Assembly, at which a CNSF's representative will describe the company's situation.

The LISF project adds more powers to the CNSF allowing it to order an insurance or surety institution, to invest those assets that cover its investment base using a conservative investment regime determined by the CNSF; suspend the compensation and special bonus payments to the general director and the staff two levels below the general director managers, and to stop granting further compensations to the general director and functionaries, until such institution corrects the situation that originated their problem, at the discretion of the CNSF (Article 323, fraction XV and Article 324, fractions IV, VII, and VIII).

In addition, the LISF project expressly provides new specific hypotheses in which the CNSF can order to the insurance and surety companies to meet one or more control measures, like the following: if the Board of Directors does not accomplish its functions; if the audit committee does not satisfy its assigned functions; if the investment committee does not accomplish its assigned functions; Fail to meet with the approved Board of director's investment policy or the applicable law; and caring out transactions services involving conflicts of interest conflicts to the detriment of its clients or involvement in prohibited activities by LISF or by provisions stated from it (Article 323, fractions from VI to IX, from XI to XVI).

The failing entities are addressed by either the license revocation followed by the corresponding administrative winding up of the entity or the filing of commercial bankruptcy. The reasons leading to the revocation of the operating license have been described above. The reasons that can lead to the bankruptcy process are the same as those leading to the revocation of license and the choice of preference is left to the SHCP process.

As with the revocation of license the appeal for commercial bidding of an insurance or surety company can only be ordered by the SHCP and this power will be transferred to the CNSF in the new law. According to the LISF project, the bankruptcy proceeds only at the request of the CNSF, of the liquidator or of the financial manager (Art 447).

In the process of winding up after the license is revoked, the SHCP has strong oversight attributes: appoint a liquidator, authorize to sell the company's assets, establish the terms for the winding-up process and receive and resolve any complaint from the policyholders and beneficiaries. During the administrative liquidation, policyholders are treated with equity as they should receive a proportional amount of the company's assets with respect to the technical reserve constituted by each policy, without considering the existence of claims and proportionally to the insured amount or to the corresponding compensation when the contract is entered into a claim. Policyholders, beneficiaries, pensioners and reinsurers, are considered as priority creditors and will have preference over all other creditors when the company becomes insolvent. Policyholders, beneficiaries and pensioners rights prevail over those of reinsurers.

Technical provisions are considered as owned by the policyholders and are used to cover any insurance or reinsurance contract commitment, and only the surplus, could be used to cover other obligations according to the respective Law.

There are no requirements with respect to the maximization of the value of the liquidated assets or on the efficiency of the process. This could create the perception that the proceedings of the assets under liquidation were not optimized or at least that there was no process for that. These points will be addressed in the new law. The LISF project establishes a new and more efficient regime to the forceful administrative liquidation procedure of insurance and surety institutions. The main features in this new regime are:

- The CNSF, with the agreement of its Board, is entitled to designate the administrative liquidator to do the corresponding assignments, in case of temporary or permanent absence, and to revoke the designation (Arts 396 and 397).
- The designated administrative liquidator will be the company in liquidation's legal representative and will be entitled with the broadest powers of control, which are conferred by law and those derived from his functions, being clearly defined the responsibilities and duties of the liquidator (Articles from 399 to 409 and from 426 to 442).
- The procedures of administration and sale of assets of companies under liquidation companies that the liquidator should follow so that the sale is conducted in an economical, effective, impartial and transparent way, looking for the best conditions and the shortest periods to recover resources, seeking to maximize the recovery value, considering the best conditions and opportunities and reducing management and custody costs. (Articles 410 a 425).
- The CNSF is entitled to supervise the liquidators (Article 431).
- Some specific rules are established for the insurance companies liquidation, such as rescinding from the full rights over the insurance and reinsurance

	<p>contracts, if the liquidator cannot transfer the respective portfolios within 30 days of the notification of the authorization to revoke.</p> <ul style="list-style-type: none"> • The power of the CNSF to issue the general guidelines for the portfolio's transfer; credit recognition procedure with deadlines for the proceedings involved. • Requested by the liquidator, when the obligations of the insurance company are supported by special insurance funds, to be delivered to the creditors for the respective insurance the difference between the liquidation amount and the amounts guaranteed by such funds or, given the case, the deliver to the insurance company to which the portfolio was transferred of the amount of the corresponding support (Articles 432-436). • Some specific rules for the surety companies' liquidation are established, such as credit recognition procedure with deadlines for the proceedings involved; the option for creditors of sureties to exert direct action on properties and against persons who have given a support guarantee, acquiring the status of ordinary creditors in the liquidation (Articles 437-442). • The inability to use the conventional liquidation proceeding with a liquidator designated by the insurance companies themselves, when they have liabilities related to insurance and reinsurance contracts, when they have not agreed with the conclusion of their fiduciary duties. The same applies for surety companies when they are responsible for credits and sureties, and they have not agreed with the conclusion of their fiduciary duties (Article 443). <p>Regarding the bankruptcy process the Mexican Bankruptcy Law ("<i>Ley de Concursos Mercantiles, LCM</i>") in its transitory Article 4, foresees that insurance and surety companies should be regulated by their own specific Laws and derived provisions. The control maintained by the SHCP and the consumer protection aspects are more limited than in the administrative liquidation process. The SHCP can request to the magistrate of the Bankruptcy Court, to order provisional measures in order to protect creditors' interests, infrastructure and assets of the company. Once the commercial bidding is announced, the SHCP on behalf of creditors can either start a bankruptcy process or an anticipated conclusion of the conciliation process. The assets liquidation proposals presented by the Court's appointed "receiver" must be authorized by the SHCP. When defining the creditors' priorities, the "receiver" should take into consideration the LGISMS or the LFIF, depending on the case. The LISF project includes provisions to increase the consumer protection aspects like the involvement of CONDUSEF to represent the general interest of the creditors of insurance and surety contracts in front of the liquidator. The judgment that declares the bankruptcy should contain: the opening in the stage of bankruptcy and the order to the liquidator to perform the insurance and reinsurance portfolio transfer of the insurance company or to assist the beneficiaries of the sureties in the replacement of their guarantees or they transfer to other surety company. Creditors for insurance and surety contracts will have priority regarding the payment of contest fees, which will be determined in accordance to the applicable criteria in the case of administrative liquidation.</p>
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Principle 17. Group-wide supervision	
The supervisory authority supervises its insurers on a solo and a group-wide basis.	
Description	<p>According to the LRAF, authorization granted by the SHCP for constituting and operating financial groups is required. The authorizations will be granted or denied according to the SHCP's own judgment, based on Banco de Mexico's opinion, and depending on the members of the group which will be constituted, the Banking and Securities National Commission (<i>Comisión Nacional Bancaria y de Valores, CNBV</i>) and/or the CNSF's opinion. Such authorizations are not transferrable. The same law states that these groups will be integrated by a controlling entity and by any of the following entities: general deposit warehouses, leasing companies, factoring companies, currency exchange agencies, surety and insurance institutions, nonbanking financial institutions, stock firms, commercial banks; as well as managing companies of investment societies and of pension funds and multiple object societies, The financial group could be integrated with at least two of the previously mentioned financial entities, which could be the same type. As an exception, a financial group cannot be integrated with two multiple object societies. On the other hand, the first Article of the LGISMS and of the LFIF (Article 1 of the LISF project) point out that financial societies are of public interest and subject to regulation and supervision with the aim to protecting the interest of policyholders and beneficiaries. The regulation applicable to the financial societies concerns their organization and functioning, the activities and operations that they can perform, as well as those of the insurance and surety brokers, and other persons related to such sectors.</p> <p>The supervision of financial institutions belonging to the same group is carried out by the corresponding agency: the CNBV, CNSF or CONSAR. Further, according to the LRAF, financial institutions holding groups have to provide the information requested by the SHCP, Banco de Mexico (Banxico), CNBV, CONSAR and the CNSF, according to their faculties.</p> <p>The LRAF mentions that, when issuing the provisions to which it makes reference, the SHCP will take into consideration the opinion of Banxico, the CNBV and the CNSF. Similarly, in granting authorizations and performing the faculties assigned through the LRAF, the SHCP will always try to avoid the presence of improper concentrations or any inconvenient situation for the financial system.</p> <p>As a further coordination element, every financial supervisory authority (CNBV, CONSAR, CNSF and CONDUSEF) has as members of their Board first level officers of the other supervisory authorities. That is: Article 108-B of the LGISMS (Article 368 of the LISF project) state that the CNSF's Board will be composed by the CNSF's President and Vice-president plus 9 other members. Among them, one will be designated by the CNBV and one by the CONSAR; Article 17 of the LPDUSF state that the members of the CONDUSEF's Board should include a delegate from each one of the National Commissions (CNSF, CNBV and CONSAR); Article 11 of the Banking and Sureties National Commission Law, state that among the CNBV Board member's there should be one representative from the CNSF and one from the CONSAR. Finally, Article 7 of the Retirement Saving Systems Law state that the CONSAR's Board should include among its members the presidents of both, the CNBV and CNSF.</p> <p>In February 2006, the CNSF became signatory of the "<i>Guidance for the Coordination between Financial Authorities, regarding financial institutions</i>"</p>

information requirements.” This Guidance was originally signed in July 2000 by the SHCP, the CNBV, Banxico, the Insurance Deposit Institute (IPAB) and the CONDUSEF. This Guidance aims to share relevant supervisory information and work together in order to get, maintain, share and disclose information in a coordinated manner. In addition as a further coordinating element, on July 2010 the FSC has been set up in Mexico. The FSC coordinates the response of government agencies to systemic dangers to the financial system, and it is intended to promptly identify the risks that can disrupt the functioning of financial system in Mexico. Every financial regulatory frameworks (Banking, Sureties, Insurance, Pensions, etc.) establishes the mechanisms for the supervisory oversight of the following issues: group structure and interrelationships, including ownership and management structure, reinsurance and risk concentration, intra-group transactions and exposures, including intra-group guarantees and possible legal liabilities, and internal control mechanisms and risk management processes, including reporting lines and fit and proper testing of senior management. According to Article 33-N of the LGISMS and 15-N of the LFIF, (Article 85 of the LISF project) when supervisory authorities of the home jurisdiction of international financial institutions that have subsidiaries wishes to carry out an on-site inspection, they should request it to the CNSF. The CNSF has the power to decide if it makes the inspection by itself or through a third party.

The CNSF establishes bilateral or multilateral agreements, with other international insurance supervisory authorities to exchange information for supervisory purposes which are of common interests.

According to Articles 107 of the LGISMS and 67 of the LFIF (Article 389 of the LISF project), insurance and surety undertakings, or any other person subject to the supervision of the CNSF, must submit to the CNSF, in the form and terms stated by law, the requested reports and tests regarding its organization, operations, accounting, investments and patrimony for regulatory, supervision, control, inspection, surveillance, statistics and other purposes in accordance to the mentioned laws or other applicable legal and administrative provisions.

The LRAF establishes that the controller institution will be subject to the inspection and surveillance of the national commission that supervises the group’s financial organization that the SHCP determines as the preponderant one within the group (Article 30). Therefore, any national commission should ask for information

belonging to the other group’s institutions to the commission that is in charge of the supervision in accordance to its particular financial sector.

The SSLO includes in Chapter 14.6 the obligation for the insurance and surety institutions with subsidiaries to present consolidated and financial information of each one of their subsidiaries.

Articles 16 and 29 of the LGIMS and 7 and 15 of the LFIF (Articles 41, 43 and 49 of the LISF project) set the requirements to constitute and participate in the social capital of an insurance or surety institution; such as presenting the complete list of founding members, which must include their nationality, the amount of capital that they will subscribe, the way in which they will pay it, as well as the origin of the financial resources that will be used. They must also inform the names, nationality, addresses and occupations of the Board members, CEOs, and compliance officer, who must meet the requirements issued by applicable Laws. Additionally, it is required the presentation of an activity’s plan which contemplates its organization

	and internal control basis. To grant the authorization the SHCP must obtain a favorable opinion issued by the CNSF, stating that the insurance institution has in place the systems, procedures, and administrative infrastructure required to provide the authorized services and to not hinder effective supervision.
Assessment	Largely Observed
Comments	<p>The LRAF deals with financial groups. Financial groups are defined as those that incorporate as members at least two financial sector institutions which could be of the same type. The LRAF assigns the authorization to establish financial groups to the SHCP. The authorizations are granted or denied according to the SHCP's own judgment but need input from the relevant sector supervisory agencies.</p> <p>Financial groups are subject to supervision and regulation. The supervision of financial institutions belonging to the same group is carried out by the corresponding agency: the CNBV, CNSF or CONSAR and the SHCF is required to nominate the leading supervisory agency for the financial group. The assigned leading supervisory agency is then granted with oversight powers that under current legislation are limited to the requirement of information. The information exchange among the different supervisory agencies is legally supported by the signature of the <i>"Guidance for the Coordination between Financial Authorities, regarding financial institutions information requirements."</i></p> <p>Currently, the CNBV supervises most of the Mexican domiciled financial groups, and the CNSF and CONSAR supervises the remaining. The CNBV, according to its faculties, has the power to establish agreements for information exchanges with other supervisors, therefore allowing the information sharing. The CNSF on the contrary does not have the same power thus creating some difficulties in information sharing with the other authorities.</p> <p>An important element of coordination and information exchanged is given by the structure of the Boards of the supervisory agencies. According to the law, the Board of every financial supervisory authority has as members of its Board first level officers of the other supervisory authorities. In addition as a further coordinating element, on July 2010 the FSC has been set up in Mexico. The FSC coordinates the response of government agencies to systemic dangers to the financial system, and it is intended to promptly identify the risks that can disrupt the functioning of financial system in Mexico.</p> <p>The new proposed law improves the ability to exchange information between the CNSF and other supervisory agencies, (according with the Articles 3 and 366 of the LISF project), it is explicitly stated that the CNSF may provide, as requested, assistance to the SHCP, Banco de México (Banxico), CNBV, CONSAR and the CONDUSEF, based on their main duties. By this mean the CNSF provides them information and documentation held by the CNSF of insurance and surety institutions or mutual societies or any other person subject to the supervision of the CNSF, maintaining the confidential status of the information provided.</p> <p>Every financial regulatory framework (Banking, Sureties, Insurance, Pensions, etc.) establishes the mechanisms for the supervisory oversight of the key issues like group structure and interrelationships, risk concentration, intra-group transactions and exposures. There are however few requirements on the group wide governance and comprehensive risk management and there is no group capital concept.</p>

	<p>Countries with signed commercial agreements are allowed to carry out an on-site inspection, based on an official request to the CNSF. The CNSF may also be asked to perform on-site inspections in companies established in foreign jurisdictions of Mexican host insurers. As of today no inspection has been carried out by foreign authorities in Mexico.</p> <p>The leading national commission designated to supervise the group's financial organization is the source of information on a consolidated basis. The CNSF has been working together with other supervisory authorities to get the consolidation of this group's financial information, permitting by this mean that the financial statements display the total consolidated position under homogenous databases. Main difficulties remain and are based on the different accounting principles and information gathering formats and media.</p> <p>For insurance groups the consolidated and financial information of each one of their subsidiaries is currently required and available through the CNSF website.</p> <p>The structure of financial groups that include insurance companies are controlled to a certain extend by the set of requirements to constitute and participate in the social capital of an insurance or surety institution as stated in the insurance regulation To grant the authorization the SHCP must obtain a favorable opinion issued by the CNSF, stating that the insurance institution has in place the systems, procedures, and administrative infrastructure required to provide the authorized services and to not hinder effective supervision.</p> <p>The control structure needs to be clear before the license can be issued or the change in control approved. In the past the CNSF has required changes to the ownership structure before granting the license however there has been no experience in applying restrictions to the ownership.</p>
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Prudential Requirements

Principle 18. Risk assessment and management

The supervisory authority requires insurers to recognize the range of risks that they face and to assess and manage them effectively.

Description

Based on Article 107 of the LGISMS and 67 of the LFIF (Article 389 of the LISF project) and through administrative provisions stated in the SSLO (Chapter 8.6) the CNSF has issued guidelines concerning prudential management for the overall financial risks. Companies are required to establish mechanisms allow to identify, measure and monitor risks affecting the insurance operations in the areas of credit, legal, liquidity, market and operational. The SSLO also sets provisions on the efficiency of the risks' administration which rely on the instrumentation, diffusion and correct application of policies and procedures.

The CNSF requires the filing of a risk management manual which must contain, among other things, the manner in which the entity identifies, measures, mitigates and controls facing financial risks. In this manual, they must clearly identify the methodologies to be implemented to measure market, credit, liquidity, operational and legal risks. This manual is reviewed by the CNSF and, if necessary, adjustments are required for approval. Prior to sending it to the CNSF, insurance or surety undertaking's Board of Directors must approve it as well as any modification which, in turn, must be notified to CNSF. In addition, there must be an annual independent auditor's dictum covering, among others, the following aspects: the risk management development, the risk management area's

	<p>organization and independence, the sufficiency and integrity of the risks' data, information processing and analysis systems, and the adequacy of internal controls.</p> <p>The establishment of a risks committee responsible for developing and presenting to the Board of Directors the Risk Management Manual is mandatory. Additionally, each institution must have an area responsible for the integral risk management overview independent from the operational areas.</p> <p>The compliance officer must send to the CNSF an annual report on the insurer's compliance degree on both, internal policies and regulatory requirements. Besides, the compliance officer is required to promptly inform to the CNSF, the company's Board of Directors and, given the case, the General Assembly any detected severe misdeed.</p> <p>The regulation related to risk management policies addressed by the <i>SSLO</i>, applicable to insurers (Chapter 8.6) and in the <i>Circular Única de Fianzas</i> (Chapter 6.5), addresses the issue that risk management policies and risk control systems of the insurance and surety undertakings should be appropriate to the complexity, size and nature of their business.</p> <p>As mentioned in the assessment of the above criterion, the objective of the LISF project is to strengthen the institutions corporate governance and the integral risk management functions.</p> <p>As it was stated in the assessment of the essential criteria <i>a</i> and <i>b</i> above, current regulatory framework deals with the monitoring and controlling of credit, legal, liquidity, market and operational risks. Additionally, and in order to carry out a prospective surveillance analysis and to monitor different risks that may help to identify problems which require preventive measures adoption, the CNSF established in the <i>SSLO</i> (Chapter 16.35), provisions that allow an assessment of the adequacy company's capital under extreme conditions scenarios and an analysis regarding the required minimum solvency margin through dynamic solvency testing models.</p> <p>The CNSF's supervisory activity considers, through its respective inspection and surveillance rules and the <i>SSLO</i> (Chapter 8.6) a permanent follow-up to the insurance market as well as the appropriate measures to be taken to manage its adverse impacts.</p> <p>The CNSF requires from the supervised institutions to establish a risk committee with the duty to communicate to the Board the company's specific risks and possible solvency implications. There is not a differentiation related to the company's size.</p>
Assessment	Observed
Comments	<p>The licensing requirements for the insurance activity includes the existence of mechanisms that allow the identification, measurement and monitoring of risks affecting the insurance operations. The main areas of source of risk to the insurance activity are covered: credit, legal, liquidity, market and operational risks. The CNSF requires also a monthly report of the investment portfolio to monitor compliance and assess possible deterioration of the assets.</p> <p>The on-site inspections check the quality of such risk management processes through the revision of the risk management manual submission. The responsibility of the risk management systems is assigned to the Board as its</p>

approval is required before the risk management manual is submitted or alterations are made.

Complementing the supervisory activity of the CNSF, the compliance officer reports on an annual basis or immediately if severe breaches occur on the insurer's compliance level on both, internal policies and regulatory requirements. In addition, an annual independent auditor's dictum covering, among others, the following aspects: the risk management development, the risk management area's organization and independence, the sufficiency and integrity of the risks' data, information processing and analysis systems, and the adequacy of internal controls is required.

The establishment of a risks committee responsible for developing and presenting to the Board of Directors the Risk Management Manual is mandatory.

The new law adds areas of risk management coverage requiring the establishment and verification of the compliance with explicit policies and procedures in: comprehensive risk management, internal control, internal audit, actuarial function and contracting services with third parties.

Current regulation has strong requirements on the risk management of individual risks affecting the company, but little if anything is required at the integrated level. The new law highlights the needs to integrate strategy, operations and risk management. Specifically the LISF (fraction I of Article 69) states that the institutions must have an effective system that includes the policies, strategies, processes and reporting procedures to monitor, administer, measure, control, mitigate and report constantly to the Board of Directors about the individual and aggregated risk level that the company could be subject to as well as the interdependency of this risks. The risk management system should be managed by a specific area as a part of the institutional structure organization and have the oversight of the Board of Directors.

Current regulation does not require insurers to adapt their risk management and internal controls as the business becomes more complex. The new law incorporates the requirement of the appropriateness of the risk management policies and risk control systems according to the complexity, size and nature of the business will be incorporated in the new law.

The CNSF requires from the supervised institutions to establish a risk committee with the duty to communicate to the Board the company's specific risks and possible solvency implications. There is not a differentiation on the requirement related to the size of the company or the complexity of the business. Nevertheless, it is relevant to mention that larger companies operating in the market have sophisticated risk management functions. It is recommended to formalize the requirement to have a risk committee when a defined complexity and or size of the institution are reached.

The CNSF requires an annual stress test to be carried out with the purpose to assess the ability of the companies to comply with solvency requirements under severe but possible stress scenarios.

The disclosure of the risks affecting insurers is not explicitly stated in current regulation thus creating a possible knowledge gap between the CNSF and the insurers of the risks present in the insurance sector. This possible source of vulnerability will be closed by the new law that establishes the requirement on the

	<p>insurers to periodical carry out a self-evaluation on their risks and solvency threats. The self assessment should cover the level of compliance, by operative areas of the institution, regarding objectives, policies and procedures for the integral risk management; the institutions' global solvency needs in accordance to their specific risk profile; the limits of the risk tolerance approved by the Board of Directors and the business strategy of the institution, including the constant monitoring of the possible future impacts on the solvency, based on the dynamic solvency test; the permanent compliance with the requirements on the subject of investments, technical reserves, reinsurance guarantees, solvency capital requirements and minimum paid in capital; the degree of deviation between the institution's risk profile and the assumptions underlying the calculation of solvency capital requirement. The self assessment should also include a proposal of the measures taken to take care of the deficiencies when they are detected during the exercise.</p>
<p>Principle 19.</p>	<p>Insurance activity Since insurance is a risk taking activity, the supervisory authority requires insurers to evaluate and manage the risks that they underwrite, in particular through reinsurance, and to have the tools to establish an adequate level of premiums.</p>
<p>Description</p>	<p>Article 29-Bis of the LGISMS and 15-Bis of LFIF (Article 70 of the LISF project) establish that insurance and surety undertakings' Board of Directors will have nontransferable obligations regarding the definition and approval of policies and norms for risk underwriting, investments, integral risk management, reinsurance, financial reinsurance, marketing, institutional development and operations financing; as well as the strategic objectives in these matters and the mechanisms to monitor and evaluate their fulfillment.</p> <p>As a complement, Article 36 of the LGISMS (Article 200 of the LISF project) establishes that, insurance institutions while performing its activities, must meet the following principles:</p> <ul style="list-style-type: none"> • Offer and subscribe insurance according to normative frame and according to sound insurance practices, in order to achieve an appropriate risks selection. • Determine with sound technical bases, the risk premiums in order to guarantee, with a high level of confidence, the fulfillment of the obligations assumed with policyholders. • Make sure that; the conditions contained in the contract corresponding to all lines of business, the estimation of premiums and extra premiums, and dividends or bonuses, do not underestimate the net risk premium. <p>Additionally, Article 36-A and 36-B of the LGISMS (Article 202 of the LISF project) states that insurance companies, before commercializing an insurance product , its technical bases and contract model must be filed at CNSF for registration.</p> <p>According to Articles 106, 107, 108, fraction I, 109, fractions I, II, XIX and 110 of the LGISMS (Articles 382, 389, 366,372 and 385 of the LISF project) the CNSF conducts revisions of technical, financial and contractual information periodically sent by insurance companies, in order to verify the inclusion of the underwriting and pricing policies approved and revised by the Board of Directors. Besides, the CNSF carries out on-site inspections to verify that such policies and pricing</p>

strategies are in place. Noncompliance with the underwriting policy or technical notes is deemed a severe infraction that is punished with a monetary fine.

According to the LGISMS (Article 385 of the LISF project), the CNSF evaluates technical and financial information that is periodically presented by insurance institutions, in order to verify that they have expenses control systems related to premiums and claims, including claims' management and general administration expenses, and that such expenses are permanently monitored by the institution's management. Complementarily, on-site inspections are carried out to guarantee that the above mentioned systems and that the reported information is correct.

Article 18 of the LGISMS (Article 47 of the LISF project) establishes that, in order to start operations, the institution must have a favorable CNSF's opinion as a result of the inspection carried out to verify that it had the needed systems, procedures and administrative infrastructure in place to provide its services, such as:

- policies' emission;
- operations' registration;
- accounting;
- assets and liabilities valuation;
- electronic processing of accounting, financial, technical and statistical information; and
- infrastructure for claims' payment, and policyholders and beneficiaries attention.

Article 36, fraction II, of the LGISMS (Article 200 of the LISF project) establishes that insurance institutions must determine, under technical basis, the net risk premiums in order to comply with a high degree of reliability, that insurers are able to meet its commitments with policy holders. For that purpose, Article 36-A of the same Law (Article 201 of the LISF project) establishes that in order to comply the regulatory guidelines, insurance institutions must fundament all their insurance undertaken risk and their net risk premiums which must be expressed in a technical note which must deal with the following issues:

- premiums and extra-premiums;
- adequacy test of premiums and extra-premiums sufficiency ;
- technical basis for technical reserves estimation;
- deductibles, franchises, or any other participation modality of the policyholder;
- the earning percentage to be distributed among policyholders;
- when applicable, the dividends and bonuses corresponding to policyholder;
- the procedures to calculate the nonforfeiture values, when applicable;
- the charges for acquisition and administrative costs; and
- any other technical element considered necessary for an adequate operations' implementation.

According to Article 36-D of the LGISMS (Article 205 of the LISF project), the CNSF is entitled to revise the technical notes in order to verify the methodology employed by insurance institutions when determining premiums, for checking if they were computed under reasonable criteria that allow them to meet its commitments. The supervision of technical notes use is performed through on-site inspections to the institutions, and it is supported by the external actuarial auditors' reports presented to the CNSF.

In addition, the SSLO (Chapter 5.2) establishes the actuarial practice standards that must be observed with the main objective to have more solid and healthy technical basis and risk selection.

Article 37 of the LGISMS and Article 17 of the LFIF (Article 258 of the project LISF), states that insurance and surety undertakings should diversify the responsibilities that they assume when carrying out insurance and reinsurance operations.

The SHCP, through general rules for each line of business and with the opinion of the CNSF, determines the maximum retention's limits considering a single risk. Insurance institutions, based on the established rules for that specific purpose, fix yearly the maximum limit of retention for each operation or line of business, which is responsibility of the Board of Directors. Such limit is established according to the risk based on technical methods that take into account the amount of capital resources, insured sums at risk, the characteristics of risks, composition of portfolio and reinsurance arrangements. Such technical methods should allow insurance companies to determine that the retention limit is reliable even in adverse circumstances in which loss claims are likely to occur, and it does not put in a risk their solvency position. In order to accomplish this, it is mandatory to ask for the advice of a certified actuary for the preparation of the respective technical notes.

On the other hand, surety undertakings determine their maximum retention limit based on the guidelines provided in regulation. This is a quarterly determination and it is calculated by a set of fixed factors: 12 percent per surety and 68.26 percent per person under surety/ economic group, in relation to the sum of its capital, contingency reserve and guarantees recovery.

For supervisory purposes the CNSF, according to applicable provisions, supervises by means of on-site inspections that the insurance and surety undertakings are performing their operations in accordance to appropriate retention limits.

In addition, according to Articles 29-bis of the LGISMS and 15 bis of the LFIF (Article 70 of the LISF project), the Board of Directors has the obligation to constitute a Reinsurance Committee, which is responsible of establishing the reinsurance policies as well as monitoring its results. The SSLO (Chapter 6.6), sets out the roles and responsibilities of the Reinsurance Committee.

According to Article 37 of the LGISMS (Article 259 of the LISF project) the CNSF verifies reinsurance operations and their results. In this sense, the CNSF requests to the insurance and surety undertakings a periodical reinsurance report (IPR), which is integrated by the following modules:

- General reinsurance plan. It is composed of units for life, health & accidents and nonlife insurance. Each one of them should include an explanation of

	<p>the strategic planning, in which the company must describe the objectives, strategies and policies to be applied in the near future on reinsurance operations.</p> <ul style="list-style-type: none"> • Reinsurance quarterly report. It is composed of life, health & accidents and nonlife units. Each one of them should include: (a) a <i>contracts' placement report</i>, in which the company informs the proportional, nonproportional and financial reinsurance contracts written within the specific quarterly period, each one describing its main operative characteristics; (b) a <i>report on facultative reinsurance</i>, in which the institution provides a generic description of the most important placed facultative businesses; and (c) a <i>reinsurance results report</i>, in which the institution informs global results reached in reinsurance operations, it reports the income and expenses of different proportional or nonproportional reinsurance contracts as well as those of financial reinsurance. <p>According to the LGISMS, the CNSF is empowered to revise the information that insurance institutions report periodically, in order to verify that reinsurance contracts are correct and that claims managed by the insurance company are recoverable, this is, that the reinsurance program provides an appropriate coverage for the institution's capital level (taking into account the real risk transfer) and the underwritten risk profile.</p> <p>In case of domiciled reinsurers, the CNSF has the power to supervise directly that they have the adequate solvency level in accordance with assumed risks. In case of foreign reinsurers, it is required that they are listed in the General Register of Foreign Reinsurers (<i>Registro General de Reaseguradoras Extranjeras</i>), in accordance to Article 27 of the LGISMS (Article 107 of the LISF project).</p> <p>The CNSF, according to its legal attributions, reviews the information that the insurance companies report periodically in order to verify the use of registered foreign reinsurers. Additionally, through on-site inspections, the CNSF verifies that institutions only use for its reinsurance operations foreign institutions that have met current provisions.</p> <p>On the other hand, Article 10, fraction II Bis, of the LGISMS (Article 2 of the LISF project) and the <i>Reglas para la operación de Reaseguro Financiero</i> (Rules for Financial Reinsurance), state the conditions and parameters for a significant risk transfer as well as the maximum amount of funding component for the ceding.</p> <p>Finally, according to the SSLO (Chapter 13.4), the calculation of the amount of reinsurance recoverable for financial reporting should consider the temporary difference between reinsurance recoveries, and direct payments.</p> <p>Insurance and surety undertakings are required to register its risk transfer instruments according to the account catalogue issued by the CNSF. The CNSF checks the financial information reported periodically by the institutions, in order to verify that risk transfer instruments are adequately accounted and to provide an accurate description of the entity's risk exposure. The revision of reinsurance operations is performed under regular basis through off-site monitoring and on-site inspections.</p> <p>The SSLO (Chapter 14.3.2), requires, as a transparency mechanism of the reinsurance operations, that insurance and surety institutions must make</p>
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	available to the public notes to the financial statements, published on their websites, on the reinsurers they have contracts with and its corresponding credit rating. The notes must also disclose the reinsurance intermediaries they are using. Additionally, it is required that institutions must disclose, in general terms, the objectives, policies and practices in retention, risk transfer or risk mitigation.
Assessment	Observed
Comments	<p>According to current regulation, the Board of Directors has nontransferable obligations regarding the definition and approval of policies and norms for risk underwriting, investments, integral risk management, reinsurance, financial reinsurance, marketing, institutional development and operations financing; as well as the strategic objectives in these matters and the mechanisms to monitor and evaluate their fulfillment.</p> <p>The insurance activities should follow sound actuarial and underwriting practices to reach a high level of confidence in the fulfillment of the obligations assumed with policyholders.</p> <p>The CNSF monitors compliance with these requirements through the registration of the products and the corresponding technical notes. These technical notes should be approved by the Board of Directors and are subject to revision by the CNSF. The CNSF supported by external consultants conducts revisions of technical, financial and contractual information both on and off-site. Annually there are around 1500 new technical notes submitted where 85 percent are registered without objections. Main source of objection is on deficiencies in the technical calculations.</p> <p>Noncompliance with the underwriting policy or technical notes is deemed a severe infraction that is punished with a monetary fine. The CNSF has acted on these infractions in several occasions adding to the fines the immediate removal of the product from the market or the adjustments necessary to correct the situation.</p> <p>On-site inspections are carried out to verify that the supervised entities have expenses control systems related to premiums and claims, including claims' management and general administration expenses, and that such expenses are permanently monitored by the institution's management. The noncompliance or deviation of the actual expenses from the expected expenses is a source of discussion and could lead to the suspension or re-pricing of the product. The technical sufficiency of the net premium in order to comply with a high degree of reliability, that insurers are able to meet its commitments with policy holders is subject of off-site inspection. Deviations from the expected claim experience is a source of discussions among the CNSF and the insurer. Premium adjustments or additional reserving are often the outcome of the discussions.</p> <p>The current actuarial practice standards that must be followed by the actuaries support the work of the CNSF toward having more solid and healthy technical basis and risk selection in the market.</p> <p>The SHCP, through general rules for each line of business and with the opinion of the CNSF, determines the maximum retention's limits considering a single risk. Such limits are established according to the risk based on technical methods that take into account the amount of capital resources, insured sums at risk, the characteristics of risks, composition of portfolio and reinsurance arrangements.</p>

	<p>Actuarial advice is required to guarantee the technical appropriateness of the calculations. The inclusion of an absolute maximum retention independently of the retention limit of 5 percent of the assets covering the capital requirements, adds extra protection to the insurers exposures.</p> <p>Noncompliance with retention limits is a serious offense that can lead to license revocation and has been source of fines and admonitions in the past.</p> <p>The setting of retention limits is a technical matter and should be transferred to the CNSF. This will help expedite the implementation and possibly reduce the time between updates to a higher frequency.</p> <p>The importance for the highly exposed Mexican market to natural catastrophes on reliable and solvent reinsurers requires a close monitoring of the reinsurance contracts quality. For this purpose the CNSF requires the submission of detailed reinsurance information in the form of an annual general reinsurance plan, a quarterly reinsurance activity, including the results and the public disclosure of the reinsurance strategy and performance on the financial statements.</p> <p>Companies are required to establish a Reinsurance Committee, which is responsible of determining the reinsurance policies as well as monitoring the results.</p> <p>Past experience has shown that the CNSF acts with severe fines in case of reinsurance programs that are accounted for risks that are not covered. Domiciled reinsurers are supervised directly by the CNSF and the foreign reinsurers need to be registered to operate in Mexico. A rating of at least BBB- is required as well as local experienced representatives with sufficient binding powers.</p> <p>The CNSF, according to its legal attributions, reviews the information that the insurance companies report periodically in order to verify the use of registered foreign reinsurers. Additionally, through on-site inspections, the CNSF verifies that institutions only use for its reinsurance operations foreign institutions that have met current provisions.</p> <p>In order to promote the use of suitable and dispersed reinsurers each specific risk capital charge is multiplied by a <i>reinsurance weight factor</i> which will be composed by the following indexes:</p> <ul style="list-style-type: none"> • An <i>index on the usage of nonregistered reinsurers</i>¹, implying that a company that reinsures all of its ceded premiums to nonregistered reinsurers will face a duplication of its RBS, while the index will have no effect to a company that does not cede premiums to nonregistered reinsurers.
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$$I_{renr} = 1 + \frac{\sum_{i=1}^n Pcnr_i}{Pr}$$

¹ Where $Pcnr$ are the yielded premiums to nonregistered reinsurers during the last 12 months and Pr is the amount of retained premiums during the last 12 months.

	<ul style="list-style-type: none"> • A <i>quality index of foreign registered reinsurers</i>,² implying that the higher the percentage of ceded premiums to reinsurers of low quality over the total of ceded premiums implies a higher RBS requirement.³ • A <i>reinsurers' concentration index</i>,⁴ which implicitly uses the Herfindahl-Hirschman Index (HHI), a commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in a market, and then summing the resulting numbers. The HHI number can range from close to zero to 1. In this sense, and given that it is multiplied directly if it has two or more reinsurers, the RBS will be reduced, while if it only has one, no subtractions can be made (it will be multiplied by 1). <p>Additional forms of risk transfer are required to be registered and the CNSF checks the financial information reported to verify that the risk transfer instruments are adequately accounted and provide an accurate description of the risk transferred.</p>
Principle 20.	<p>Liabilities</p> <p>The supervisory authority requires insurers to comply with standards for establishing adequate technical provisions and other liabilities, and making allowance for reinsurance recoverable. The supervisory authority has both the authority and the ability to assess the adequacy of the technical provisions and to require that these provisions be increased, if necessary.</p>
Description	<p>The CNSF, based on Articles 101 of the LGISMS and 64 of the LFIF (Article 300 of LISF project), and the SSLO, Chapter 12.1, and the <i>Circular Única de Fianzas</i>, Chapter 9.1, establish a general accounting catalogue, for insurance and surety undertakings. The catalogue indicates the way in which such institutions should reflect in their financial statements the technical provisions and other liabilities. This catalogue is frequently reviewed and updated in order to keep a clear and sound accounting.</p> <p>Articles 46, 47, 50, 52 and 52-Bis of the LGISMS (Articles 216 and 217 of LISF project) set out the technical provisions insurance institutions should constitute. Similarly, Articles 46 and 47 of the LFIF (Articles 220 and 221 of LISF project) state the technical provisions that surety institutions should constitute. The</p>

$$Iqrer = \frac{\sum (Pcr_i + Cr_{(d+i)_i}) * Q_i}{\sum_{i=1}^n Pcr_i + Cr_{(d+i)_i}}$$

² Where Pcr_i is the total amount of ceded premiums to a given (i) registered reinsurer, $Cr_{(d+i)_i}$ is the total reinsurance's cost paid to a given (i) registered reinsurer during the last 12 months and Q_i is the quality factor that will be determined by the grades given by the rating agencies. For AAA, A++ A+ FPR = 9, Aaa, and AAA (from S&P, A.M. Best Moody's and Fitch, respectively the factor is 0.95; For AA- to AA+, A- to A FPR = 7 & 8, Aa3 to Aa1, and AA- to AA+, the factor is 0.90; For A- to A+, B+ to B++ FPR = 5 & 6, A3 to A1, and A- to A+, the factor is 0.85; and, for BBB- to BBB+, , Baa3 to Baa1, and BBB- to BBB+, the factor is 0.80.

³As an example, if a company cedes all its premiums to a single AAA reinsurer, the RBS will only be 5 percent higher, while, if it cedes to a single BBB reinsurer the RBS will be 20 percent higher.

$$Icrrer = \sum_{i=1}^n \alpha_i^2$$

⁴ Where α_i is the share of the sum of yielded premiums plus reinsurance cost to a given (i) reinsurer against the sum of all ceded premiums plus the respective costs.

valuation of technical provisions for insurance and surety undertakings is performed in accordance to actuarial standards of practice as stated in the SSLO in Chapter 7.7 and in Chapter 5.3 of *Circular Única de Fianzas*, which disclose the actuarial standard of practices produced by the CONAC and the adoption of standards for financial reporting issued by the CINIF.

Article 100 of the LGISMS and Article 67 of the LFIF (Articles 224, 227 and 349 of LISF project) state that, regarding the valuation of technical provisions, compel the supervised institutions to keep in magnetic files the backups of the valuations so that the CNSF is able to reproduce the estimations of the constitution and increments of these liabilities to be able to compare results.

Based on Articles 47, 50 and 52 Bis of the LGISMS and Article 46 of the LFIF, the methods and assumptions used in the valuation of technical provisions are established and disclosed through general rules issued by the SHCP, with the opinion of the CNSF. As special cases, Chapters 7.2 and 7.8 of the SSLO establish the technical basis for the valuation of unearned premiums reserve for earthquake and hurricane catastrophic insurances and Chapter 18.2 establish the technical basis for the valuation of pension insurances derived from the social security laws technical provisions.

Based on Article 106 of the LGISMS (Article 383 and 384 of the LISF project) and Article 66 of the LFIF (Article 382 of the LISF project), the CNSF is responsible of the institutions inspection and surveillance of insurance and surety institutions. The CNSF's Inspection and Surveillance By-laws establish that the inspection activities carried out by the CNSF will be performed by means of on-site inspections aiming to revise, verify, prove, and evaluate the commitments made by the supervised entities with their policyholders; as well as everything that may affect its actuarial position so that they get adjusted to the fulfillment of legal applicable provisions. Similarly, the CNSF verifies the sufficiency of technical provisions through the verification and systematic evaluation of the technical reserves' valuation periodically submitted by supervised institutions.

Article 47 of the LGISMS states that unearned risk premium reserves constituted by insurance institutions must be calculated using actuarial methodologies based on the application of generally accepted standards, which should be registered at the CNSF according to general provisions emitted for such purposes. Consequently, regulation (Chapters 7.3, 7.5, 7.6 and 7.10 of the SSLO) compels insurance institutions to evaluate the sufficiency of technical reserves and, in case that its evaluation shows results of insufficiency, institutions must correct it with their financial resources.

Article 53 of the LGISMS states that the SHCP, with the CNSF's opinion, may order at any time a technical reserves' valuation and insurers will be obliged to register and invest them immediately, according to the results of such estimation.

The accounting catalogue established by the CNSF indicates the way in which reinsurance balances must be registered, making a difference between net and gross balances. Additionally, based on Chapters 12.1 of the SSLO and Chapter 9.1 of *Circular Única de Fianzas*, the insurance and surety undertakings must register in their accounting, the facultative reinsurance operations cost for each risk, whether contracts are proportional or not, as ceded premiums.

	<p>Article 107 of the LGISMS, states that the CNSF, by means of general provisions, will define the information that insurance institutions should provide regarding its operations in order to achieve prospective surveillance functions that allow identifying problems which require the adoption of preventive measures. In order to fulfill this mandate, Chapter 16.35 of the SSLO sets general guidelines, according to which insurance institutions apply, under yearly basis, <i>dynamic solvency tests</i>, considering the current and recent financial position, the dynamic evaluation of capital sufficiency, the estimation period, as well as different scenarios, including adverse ones among others.</p>
Assessment	Observed
Comments	<p>The law requires the financial reporting and the establishment of adequate technical provisions to follow sound accounting and actuarial practices as produced by the CONAC and the CINIF and complemented by the CNSF. In certain occasions the CNSF has complemented the requirements, as an example the actuarial standards of practice make only a reference to the unearned risk premium reserves and the CNSF has developed technical guidelines and criteria for the rest of the technical reserves that is required to be applied.</p> <p>Using the backup information provided by the insurers on the valuation of the technical provisions, the CNSF, as part of the off-site inspection, confirms the results or requests clarifications or corrections.</p> <p>Article 218 of the LISF project strengthens the scheme to constitute technical provisions, since it establishes the principles that should support the actuarial methods used by insurance and surety institutions. The LISF provides the basis to move toward a Solvency II-type scheme to constitute reserves, which considers that the estimation of those reserves should be based on the transfer value of the obligations and should include a risk margin which corresponds to the opportunity cost of the regulatory capital associated with those obligations. It also states that the estimated liabilities for the technical provisions should be based on the best estimate of futures claims. The new reserve regulatory scheme also states that technical reserves estimation methodologies should be evaluated periodically using an adequacy test.</p> <p>If, during and off or on-site inspection the CNSF finds insufficiency in the technical provisions an immediate order to increase the reserves is issued that can be in the form of a regulatory plan. Not compliance with this requirement can lead to license revocation.</p> <p>Article 53 of the LGISMS states that the SHCP, with the CNSF's opinion, may order at any time a technical reserves' valuation and insurers will be obliged to register and invest them immediately, according to the results of such estimation.</p> <p>The request of the valuation of the technical provisions is a supervisory tool that is applied on the grounds of founded suspicions on the accuracy of the current valuation that the CNSF can apply.</p> <p>The accounting catalogue established by the CNSF indicates the way in which reinsurance balances must be registered, making a difference between net and gross balances. The catalogue does not provide enough detail and prudential guidance on the accounting for reinsurance recoverable. The recoverable is deemed as full recoverable if it is not older than 2 years, after that period it is written off.</p>

	<p>Article 230 of the LISF project strengthens the estimation of the recoverable amounts from reinsurance contracts, or others that include risk transfer mechanisms or responsibilities, since it make a clear precision that they can only be calculated with respect to those contracts that involve a risk or responsibility transfer. The calculation of the reinsurance amount should consider the temporary difference between reinsurance recoveries and direct payments. The methodology for estimating the recoverable amounts should be part of the actuarial methodology used to calculate technical reserves.</p> <p>The insurers are required to carry out stress tests to gain a prospective view on the solvency and liquidity needs. In order to identify the effects on capital sufficiency due to the different scenarios applied when making the <i>dynamic solvency test</i>, the insurance institutions must perform an annual dynamic solvency test with a report elaborated by an actuary. This regulation also contemplates that, in case of a relevant change in the institution's operation conditions after the last solvency dynamic test, the actuary should perform another test.</p>
<p>Principle 21.</p>	<p>Investments The supervisory authority requires insurers to comply with standards on investment activities. These standards include requirements on investment policy, asset mix, valuation, diversification, asset-liability matching, and risk management.</p>
<p>Description</p>	<p>Regarding insurance requirements, the investment rules for technical provisions (<i>Reglas para la Inversión de las Reservas Técnicas de las Instituciones y Sociedades Mutualistas de Seguros, RIRT</i>) state that the technical reserves represent the necessary provisions that must be backed up with investments in order to face assumed risks in adequate conditions of security, yield and liquidity. Such rules are supported by Articles 56, 57, 58, 59, 81 fractions II, III and IV, 82, fraction XIV, 91 and 92 of the LGISMS (Articles 247, 251, 254, 341, 342, 349, 350, 351 and 355 of the LISF project).</p> <p>As for surety institutions, the respective rules (<i>Reglas para la Inversión de las Reservas Técnicas de Fianzas en Vigor y de Contingencia de las Instituciones de Fianzas, RIRTF</i>) state, in general, that the technical reserves level represent the necessary provisions constituted in order to assure the liquidity level and the resources that will allow to finance the claims' payment derived from contracted sureties, before the guarantee acquisition process given by the surety beneficiary takes place; for this reason these reserves should be backed by investments in suitable conditions of security, yield and liquidity. These rules are supported by Articles 55 and 59 of the LFIF (Articles 222 and 247 of the LISF project).</p> <p>The RIRT and RIRTF include requirements on investment policy, asset mix, valuation, diversification, asset-liability matching, and risk management. With regard to the conditions set out in order to achieve security, liquidity and yield of investments, the RIRT and RIRTF outline the following criteria:</p> <ul style="list-style-type: none"> • Investment Committee: Every institution must establish an investment committee responsible for selecting the financial assets acquired by the institution and verifying that such investments comply with the regulatory framework. The committee must meet at least once a month and the Board of Directors is responsible for the appointment and removal of committee members.

- Matching by type of currency: Technical provisions must be constituted considering the risks underwritten, which may be in local currency, foreign currency or currency indexed to inflation. In this respect, the investment regime clearly establishes the assets permitted to cover obligations by each type of currency aiming for their consistency, in order to reduce exchange or inflation rate risk. In general, obligations must be covered with assets in the same currency although there are specific exceptions.
- Institutions may cover obligations in foreign currency with their equivalent in local currency by means of acquiring derivative products exclusively for hedging exchange rate risk with authorized intermediaries and recognized markets by BANXICO.
- With regard to coverage of technical provisions established for risks underwritten covering insured limits in inflation indexed currency, institutions may only use financial instruments that guarantee a yield equal or superior to the inflation rate, but they may use investments in local currency as long as they acquire a derivative product to cover the inflation rate risk. On the other hand, it is permissible to use foreign currency assets to cover inflation-indexed obligations up to an amount equivalent to 10 percent of such obligations.
- Securities' rating: In order to minimize the credit risk, all private debt securities as well as titles in investment funds used by institutions to cover technical reserves must hold a minimum acceptable rating, determined by a rating agency, approved by the CNBV.
- Custody and investment administration: All titles and securities referred to in the RIRT and RIRTF and operated inside the country must be administered by credit institutions or securities firms, and their custody has to take place at depository institutions for securities. In the case of investments in foreign currency operated outside the country, only Mexican financial entities or their subsidiaries may act as intermediaries. In this case, they may have as custodians, the authorized depository entities in the applicable jurisdiction in the foreign country.
- Investment limits: Investment limits are established in the RIRT and RIRTF with the aim of promoting diversification of the type of securities and of issuer. The investment regime considers two types of limits:
 - By type of security: Considering the different types of instruments accepted for coverage, and preventing an excessive concentration in any particular type of security.
 - By type of issuer: Defining the participation permissible by any particular issuer considering the risks associated by economic activity and patrimonial links.
- Liquidity: In order for investment portfolios to possess an adequate degree of liquidity, institutions must cover short term technical provisions with equivalent termed assets. The determination of these short term obligations is obtained by assigning a percentage short term requirement to each type of technical reserve and the total must be covered with investments with maturities of a year or less or equity shares classified as highly traded, the accrued part of coupons and the part to be accrued of the coupons in force

of long term investments, which are valued considering the nominal value of the instrument, using the rate and term of the coupon in force.

- Securities' sell off: With the aim to protect the interests of policyholders, administration and custodial contracts must establish that the competent authority may order the sell off to depositary institutions.
- Sanctions: The regulatory framework specifies the procedure to impose sanctions when there are deficits in the investments required to back up technical provisions either in local, foreign or inflation-indexed currency.

The investment regime for the solvency margin, which is the Minimum Guarantee Capital (CMG) in the case of insurance institutions and the Minimum Requirement of Operational Base Capital (RMCBO) in the case of surety institutions, is established in the Rules for Minimum Guarantee Capital for Insurance Institutions (*Reglas para el Capital Mínimo de Garantía de las Instituciones de Seguros*, RCMG) and the Rules for the Minimum Requirement of Operational Base Capital of Surety Institutions (*Reglas para el Requerimiento Mínimo de Capital Base de Operaciones de las Instituciones de Fianzas*, RMROBC).

The RCMG and RMROBC describe the procedures to estimate the gross solvency requirement which represents the amount of resources that institutions must maintain in order to face any possible deviations with regards to obligations with policyholders as a result of variations from expected claims, the breakdown in payments due to insolvent reinsurers, and adverse fluctuations in asset valuation as well as mismatches between assets and liabilities. The minimum guarantee capital results from the subtractions of deductions contained in the Rules to the gross solvency requirement

The RMGC and RMROBC establish that institutions must keep invested, at all times, computable assets, additional to those determined for the coverage of the technical reserves and other liabilities, complying with the investment limits.

The following table presents a list of the most significant investment limit considered in the RIRT and RIRTF.

Investment Limits for Technical Provisions

Limit	In percent
I. By type of security	
Federal Government	100
States, Municipalities and Government Agencies	60
Banks and Investments in International Financial Organizations (OFI)	60
Private and other securities	40
Foreign Financing Vehicles, Foreign Structured Notes and Foreign securities belonging to investment funds and SIC	10
Domestic Structured Notes	10
Securities linked to the same economic activity	20
Securitized Bonds	10
Structured Securities	10
Private Equity, Investment in Equity Investment Societies	1

(Sociedades de Inversión de Capitales, SINCAS),	
Derivatives	
Repurchase agreements with government securities and Securities Lending	30
Next group	30
Urban Real Estate	25
Discount and Rediscount Operations	5
Credits with collateral guarantees	5
Credits with mortgage guarantees	5
Premium debit balance	Up to the corresponding obligation in each insurance operation
II. By issuer	
Federal Government	100
States, Municipalities and Government Agencies (<i>depending on the rating</i>)	18
Banks and International Financial Organizations (<i>depending on the rating</i>)	18
Private Debt Securities (<i>depending on the rating</i>)	10
Equity	7
Shares of entity groups belong to industrial sector	20
Shares by type of economic activity	10
Related parties (<i>patrimonial links</i>)	5
Related companies (<i>related issuers</i>)	10
SINCAS	0.5
Foreign securities belonging to investment funds	1
Securities registered in the SIC	1
Source: CNSF.	
<p>For insurers, Article 99 of the LGISMS (Article 296 of the LISF project) establishes that the CNSF will set up the basis for asset valuation. Therefore, the CNSF, through the SSLO (Chapter 12.2) establishes the criterion referring to disposables and temporary investments, as well as securities in which the accounting procedures and investment valuations are instituted. On the other hand, for surety undertakings, Article 62 of the LFIF (Article 296 of the LISF project) establishes that the CNSF will set up the basis for estimating assets. Through the <i>Circular Única de Fianzas</i> (Chapter 7.1) the CNSF establishes the criterion regarding disposals and temporary investments in which accounting and investment valuation procedures are instituted.</p> <p>The above mentioned <i>Circulares</i> establish the accounting and valuation criteria, including market valuation (to finance the operation), maturity and disposable for sale (shares).</p> <p>Articles 29-Bis of the LGISMS and 15-Bis of the LFIF (Article 70 of the LISF project), state that the Board of Directors must define and approve investments rules and policies, as well as the strategic objectives and procedures to monitor and evaluate its fulfillment.</p>	

In this respect, the RIRT and RIRTF deal, in general terms, with the assets' distribution that insurance and surety institutions must keep according to their technical reserves, which set the standard to define the investments' policies. Such rules state that in order to assure that institutions will permanently maintain its investments according to these policies; they must have an investment committee that will be responsible for selecting the securities acquired by the institution or company, according to the established investment regime. Likewise, these rules make clear that it will correspond to the Board of Directors the appointment and removal of committee members.

The CNSF, through the SSLO (Chapter 8.6) and *Circular Única de Fianzas* (Chapter 6.5), established guidelines concerning decisions on the overall investment risk management that identify the different types of risks: credit risk, legal risk, liquidity risk, market risk, and operating risk.

According to this regulation, institutions must have in place comprehensive risk management policies and systems, institutions must file at the CNSF a Risk Management Manual which must contain, among other things, the manner in which they will identify, measure, mitigate and control all financial risks they are facing. In this manual, they must clearly identify the methodologies to be implemented to measure market, credit, liquidity, operational and legal risks. This manual is reviewed by the CNSF and, if necessary, adjustments are required for approval. Prior to sending it to the CNSF, insurance or surety undertaking's Board of Directors must approve it as well as any modification which, in turn, must be notified to CNSF. In addition, there must be an annual independent auditor's dictum covering, among others, the following aspects: the risk management development, the risk management area's organization and independence, the sufficiency and integrity of the risks' data, information processing and analysis systems, and the adequacy of internal controls.

As for insurance institutions, Articles 105 and 107 of the LGISMS (Articles 307 and 389 of the LISF project), and the SSLO (Chapter 15.1) set the provisions for filing and external auditor's functions. Specifically, clause k) of numeral II establishes that within the complementary reports, a study and evaluation of the institution or company internal control must be included. The respective *Circular* for sureties is the *Circular Única de Fianzas* (Chapter 11.1), clause ñ) of numeral II. In addition, during the periodic off-site revision of information provided by institutions and in-site supervision, internal controls are reviewed by the CNSF.

Additionally, the SSLO (Chapter 8.6) and the *Circular Única de Fianzas* (Chapter 6.5), state that those responsible for measuring, monitoring and controlling risks must carry out their functions independently of the operational areas. Also, the compliance officer and investment committee must verify that the assets and investments of the institution of insurance and surety are carried out in accordance with policies established by the Board of Directors and the applicable regulations.

Articles 29-Bis of the LGISMS and 15-Bis of the LFIF (Article 70 of the LISF project), state that the Board of Directors must define and approve investments' rules and policy, as well as its strategic objectives and procedures to monitor and evaluate its fulfillment.

Both, the RIRT and RIRTF deal with the assets distribution that insurance and surety institutions must keep according to the nature and duration of their technical reserves, which in some extent set the standard in order to define the investments' policies within insurance and surety institutions. Such rules state that in order to assure that institutions will permanently maintain its investments according to these policies; they must count with an investment committee, which will be responsible for selecting the securities acquired by the institution or company, according to the established investment regime. Likewise, these rules make clear that it will correspond to the institutions' Board of Directors to designate and remove the investment committee members.

Based on Articles 29 of the LGISMS and 15 of the LFIF (Article 70 of the LISF project), the CEO's appointment, should be a creditworthy and honorable person and besides at least a five years' experience in positions of high decision-making level, whose performance require expertise in financial, legal or administrative matters. Such articles state that officials with senior positions (two lower positions immediately below to the CEO's one or its equivalent), must count with at least five years of experience in matters related to their assigned duties, among other requirements.

Additionally, the SSLO (Chapter 8.6) and the *Circular Única de Fianzas* (Chapter 6.5) establish that the CEO should disseminate a risk management culture, adopting for that purpose training programs for personnel within the overall administration risk area and for all employees involved in operations that imply risks for the company.

The SSLO (Chapter 8.6) and the *Circular Única de Fianzas* (Chapter 6.5), establish guidelines concerning the overall investment risk management. According to this regulation, institutions must have in place comprehensive risk management policies and systems, institutions must file at the CNSF a Risk Management Manual which must contain, among other things, the manner in which they will identify, measure, mitigate and control all financial risks they are facing. In addition, there must be an annual independent auditor's dictum covering, among others, the following aspects: the risk management development, the risk management area's organization and independence, the sufficiency and integrity of the risks' data, information processing and analysis systems, and the adequacy of internal controls.

Additionally, as for insurance companies, based on Articles 105 and 107 of the LGISMS (Articles 307 and 389 of the LISF project) the CNSF issued the SSLO (Chapter 15.1) which sets up general legal provisions concerning the register and functions of the external auditors. Likewise, it also states that in order to get the CNSF's approval for disclosing their financial statements, they must be previously audited.

Regarding surety institutions and according to the last paragraph of Article 65 of the LFIF (Article 194 of the LISF project), the CNSF issued the *Circular Única de Fianzas* (Chapter 11.1) which establishes general provisions concerning register and external auditors' functions. It also states that in order to get the CNSF's approval for disclosing their financial statements, they must be previously audited.

Insurance companies are also subject to specific regulations regarding the monitoring and management of their asset/liability position, in order to guarantee

	<p>that their investment activities and asset positions are appropriate to their liability and risk profiles. In this sense, the solvency regime also prevents specific capital requirements for asset-liability mismatches.</p> <p>The SSLO (Chapter 8.6) and <i>Circular Única de Fianzas</i> (Chapter 6.5) establishes that the designated area in charge of the overall risk management will complement its risks measurement with stress testing under different scenarios, allowing by this to identify potential risks that the institution may face in those conditions, as well as to recognize positions or strategies that would increase vulnerabilities. For this reason, the company must carry out a result analysis and test design assessment under scenario-based extreme conditions among others aspects, in order to be in the position to establish applicable <i>contingency plans</i> derived from such evaluation, whenever a negative condition appears.</p>
Assessment	Observed
Comments	<p>The regulatory regime addresses the valuation of technical provisions, capital requirements, suitable forms of capital, quality and liquidity of assets, and asset liability matching. These elements are defined in the legislation, as well as in the rules and general dispositions.</p> <p>There are no requirements obliging the purchase of government securities. As will be explained below, insurance and surety companies can invest up to 100 percent of their assets in government bonds; however, their investment policy can also allow them to build a portfolio free of government securities.</p> <p>Insurance and surety companies cannot invest directly outside the country. However, they can invest in foreign securities that are traded through the SIC (International Quotation System of the Mexican Stock Exchange, BMV).</p> <p>In general, the RIRT and RIRTF deal with the assets' allocation that insurance and surety institutions must keep according to their technical provisions, which to some extent set the standard to define the investments' policies.</p> <p>The rules for management of investments are incorporated in the law and set in the RIRT and cover the key aspects:</p> <ul style="list-style-type: none"> • Creation of an investment committee. • List of assets in which the insurance and surety institutions are entitled to invest to cover technical provisions. • Rate for private companies' securities. • Currencies' match per type and term. • Requirements for the custody and investment management. • Investment limits per issuer or security's type. • Liquidity requirements. <p>The investment regime for the solvency margin or CMG is established in the RCMG. The RCMG establish that institutions must keep invested, at all times, computable assets, additional to those determined for the coverage of the technical reserves and other liabilities, complying with the investment limits. With respect to the permissible assets for the coverage of CMG and RMCBO, the rules establish investment limits higher than those required for technical reserves and a wider range of investment instruments susceptible to cover these solvency</p>

requirements, but still aiming for diversification in type of instruments and issuers in order to minimize the inherent risks in the operation of debt and equity markets.

The new law introduces a principle based approach to the investment limits and substitutes the investment regime based on quantitative limits by establishing that the insurance companies must carry out the investment of their assets according to an *investment policy*, approved by their Board of Directors. It introduces a chapter with the specific criteria and general requirements that such policy has to fulfill. This chapter sets out only some general limits that avoid inappropriate risk concentration levels of the assets that represent business patrimonial links with the insurance or surety undertaking. It establishes that the investment policy should be based in the prudence principle to guarantee the safety, diversification, liquidity and profitability of the insurance company's portfolio. It has the purpose of guaranteeing that assets are invested according to their nature, duration and currency of their liabilities. It also states that the investment of assets should be properly understood by the company and traded in regulated markets.

The new law will allow more flexibility but the analysis of the compliance with the prudent person requirements will demand higher expertise from the companies and the CNSF. Training and the hiring of experienced professional at the CNSF is recommended to avoid unnoticed increment in the investment risk exposure of the insurers.

The valuation of the assets is determined by the CNSF. Chapter 12.2 of the SSLO establishes that the valuation of investment securities depends on their classification, which can be within one of the following categories:

- Assets to finance the operation. The institution holds aiming to cover ongoing claims and operation expenses.
- Assets held to maturity. The institutions acquire them aiming to hold them to maturity, without affecting their liquidity needs.
- Assets disposable for sale. Those that are not classified as assets held to maturity nor assets to finance the operation.

Investments classified as assets to finance the operation and assets disposable for sale are valued at market price, using information provided by a price vendor which is required by regulation. Assets held to maturity should be valued at amortized cost. The amortized cost is defined as the acquisition cost minus depreciation, based on the unpaid balance, plus or minus the cumulative amortization of any difference between the initial cost and the amount owed; and minus any reduction for impairment.

The Board of Directors defines and approves investments rules and policies, as well as the strategic objectives and procedures to monitor and evaluate its fulfillment. Likewise, these rules make clear that it will correspond to the institutions' Board of Directors to designate and remove the investment committee members.

Insurers are required to establish guidelines concerning decisions on the overall investment risk management that identify the different types of risks: credit risk, legal risk, liquidity risk, market risk, and operating risk.

The quality and proper functioning of the internal controls needs an external auditor's opinion on an annual basis. Also the compliance officer and investment

committee must verify that the assets and investments of the institution of insurance and surety are carried out in accordance with policies established by the Board of Directors and the applicable regulations. In addition, during the periodic off-site revision of information provided by institutions and in-site supervision, internal controls are reviewed by the CNSF.

The necessary experience in relation to the job requirements extend to second level officer of a company. This includes the CIO. Additionally, the SSLO (Chapter 8.6) and the *Circular Única de Fianzas* (Chapter 6.5) establish that the CEO should disseminate a risk management culture, adopting for that purpose training programs for personnel within the overall administration risk area and for all employees involved in operations that imply risks for the company.

The LISF project strengthens the role of internal audit, noting that insurance and surety undertakings must have an effective and permanent system to review the compliance with internal and external regulations. Internal audit should be objective and independent of the operational functions of the institution, and will be responsible, among others, of verifying the right functioning of the internal control system, its consistency with the objectives and guidelines, and whether it is sufficient and appropriate for the activity of the institution.

Insurance companies are also subject to specific regulation regarding the monitoring and management of their asset/liability position and the solvency regime requires capital charges for asset-liability mismatches.

Stress testing is required to be carried out at least on an annual basis or whenever the underlying assumptions have substantially changed. The following consideration applies to the stress testing methodology.

- Assessment of negative conditions contemplating a collapse of fundamental assumptions and parameters used for the measurement of risks, as well as its response capacity; establish applicable contingency plans derived from the evaluation result analysis and test design assessment under scenario-based extreme conditions; incorporate the results generated by the tests under extreme conditions in policies revision and risk-taking limits.
- The risk management area should apply tests under extreme scenario-based conditions for the measurement of all the quantifiable risks to which the institution is exposed. The risk committee is entitled to set and to authorize, the exceeding exposure limits to the different types of risk, whenever the conditions and situation of the institution requires it, by doing so, the Board of Directors must be fully reported.
- The overall risk management area should report to the risk committee and to the Board of Directors the institution's overall risk exposure and risk's type. These risk exposure reports, must include resilience analysis and tests performed under scenario-based extreme conditions; as well as deviations from the established risk exposure limits, proposing, whenever relevant, the corresponding required remedial actions. These reports must be monthly submitted to the CEO, or as frequently as required in accordance to the kind of risks. Likewise, it will be monthly presented to the CEO as well as the responsible for each relevant area, a report on the behavior of the institution's market risks. The CNSF has access to these reports.

<p>Principle 22.</p>	<p>Derivatives and similar commitments The supervisory authority requires insurers to comply with standards on the use of derivatives and similar commitments. These standards address restrictions in their use and disclosure requirements, as well as internal controls and monitoring of the related positions.</p>
<p>Description</p>	<p>Based on the Articles 55 fraction III, 56, 57, 58, 60 and 81 of the LGISMS (LISF project, Articles 231,232 and 250 to253), the related RIRT, those concerning the RCMG, and those concerning the pension insurance derived from the social security law operations, the CNSF issued the SSLO (Chapter 8.4). Such Chapter establishes general provisions for the operation, register and disclosure of derivatives' transactions. In order to reduce institutions' risk exposure, transactions with financial derivative products, must be carried out exclusively for hedging purposes.</p> <p>According to the SSLO (Chapter 14.3) institutions that operate with financial derivative products must disclose in their financial statements disclosure notes, the following elements for each contract:</p> <ul style="list-style-type: none"> • Management and risk hedging policies that the company has established as a market participant. • Precise record of contracts using futures by its underlying and maturity value. • A summary including accounting systems and policies applied to the current net risk exposure registry. • The amounts and percentages of global positions, as well as those transactions done with related parties. • Description of the applied criteria for the selection of instruments with hedging purposes. • Description of the institution's objectives for acquiring derivatives. • Short description of the way in which derivatives are presented in the financial statements. • Description of the positions and risks which are being covered. <p>In the SSLO (Chapter 8.4) and the <i>Circular Única de Fianzas</i> (Chapter 6.3), it is established that senior officers and a committee designated by the Board of Directors must be timely and systematically involved in overseeing the market's risks administration, liquidity and other relevant risks. They must also establish a revision program, which must be submitted at least every six months and whenever it is deemed necessary given the market conditions, concerning the operational and control objectives, goals and procedures, as well as the risk exposure levels.</p> <p>According to the SSLO (Chapter 8.6) and the <i>Circular Única de Fianzas</i> (Chapter 6.5), the CNSF establishes prudential guidelines for overall risk management. Such regulation mentions that each institution's Board of Directors must constitute a committee whose objective will be the administration of the risks to which the institution is exposed, either quantifiable or not , as well as to survey that the operations are adjusted to limits, policies and procedures for risk management approved by the Board of Directors.</p>

The Risk Committee must be chaired by each institution's CEO, and must be integrated by the person who is responsible of the overall risk management area as well as by those in charge of different areas involved in risk matters designated by the committee. The committee will have the presence of the internal audit area who will attend as a guest with no voting right.

The Risk Committee should meet at least once a month. All its sessions and agreements should be registered in minutes, which properly describe the circumstances of the meeting, and must also be signed by each of the committee's members.

Likewise, the Risk Committee, in order to carry out its objectives, will have the following functions:

- A manual containing the objectives, policies and procedures for the overall risk management.
- Global exposure risk limits, as well as by type of risk, considering what is established from the 19th to the 23rd of such guidelines.
- The strategy for allocating resources to perform different operations.
- The methodologies to identify, measure, monitor, limit, control, inform and disclose the different kinds of risks to which the institution is exposed.
- The models, parameters and scenarios that will be used for risk measurement and control.
- The performance of new operations and services which implied some risk because of its nature.
- To designate a person who will be responsible for the overall risk management area.
- To inform to the Board of Directors, at least quarterly, the risk exposure assumed by the institution and the negative operating effects that it may produce; as well as the effects of disregarding the established limits to risk exposure.
- To inform to the Board of Directors about the adopted corrective measures, considering the audits' results and evaluations related to the risk management procedures.
- To create the subcommittees required to properly carry out their duties.

The CEO and the committee designated by the Board of Directors should establish a Professional Ethics Code that regulates the conduct of the staff involved in handling investment operations. In addition the CEO must implement a continuous training program for operators, support staff, monitoring risk area, and in general, for all the staff handling and controlling these financial instruments.

The SSLO (Chapter 8.4) and the *Circular Única de Fianzas* (Chapter 6.3), establish that the CEO must allocate, at least, one operator responsible for monitoring and recording derivatives transactions, who must be trained to operate in derivatives and be certified by an independent third party, determined by the CNSF in the general provisions. Similarly, the responsible Area of

	<p>Comprehensive Risk Management must be certified by an independent third party.</p> <p>Regulation states that institutions must have a valid ISO 9000 quality certification issued by an existing national organization for the accreditation and verification of the institution's investment process, including work by the Investment Committee, the Risks Committee as well as the Area for Comprehensive Risk Management, under the prudential guidelines on integrated risk management.</p> <p>The regulatory framework limits the use of derivatives for <i>hedging purposes</i> only. Additionally, regulation establishes that the CEO must designate an area in charge of overseeing derivative risk which would directly report to him. Accordingly, the Board of Directors must approve the creation of such area which main objectives are:</p> <ul style="list-style-type: none"> • To measure, evaluate and oversee the market risks that will be covered with these instruments. • To communicate immediately to the CEO, any deviation from the limits established to perform operations to cope with risks. • To report monthly to the CEO and to the Board of Directors. <p>Current regulation establishes the following requirements for the operation of derivatives:</p> <ul style="list-style-type: none"> • Areas responsible for the transaction with derivatives, should establish objectives, goals and particular operating and control procedures, which should be in accordance with the general guidelines established by the CEO and the Board of Directors. • The institution should have a system allowing the risk surveillance area, along with the responsible persons of the operative area, to supervise in a systematic and timely manner, the development and results of each transaction. • The institution must have systems which allow that transactions pricing and risk control have been adequately processed and in real time, for both the operation and supporting offices. <p>On the other hand, the management requirements state that the CEO and a committee designated by the Board of Directors should be involved in a systematic and opportune manner regarding market risks overseeing, liquidity among other issues considered as relevant. They should also establish a program to review objectives, goals, operation and control procedures; as well as the risk exposure levels that must be submitted at least every six months and whenever it's necessary depending on the market's condition.</p> <p>In relation with internal control, the regulation establishes different requirements, the most important are:</p> <ul style="list-style-type: none"> • The activities and responsibilities of operation and supporting staff should be adequately defined and be appointed to the corresponding areas • Operation and control manuals should be stated in a written manner and be informed to the operation and supporting staff, permitting by this mean the correct performance of its functions within every involved, area such as:
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	<p>operation, register, confirmation, pricing, liquidation, accounting and monitoring of all the transactions.</p> <ul style="list-style-type: none"> • Procedures that assure that all the transactions are protected by a subscribed frame contract, appropriately documented, confirmed and registered, should be in place. • Procedures that assure that all transactions with derivatives approved by the CEO and the Board of Directors have an adequate operational support for its function and control should be in place. • Independently of the guidelines established by the same institution, there must be established at least once a year, an audit function aiming to carry out adequate revisions concerning the fulfillment of policies, operation procedures, and internal control and operation notes. • Electronic data processing systems, risk management systems and estimation models should be adequately controlled and supported including data recovery. • Operation and control manuals should contain policies and procedures in order to systematically verify that transactions in course are adequately supported by the corresponding contracts and are adequately registered, entered in appropriate accounts, confirmed and included in all reports. • The estimation models must be validated at least once a year by internal and external experts, independent from those who developed such models and from the front office operation staff. • The institutions should have procedures to verify contracts and paper files that show the institution's rights and obligations. <p>The SSLO (Chapter 8.6) and the <i>Circular Única de Fianzas</i> (Chapter 6.5) state that the risk committee is entitled to carry out the management of risks, or to be supported by a subcommittee or by a specialized area (financial risk management area). The objective of any of the above mentioned schemes is to identify measure, monitor and inform the quantifiable risks that the institution faces while carrying out its operations.</p> <p>The overall risk management area must be independent from operations in order to avoid any conflict of interests and to assure an appropriate separation of responsibilities.</p> <p>Regulation also establishes that in order to carry out the measurement, monitoring, and control of the different kinds of quantifiable risks and the valuation of the institution's positions, the overall risk management area should:</p> <ul style="list-style-type: none"> • Have systems and models for risks measurement which incorporate market information including variables such as profits, volatility, and potential adverse movements; which precisely reflects the value of positions and its sensibility to different risk factors. • Carry out estimations of the institution's risk exposure, linked to results or to its capital value. • Ensure that the information on the institution's positions used in the risk measurement models and systems is precise, complete and suitable;
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therefore any modification on the mentioned information must be documented and have an explanation of the nature and reasons that originated it.

- Carry out periodical revisions regarding assumptions included in the models and systems referred to in fraction I of the *Circular*.
- Compare periodically the risk exposure estimations to the observed results during the same measurement period. If necessary, modify the assumptions used for the estimations.

On the other hand it is regulated that the CEO should ensure the autonomy between the overall risk management area and other areas, as well as to promote a risk management culture, adopting for this purpose the following measures:

- To implement revision programs regarding the fulfillment of objectives, procedures, and controls during the performance of operations; as well as the risk exposure limits, this must be submitted at least every six months, or less according to market conditions.
- Data processing, management, and storage systems that allow the risk management development.
- Diffusion and implementation of action plans in case of contingency, either due to fortuitous or mandatory reasons, which impede the execution of the risk exposure limits.
- Training programs for the overall risk management personnel and for all those involved in operations that imply risks for the institution.

Since October 1st, 2007, and in order to promote appropriate asset-liability management practices, insurance institutions are allowed to make transactions in financial derivative instruments that are not listed (to be conducted in OTC markets), under the contract's framework approved by the International Swap Dealers Association or ISDA, the International Securities Market Association or ISMA, or other national or international associations recognized in this matter. Additionally, operations with unlisted financial instruments (which are conducted in OTC markets), provided this is not contrary to the provisions of the law and the regulations applicable to insurance or surety institution.

- In accordance with the SSLO (Chapter 8.6) and in the *Circular Única de Fianzas* (Chapter 6.5), institutions must have in place comprehensive risk management policies and systems. In addition, there must be an annual independent auditor's dictum covering, among others, the following aspects: the risk management development, the risk management area's organization and independence, the sufficiency and integrity of the risks' data, information processing and analysis systems, and the adequacy of internal controls.

Additionally, the above mentioned *Circulares* state that those responsible for measuring, monitoring and controlling risks must carry out their functions independently of the operational areas. Also, the compliance officer and investment committee must verify that the assets and investments of the institution of insurance and surety are carried out in accordance with policies established by the Board of Directors and the applicable regulations.

	The SSLO (Chapter 8.6) explicitly mentions that operations with derivatives should be audited.
Assessment	Observed
Comments	<p>Regulation establishes general provisions for the operation, register and disclosure of derivatives' transactions. In order to reduce institutions' risk exposure, transactions with financial derivative products, must be carried out exclusively for hedging purposes. In this sense:</p> <ul style="list-style-type: none"> • All the transactions performed with financial derivative products must be associated to financial securities assigned to the coverage of technical provisions or the required minimum solvency margin. If in a medium or long term scenario such financial instruments were sold, the derivatives that covered them should be cancelled or linked to a new instrument that requires such coverage. • Information about these transactions must be disclosed through notes to the financial statements. <p>The disclosure notes are detailed and contain among other items:</p> <ul style="list-style-type: none"> • Management and risk hedging policies that the company has established as a market participant. • Precise record of contracts using futures by its underlying and maturity value. • A summary including accounting systems and policies applied to the current net risk exposure registry. • The amounts and percentages of global positions, as well as those transactions done with related parts. • Description of the applied criteria for the selection of instruments with hedging purposes. • Description of the institution's objectives for acquiring derivatives. • Short description of the way in which derivatives are presented in the financial statements. • Description of the positions and risks which are being covered. <p>The involvement at the highest level in overseeing the market's risks administration, liquidity and other relevant risks is required by regulation. The Board of Directors must constitute a committee whose objective will be the administration of the risks to which the institution is exposed, either quantifiable or not , as well as to survey that the operations are adjusted to limits, policies and procedures for risk management approved by the Board of Directors. The Risk Committee must be chaired by the CEO, and must be integrated by the person who is responsible of the overall risk management area as well as by those in charge of different areas involved in risk matters designated by the committee. The committee will have the presence of the internal audit area who will attend as a guest with no voting right.</p> <p>The responsibility of the risk committee is explicitly mentioned and contains detailed requirements like the monthly meetings, that all its sessions and agreements should be registered in minutes, which properly describe the</p>

	<p>circumstances of the meeting, and must be signed by each of the committee's members.</p> <p>Functions of the risk committee include setting up detailed manuals and procedures to oversee the risks. Assignment of responsibilities is clear and the responsible person has to have sufficient experience in the relevant area.</p> <p>The risk committee reviews at least annually, the methodologies used to identify, monitor, limit, control, inform and disclose the different kind of risks to which the institution is exposed; as well as the models, parameters and scenarios to perform the risks' measurement and control.</p> <p>A Professional Ethics Code regulates the conduct of the staff involved in handling investment operations. And continuous training program for operators, support staff, monitoring risk area, and in general, for all the staff handling and controlling these financial instruments is required to be provided according to the regulation.</p> <p>There is a designated operator responsible for monitoring and recording derivatives transactions, who must be trained to operate in derivatives and be certified by an independent third party, determined by the CNSF in the general provisions. Similarly, the responsible Area of Comprehensive Risk Management must be certified by an independent third party. The ISO 9000 quality certification issued by an existing national organization for the accreditation and verification of the institution's investment process, including work by the Investment Committee, the Risks Committee as well as the Area for Comprehensive Risk Management, under the prudential guidelines on integrated risk management is required for the insurers.</p> <p>An area with the specific task to overseeing derivative risk report to the CEO must be established. These area has the responsibility to measure, evaluate and oversee the market risks that will be covered with these instruments and report directly and regularly to the CEO and the Board.</p> <p>The requirements for the operation of derivatives are well covered by current regulation that requires the area responsible for the transaction with derivatives, to establish objectives, goals and particular operating and control procedures, which should be in accordance with the general guidelines established by the CEO and the Board of Directors. Real time monitoring and immediate reporting is required.</p> <p>Internal controls include procedures that assure that all transactions with derivatives approved by the CEO and the Board of Directors have an adequate operational support for its function and control should be in place.</p> <p>Independently of the guidelines established by the same institution, there must be established at least once a year, an audit function aiming to carry out adequate revisions concerning the fulfillment of policies, operation procedures, and internal control and operation notes. The audit explicitly is required to include the derivatives activities.</p> <p>Since October 1st, 2007, and in order to promote appropriate asset-liability management practices, insurance institutions are allowed to make transactions in financial derivative instruments that are not listed (to be conducted in OTC markets), under the contract's framework approved by the International Swap Dealers Association or ISDA, the International Securities Market Association or</p>
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	<p>ISMA, or other national or international associations recognized in this matter. Additionally, operations with unlisted financial instruments (which are conducted in OTC markets), provided this is not contrary to the provisions of the law and the regulations applicable to insurance or surety institution. In the operation with nonlisted financial instruments, institutions must meet the same requirements as those established for listed derivatives and their valuation should be undertaken by a price vendor.</p> <p>As with the investment in the rest of derivatives, investment in unlisted derivative financial instruments will be only for <i>hedging purposes</i> and the counterparty in such operations must have a minimum rating that should be revealed to the CNSF.</p> <p>The use of derivatives is restricted to hedging purposes and as such is small amount of these instruments are in the balance sheets of insurers accounting for only 2 percent of the investments. The controls and oversight are allocated at the highest levels of the companies. Real time monitoring and reporting of material changes is required and the sufficient expertise and experience of the operators in derivatives is supported by external certification. The use of OTC has additional preventive measures like the required rating. All investments, including derivatives need to be independently valued by one of the two currently active valuation entities.</p>
<p>Principle 23.</p>	<p>Capital adequacy and solvency</p> <p>The supervisory authority requires insurers to comply with the prescribed solvency regime. This regime includes capital adequacy requirements and requires suitable forms of capital that enable the insurer to absorb significant unforeseen losses.</p>
<p>Description</p>	<p>Insurance institutions must constitute technical reserves according to Article 46 of the LGISMS (Article 216 of the LISF project), these are: unearned premium reserves; pending liabilities reserves; special mathematical reserve, investment fluctuation reserve and contingency reserve for social security pensions; catastrophic reserve for agriculture, credit, earthquake and hurricane insurance. Provisions that regulate the constitution and valuation of such technical reserves are stated in Articles 47, 50, 52, 52-Bis, and 53 of the LGISMS (Article 217, 218, 219, 223, and 224 of the LISF project).</p> <p>Regarding surety institutions, they must constitute a reserve for current sureties, and contingency one as stated in Article 46 of the LFIF (Article 220 of the LISF project). There are diverse rules and <i>Circulares</i> (the <i>SSLO</i> and <i>Circular Única de Fianzas</i>) regarding liabilities valuation.</p> <p>Institutions are required to maintain invested the resources devoted to cover technical provisions, according to the quantitative limits stated in Articles 55, 56 and 57 of the LGISMS and 59 of the LFIF. There are specific rules regarding the reserves' investment as described in ICP 21.</p> <p>Life insurance and annuities companies following the RCMG must establish a specific capital requirement for asset-liability mismatching.</p> <p>Article 61 of the LGISMS states that the amount of capital resources used by insurance institutions to cover its minimum guarantee capital requirement, must be maintained according to the asset's classification and within the percentage determined by the SHCP, with the previous opinion of the CNSF.</p>

Articles 60 of the LGISMS and 18 of the LFIF state that insurance and surety institutions should maintain enough capital resources to cover capital requirements that turns out after applying the calculation procedures stated by the SHCP through general rules with the opinion of the CNSF (Article 232, 233, 234, and 235 of the LISF project).

The effect of risk-mitigation techniques is considered in the calculation of the MCR as indicated in Articles 60 of the LGISMS and 18 of the LFIF (Article 232, 235 of the LISF project) and, in particular, in the RCMG and RMRCBO.

Article 60 of the LGISMS states the defined capital forms and, in a particular, the Rules for the Minimum Guarantee Capital of Insurance Institutions (*Reglas para el Capital Mınimo de Garantıa de las Instituciones de Seguros*, RCMG).

Capital requirements applicable to insurance and surety undertakings are stated at a sufficiently prudent level (a minimum of 97.5 percent confidence level apply) to give a reasonable security so that policyholder’s interests are protected, according to the RCMG and the RMRCBO.

The Mexican solvency regime has evolved throughout the last decades, and is based in the solvency margin concept, which is a risk based concept and consists of two parts: (i) the CMG (for insurers) or the RMCBO (for surety companies), and (ii) the resources that cover these capital requirements (also called computable CMG or RMCBO assets).

The respective regulation establishes that the CMG is made up by two main elements: the gross solvency requirement (RBS) and the applicable deductions (D):

$$CMG = RBS - D$$

The RBS represents the amount of resources that an insurer must maintain in order to face the exposure to:

- Extraordinary deviations against expected claims from the different insurance’s lines of business.
- Exposures to bankruptcy due to reinsurers’ insolvency.
- Exposure to adverse fluctuations of the assets’ value that back up the committed policyholders’ obligations.

For insurers that carry out direct insurance, the RBS will be equal to the amount obtained from the sum of the following requirements:

$$RBS = \sum_{i=1}^{12} R_i$$

Where R_i is the requirement for:

- (R1) Life,
- (R2) Annuities derived from the Social Security Law,
- (R3) Accidents and Health,
- (R4) Health,
- (R5) Agriculture and Farming,
- (R6) Automobile,
- (R7) Credit,

- (R8) Third-party Liability and Professional Risks,
- (R9) Other lines from P&C,
- (R10) Sureties Reinsurance,
- (R11) Investments,
- (R12) Earthquake,
- (R13) Private Mortgage Insurance,
- (R14) Financial Guarantees Insurance, and
- (R15) Hurricane and other hydro-meteorological risks.

In order to promote the use of suitable and dispersed reinsurers each specific requirement is multiplied by a *reinsurance weight factor* which will be composed by the following indexes: An index on the usage of nonregistered reinsurers , a credit quality index of foreign registered reinsurers and A reinsurers' concentration index.

In general terms, the RBS for each line of business (not including life and annuities), is obtained as the amount that turns out to be the highest between a requirement based on written premiums in a specific period (twelve months) and another one based on the yearly average of occurred net claims (considering the last thirty six months).

The CMG rules give a specific treatment to life insurance, distinguishing such insurance plans whose benefit consist of the payment of insured amounts due to death or survival, from the administration funds linked to life insurance. Additionally, the CMG rules establish a requirement for life insurance in the case of assets and liabilities' mismatch, whose objective is to face possible losses due to the investment of assets in shorter terms than the lasting period of liabilities, or for rates that are lower than those used for the technical product's estimation.

The estimation of CMG and RMCBO also incorporates an investment capital requirement (R11) which is obtained as follows. First, a requirement for deficits in the coverage of technical provisions is established according to the following percentage terms of the corresponding deficit:

Requirement for Deficit in Technical Reserves

Type of deficit	Requirement as a percentage of deficit
Total	100
Foreign Currency	8.0
Inflation-indexed currency	6.5
Liquidity	6.5

Source: CNSF, SHCP.

The Credit risk requirement is calculated with the aim of alleviating a possible loss resulting from credit risk exposition of securities used to cover technical provisions, by means of classifying the investment instruments covering technical reserves in accordance with the credit risk of the issuers of each instrument and applying to them the corresponding percentages:

Credit Risk Requirement		
Group	Requirement as a percentage of the investment amount	
I. Federal Government	0	
	Rating	Percent
II. Government bonds	<i>Superior</i>	1.6
	<i>High</i>	2.0
	<i>Good</i>	4.0
	<i>Adequate</i>	6.0
III. Deposits and securities of credit institutions	1.6	
	Rating	Percent
IV. Bank and Investment in International Financial Organizations	<i>Superior</i>	1.6
	<i>High</i>	2.0
	<i>Good</i>	4.0
	<i>Adequate</i>	6.0
V. Securities different from III and IV above	4.0	
	Rating	Percent
VI. Private (corporate debt, equity, equity fund, structured notes)	<i>Superior</i>	2.0
	<i>High</i>	4.0
	<i>Good</i>	6.0
	<i>Adequate</i>	8.0
VIII. Securities and other financial assets not included in fractions I to VI	8.0	
V. SINCAS	12.0	

Source: CNSF, SHCP.

In the case of earthquake (R12), the RBS is the resulting amount of adding two capital requirements: (i) a technical requirement relative to the earthquake risks retained by the company (*Re1*), and (ii) the requirement resulting of deficiencies in the proportional risk cession (*Re2*). The requirement *Re1* refers to the probable maximum loss of the insurer's portfolio (PMLC), considering the level of retention of the market in this specific line of business: *Re1= PMLC*

The CMG results from the subtraction of deductions contained in the regulation to the RBS. In general, these deductions are:

- The balance at the end of every quarter of the contingency reserve corresponding to annuities derived from the Social Security Laws.

- The resulting amount of the addition of the balance at the end of each quarter of the catastrophe risks reserve plus the adjusted balance of the excess loss coverage.
- The earthquake line of business exceeding margin, defined as the difference between the addition of the catastrophe risks reserve plus the excess loss coverage, minus the risks retained by the insurer in the earthquake line of business.
- The amounts of the special reserves.

The LGISMS and the LFIF consider the establishment of solvency control levels. According to Articles 74 Bis 1 of the LGISMS and 104 Bis 1 of the LFIF (Article 323 of the LISF project) the CNSF is empowered to: (in) order the company to refrain from registering new products; (ii) suspend dividends' payment to its shareholders; (iii) reduce partially or totally the premium's writing or retention; (iv) reduce partially or totally the acceptance of reinsurance operations to levels that are compatible to the company's capital resources; (v) convene a meeting with the Board of Directors or with the General Assembly, at which a CNSF's representative will describe the company's situation; and (vi) differ the payment of the principal and/or interests of subordinated liabilities or other credit titles that had been issued by the company; or when applicable, arrange an anticipated stock conversion.

The circumstances to implement the above mentioned control measures are:
a) deficit in the constitution of reserves which implies a lack of coverage in technical reserves greater than 10 percent of the technical reserve requirement;
b) lack of coverage of technical reserves greater than 10 percent; *c)* lack of coverage of the minimum guarantee capital requirement (solvency margin) greater than 10 percent; *d)* lack of coverage of the paid in minimum capital greater than 15 percent; *e)* net income presenting an accumulated loss greater than 25 percent of paid social capital and capital reserves; and *f)* accounting or administrative irregularities that greatly hinders or prevents knowing the true financial situation of the company or the coverage of regulatory parameters.

Additionally, the supervisory work of the CNSF is based on a risk-based supervisory framework. With this scheme, by means of the Information System for Integrated Supervision (SIS), the objective is to monitor the solvency position of an institution based on its main risk factors, using information from different sources. From this information it is possible to determine the risk profile of each of the supervised entities and to classify them according to Regulatory Stages. These Stages show the solvency risk position of the supervised institutions, and characterize different situations ranging from "financial strength" to "serious solvency problems." A Level of Regulatory Actions (NAR) corresponds to each Regulatory Stage, i.e., depending on the NAR assigned to an institution, the CNSF implements specific regulatory actions and specific supervisory measures to correct and monitor the problems detected

Article 29 of the LGISMS and Article 15 of the LFIF (Article 50 III of the LISF project), and the RCMG disallow inflation of capital through double or multiple gearing, intra-group transactions, or other financing techniques available is allowed as a result of the insurer's membership in a group.

	<p>The Mexican legislation does not allow the establishment of foreign branches. Participation of foreign insurers in the Mexican insurance and surety markets is permitted only through the establishment of domiciled subsidiaries. Subsidiaries have to comply with the same requirements than the domestic companies.</p> <p>Article 107 of the LGISMS (Article 245 of the LISF project), states that the CNSF, through general provisions, must determine the information that insurance institutions must provide on their operations, for prospective analysis in order to identify problems that require the adoption of preventive measures. These general provisions require insurance undertaking to perform stress testing analysis (dynamic solvency test) under annual basis (SSLO Chapter 16.35). The CNSF has continued issuing regulations in accordance with the IAIS principles and standards, and international best practices. The first Mexican solvency regime was created in 1990. It was based on the EU Directives that date back to 1973 for nonlife and to 1979 for life. Even though this first Mexican solvency framework was based on the EU Solvency I model, it evolved significantly throughout the past two decades. During this period, the CNSF has been studying capital adequacy regimes in several jurisdictions, and as a consequence, the Mexican solvency regime was updated and modified several times in order to include the more recent developments, and to be more risk sensitive and to consider solvency requirements for each one of the insurance line of business according to the Mexican markets statistical experience. The Mexican solvency regime goes beyond the standards of EU Solvency I. Nowadays, the Mexican solvency regime project that is the core element of the LISF project, keeps in mind the three pillars scheme of the Solvency II Directive.</p>
Assessment	Observed
Comments	<p>The LGISMS and the LFIF establish that the assets of insurance and surety institutions must be sufficient to meet their contractual and other financial obligations with the policyholders. Therefore, the insurance and surety companies must constitute:</p> <ul style="list-style-type: none"> • Technical provisions, representing the necessary financial resources that institutions must constitute to meet their contractual obligations with policyholders. • Capital requirements (CMG for insurers and RMCBO for surety companies), representing the amount of resources that institutions must maintain, in addition to those covering technical provisions, to face possible deviations as a result of variations from expected claims, the breakdown in payments due to insolvent reinsurers, and adverse fluctuations in asset valuation, as well as mismatches between assets and liabilities. In this respect the CMG and RMCBO seek to strengthen the financial solvency of institutions as a function of their volume of operations, as well as by the type or risks underwritten. In addition, the methodology for the estimation of CMG or RMCBO also incorporates a requirement to cover possible losses resulting from the exposition to credit risk of investments covering for technical provisions. • Other liabilities representing the remaining obligations faced by insurance and surety institutions. They are primarily obligations with creditors, reinsurers and other obligations. <p>The CNSF's solvency regime addresses in a consistent manner the valuation of liabilities; its quality, liquidity and assets valuation; assets and liabilities matching;</p>

suitable forms of capital; and capital requirements. These elements are defined in the legislation, as well as in the Circulares, rules and other general provisions.

Within a financial group, only a holding company can own shares of the different financial institutions that form the group. Therefore, it is not allowed to inflate capital, due to double or multiple gearing; intra-group transactions, or other available financing techniques, when an insurer is part of a financial group.

The Mexican solvency regime based on Solvency I has been updated and modified several times in order to be more risk sensitive and to consider solvency requirements for each one of the insurance lines of business according to the Mexican markets' statistical experience. The solvency regime includes, among other: (i) actuarial sufficiency models that are used for the valuation of technical provisions; (ii) capital requirements that vary by risk and line of business; (iii) capital requirements not only for technical risk, but also for financial risks and counterparty risk; and (iv) regular stress-testing analysis (dynamic solvency test).

In the new LISF project, the calculation of technical provisions should be consistent with the valuation of assets and other liabilities, market consistent and in line with international developments in accounting and supervision. The value of technical provisions shall be equal to the sum of a best estimate and a risk margin.

The investment regime for the CMG and RMCBO is established in the CMG and RMCBO rules. This regulation establishes that insurance and surety institutions must keep invested, at all times, enough computable assets to cover the CMG and RMCBO requirements. Such assets must be additional to those determined for the coverage of the technical provisions and other liabilities, and must comply with the investment limits. In this sense, and according to the respective limits, the assets capable to cover the CMG and the RMCBO are:

- Securities, titles, credits and other considered assets, according to the requirements stipulated in the RIRT and RIRTF, excepting the investments that, in terms of the LGISMS and the LFIF, may be carried out by the institutions in a direct or indirect manner in the paid in capital of other insurance, reinsurance or sureties companies, either national or foreign institutions, as well as other financial intermediaries referred by the LGISMS and the LFIF.
- Equipment, real estate, real rights which are not of a guaranteed type, and the stocks of societies that organize themselves exclusively to acquire the domain and administer real estate.
- Establishment and organization expenses, as well as the amount of balances in charge of agents and intermediaries, accounts receivable and other debtors.
- Loans, cash and banks, personnel's loans, dividends receivable on securities and adjudicated assets.
- The surplus from the coverage of technical provisions.

With respect to the permissible assets for the coverage of CMG and RMCBO, the RIRT and RIRTF establish investment limits not as tight as those required for the coverage of technical reserves. Regulation also allows a wider range of investment instruments susceptible to cover solvency requirements, but still

aiming for diversification in type of instruments and issuers in order to minimize the inherent risks in the operation of debt and equity markets.

In order to enhance this issue, Articles 232 and 241 of the LISF project point out that capital requirement should be covered by own funds. Eligible Own-Funds items should be classified considering their quality and quantity criteria into tiers, and the amount of Eligible Own-Funds to cover capital requirements should be limited accordingly. Insurers must carry out a dynamic solvency test at least once a year, with the purpose of evaluating the sufficiency of the Eligible Own-Funds to cover the solvency capital requirements (SCR) under different scenarios. In addition, there is a precise definition of the responsibility of the Board of Directors and managers regarding the calculation of the SCR and the sufficiency of Eligible Own-Funds to cover capital requirements.

The new LISF project introduces a Solvency Capital Requirement (SCR) system instead of the Minimum Guarantee Capital. Article 233 of the LISF project allows insurance undertakings to calculate the SCR using either the standard formula or the insurer's internal model. The standard formula will be in fact a standard model, which is being design by the CNSF considering state-of-the-art actuarial techniques, the specific statistical experience of the Mexican insurance market and, therefore, will defer from the calculations and parameters considered in the EU QIS exercises. The latter will be subject to a CNSF approval process; the application must demonstrate that the internal model meets the use test and statistical quality, calibration, validation and documentation requirements established by the CNSF. Both mechanisms for the SCR calculation should include an assessment of capital requirements by risk categories (technical, market, credit, liquidity, concentration, mismatch of assets and liabilities and operational risks), and their interactions. The calculation of the SCR will be based on a 99.5 percent confidence level over one-year horizon. The solvency scheme includes stress testing (dynamic solvency testing).

The effect of risk-mitigation techniques is considered in the calculation of the MCR as indicated in Articles 60 of the LGISMS and 18 of the LFIF (Article 232, 235 of the LISF project) and, in particular, in the RCMG and RMRCBO.

Likewise, Article 235, fraction VII of the LISF project, points out that when calculating the Solvency Capital Requirement, insurance undertakings shall take account of the effect of risk-mitigation techniques, provided that credit risk and other risks arising from the use of such techniques are properly reflected in the Solvency Capital Requirement.

Capital requirements applicable to insurance and surety undertakings are stated at a sufficiently prudent level (a minimum of 97.5 percent confidence level apply) to give a reasonable security so that policyholder's interests are protected, according to the RCMG and the RMRCBO. This will be changed to the 99.5 percentage confidence level in the new law.

The respective regulation establishes that the CMG is made up by two main elements: the gross solvency requirement (RBS) and the applicable deductions (D). The RBS considers charges for operating in (R1) Life, (R2) Annuities derived from the Social Security Law, (R3) Accidents and Health, (R4) Health, (R5) Agriculture and Farming, (R6) Automobile, (R7) Credit, (R8) Third-party Liability and Professional Risks, (R9) Other lines from P&C, (R10) Sureties Reinsurance, (R11) Investments, (R12) Earthquake, (R13) Private Mortgage Insurance, (R14)

	<p>Financial Guarantees Insurance, and (R15) Hurricane and other hydro-meteorological risks.</p> <p>The strong reliance on reinsurance in Mexico is supported by strict regulation in this area. In order to promote the use of suitable and dispersed reinsurers each specific requirement is multiplied by a reinsurance weight factor which will be composed by the following indexes:</p> <p>An index on the usage of nonregistered reinsurers, implying that a company that reinsures all of its ceded premiums to nonregistered reinsurers will face a duplication of its RBS, while the index will have no effect to a company that does not cede premiums to nonregistered reinsurers;</p> <p>A quality index of foreign registered reinsurers,¹ implying that the higher the percentage of ceded premiums to reinsurers of low quality over the total of ceded premiums implies a higher RBS requirement,² and</p> <p>A reinsurers' concentration index,³ which implicitly uses the Herfindahl-Hirschman Index (HHI), a commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in a market, and then summing the resulting numbers. The HHI number can range from close to zero to 1. In this sense, and given that it is multiplied directly if it has two or more reinsurers, the RBS will be reduced, while if it only has one, no subtractions can be made (it will be multiplied by 1).</p> <p>In general terms, the RBS for each line of business (not including life and annuities), is obtained as the amount that turns out to be the highest between a requirement based on written premiums in a specific period (twelve months) and another one based on the yearly average of occurred net claims (considering the last thirty six months).</p> <p>Both, the premium based requirement and the claims based requirement, incorporate the particular statistical experience of the Mexican insurance market</p>
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$$Iqver = \frac{\sum (Pcr_i + Cr_{(d+i)_i}) * Q_i}{\sum_{i=1}^n Pcr_i + Cr_{(d+i)_i}}$$

¹ Where Pcr_i is the total amount of ceded premiums to a given (i) registered reinsurer, $Cr_{(d+i)_i}$ is the total reinsurance's cost paid to a given (i) registered reinsurer during the last 12 months and Q_i is the quality factor that will be determined by the grades given by the rating agencies. For AAA, A++ A+ FPR = 9, Aaa, and AAA (from S&P, A.M. Best Moody's and Fitch, respectively the factor is 0.95; For AA- to AA+, A- to A FPR = 7 & 8, Aa3 to Aa1, and AA- to AA+, the factor is 0.90; For A- to A+, B+ to B++ FPR = 5 & 6, A3 to A1, and A- to A+, the factor is 0.85; and, for BBB- to BBB+, , Baa3 to Baa1, and BBB- to BBB+, the factor is 0.80.

² As an example, if a company cedes all its premiums to a single AAA reinsurer, the RBS will only be 5 percent higher, while, if it cedes to a single BBB reinsurer the RBS will be 20 percent higher.

³ $Icver = \sum_{i=1}^n \alpha_i^2$ Where α_i is the share of the sum of yielded premiums plus reinsurance cost to a given (i) reinsurer against the sum of all ceded premiums plus the respective costs.

on subscription and losses. According to this, the up-dating of these factors is carried out periodically,⁴ according to the Mexican market's own experience. The amounts used for estimating the RBS are based on the highest of either the company's retention experience (twelve months experience) or the market retention average (average of past three years).

Regarding the particular case of life insurance whose benefit consists of the payment of insured amounts due to death or survival, a differentiated treatment is given to the basic individual benefit and the basic benefit corresponding to group insurances, as well as to the set of additional benefits considering their claims behavior differences. For these cases, the RBS is calculated as a particular factor (one for each type: basic individual benefit, basic group benefit and the additional benefits) multiplied by the amount on risk -which is defined as the assured sum minus the risk component of the on-going claims' reserve, and multiplied by the amount that turns out to be the highest between the requirements based on the same company's retained claims percentage (twelve months) or the market claims' retention average (three years), which is multiplied by the amount on risk which is defined as the assured sum minus the risk component of the on-going claims' reserve and also multiplied by a differentiated factor. As in the previous case, the up-dating of these factors is carried out periodically,⁵ so that the RBS will be the adequate according to the Mexican market's own experience.

In the same manner, the calculation of the RBS for annuities is formed by two components: (i) the first one, to face adverse variations related to possible higher survival level than the expected can be faced by the annuity insurer, and (ii) the second one, to confront possible loses derived from assets invested in shorter terms than liabilities duration, or underrated assets referred to the technical interest rate used in liabilities determination. As for the first component, it is calculated by multiplying 4 percent to the quarterly mathematical reserve (for both, basic and additional benefits).

In the case of life insurance and annuities, the capital requirement for the asset-liability mismatch is obtained from the present value of the expected annual asset-liability cash flow based on the projection of technical reserves and their hedging assets. Such present value is multiplied by the corresponding investment availability weighting factor, which is derived from the existence and availability of hedging assets which insurers could have obtained.

⁴ The methodology for estimating such factors is: for each insurance line, a random variable X is calculated as the proportion of the total amount of claims in a year divided by the total amount of premiums of the same year. This random variable is called the claims index. A random sample X_1, \dots, X_n of size n is created where each observation X_i of the sample is the value of the claims index for the year (i). A density probability function is estimated with the kernel method, -a non-parametrical method-, that uses a normal kernel. The factors are calculated as follows:

$Factor_\alpha(X) = Q_\alpha(X) - E(X)$ Where $Q_\alpha(X)$ is the α -quantile of the estimated distribution of x and $E(X)$ is the expectation of X. A sufficient level for α (near to one) is selected. The sense of using a quantile close to one is to grant that the probability of observing an X bigger than $Q_\alpha(X)$ is close to zero (very small).

⁵ The methodological difference is that for these cases, the factors are based on the proportion of claims over the *amount on risk* which has been defined above.

	<p>In the case of earthquake (R12), the RBS is the resulting amount of adding two capital requirements: (i) a technical requirement relative to the earthquake risks retained by the company (Re1), and (ii) the requirement resulting of deficiencies in the proportional risk cession (Re2). The requirement Re1 refers to the probable maximum loss of the insurer's portfolio (PMLC), considering the level of retention of the market in this specific line of business: Re1= PMLC</p> <p>To determine the R12 factor, the uncertainty associated to earthquakes can be modeled by probability functions emphasizing seismic danger, by incorporating variables as the intensity, instants or time intervals, in which an earthquake may take place. The area of the fault, the earthquakes' frequency in a particular region and its magnitude are the main elements to estimate such seismic activity. By a CNSF's request, the Engineering Institute of the National Autonomous University of Mexico (EI-UNAM) developed software to calculate the seismic risk of building portfolios in Mexico. It is used by insurers to calculate the PML.</p> <p>For hurricane and other hydro-meteorological risks (R15), the RBS is calculated in similar manner. The EI-UNAM also developed specific software in order to calculate the PML for these risks.</p> <p>The deduction applicable to determine the CMG are based on required prudent reserves like the contingency reserve corresponding to annuities derived from the Social Security Laws or the catastrophe risks reserve.</p> <p>The action and control levels for supervisory intervention are well defined and include wide actions as discussed in previous principles.</p> <p>There are no branches allowed in Mexico to operate in the insurance sector and subsidiaries have to comply with the same requirements than the domestic companies.</p> <p>Regular stress testing has been established in the system for a few years and allows a prospective assessment of solvency requirements.</p> <p>The CNSF has continued issuing regulations in accordance with the IAIS principles and standards, and international best practices. Currently the Mexican solvency regime has been updated and modified several times and includes a more risk sensitive regime than solvency I. Further the new law will introduce a very close to solvency II regime.</p>
<p>Markets and consumers</p>	
<p>Principle 24. Intermediaries The supervisory authority sets requirements, directly or through the supervision of insurers, for the conduct of intermediaries.</p>	
<p>Description</p>	<p>According to Articles 23 of the LGISMS, 87 of the LFIF and 10 of the Insurance and Sureties Brokers Rules (<i>Reglamento de Agentes de Seguros y Fianzas, RASF</i>), a CNSF's authorization is required to carry out insurance or surety intermediation (brokerage) activities.</p> <p>According to Articles 93 and 94 of the LISF project and Article 10 of the RASF, insurance and surety agents must be authorized by the CNSF to carry out their intermediation activity. Likewise, Article 41 of the LGISMS (Articles 102, 103, 104 y 105 of the LISF project) foresees that insurance formalized through adhesion contracts, with exception of those referred to pension insurance derived from social security laws, will be able to be carried out through a legal entity, without the</p>

intervention of an insurance agent, since, being adhesion contracts, they cannot be modified, and for that purpose they should subscribe outsourcing contracts whose texts should be previously registered before the CNSF.

Within the established requirements to obtain an agent or broker license, or the endorsement of such license, is to prove technical capability, by presenting an exam at the CNSF, or the legal entity designated for such effect (Article 10, fraction V of the RASF, and Chapter 1.8 of the SSLO and Chapter 15.7 of the *Circular Única de Fianzas*) in which the agents' evaluation process is specifically established.

Article 41 of the LGISMS allows the marketing of insurance products, through legal entities that are not agents. In 2006, Article 41 of the LGISMS was amended to establish requirements regarding the technical capability and training of the employees and proxies of moral persons, referred to in that article, that are equivalent to insurance agents, with the objective of providing guidance to insurance users on the products that they offer.

The RASF authorizes the CNSF to impose sanctions to insurance and surety intermediaries, which gravity goes from warnings, fines, suspension, prohibition or even revocation of the corresponding license (Articles 27 to 33 of the RASF). Additionally, Article 34 of the RASF settles down the procedure for sanctioning.

Agents and brokers must have and maintain a civil liability insurance policy to protect clients' interest from errors and omissions carried out during its intermediation activities, for the amounts and terms determined by the CNSF through Chapter 1.5 of the SSLO and Chapter 15.5 of the *Circular Única de Fianzas*, in order to guarantee the agent and broker's capacity to meet its responsibilities, in regard to the intermediation activities carried on.

Among the intermediaries' obligations stated by the RASF, they must inform to future policyholders or surety contractors: (i) its complete name; (ii) type of authorization; (iii) number and validity of their license; (iv) that the agent is not an official representative of the insurer or surety firm for accepting risks and for subscribing or modifying policies; and (v) that they are only entitled to receive policy's payments upon the presentation of a valid insurance or surety's invoice (Articles 5 and 7 of the RASF, related to the rules that state the general policy orientation applicable to agents and insurance and surety representatives).

Where appropriate, the CNSF may authorize institutions to designate representative agents, with faculties to issue policies, to amend them with endorsements, receive alerts and claims, charge premiums and issue receipts, and, where appropriate, audit the verification of claims or obligations, mentioning such character after their name, company or business name, and, with their signature, they will obligate the institution to accept and issue policies (Article 21 of RASF).

Articles 139, fraction XI, of the LGISMS and 111, fraction XI, of the LFIF, establish penalties in the following cases: (i) to the person who acts as an insurance and surety agent, without authorization; (ii) to directors, managers, Board members, representatives and agents of insurance agents who operate as such without the authorization required by the Law; (iii) the insurance or surety agent, which under its authorization permits a third party to do the activities only for the authorized agents; and (iv) the insurance institutions to conclude transactions with

	<p>unauthorized insurance and surety agents (Article 485 fractions I paragraph k) and I), II paragraph g) of the LISF project).</p> <p>According to Articles 16 and 17 of the RASF, insurance and surety undertakings and brokers will be responsible for the individuals that under their authorization carry out intermediary activities, without evading the corresponding administrative sanctions (Article 139, fraction XI of the LGISMS; and Article 485 fraction I paragraph I of the LISF project)</p> <p>Similarly, insurance institutions are responsible for all acts performed by legal persons under Article 41 of the LGISMS (Articles 102, 103, 104 and 105 of the LISF project) that sell or offer products on the market.</p>
Assessment	Observed
Comments	<p>In Mexico, insurance intermediation can be carried out by agents (individuals), brokers (entities) and other legal entities (considered in Article 41 of the LGISMS),¹ for example, banks or car dealers. However, most of the insurance intermediation is carried out by insurance and surety agents (47 percent and 48 percent, respectively).</p> <p>According to Articles 23 of the LGISMS, 87 of the LFIF and 10 of the RASF, a CNSF's authorization is required to carry out insurance or surety intermediation (brokerage) activities.</p> <p>The Asociacion Mexicana de Agentes de Seguros y Fianzas (AMASFAC) is the association for insurance and bonding/surety intermediaries which requires all brokers to have errors and omissions insurance cover. Some insurers require brokers to have a higher level of E&O cover than the legal minimum.</p> <p>Although there are many brokers in the market, both individuals and firms, the sector is dominated by six major players, as follows:</p> <ol style="list-style-type: none"> 1. Aon Risk Services. 2. Marsh Brockman & Schuh. 3. Willis. 4. Lorant Martinez Salas. 5. Alexander Forbes. 6. Interproteccion. <p>AMASFAC in November 2010 had 78 corporate members. As at 31 October 2010 there was a total of 33,186 agents authorized for insurance and bonding business by the CNSF. This was a reduction from the June 2009 figure of 37,674.</p> <p>Proof of technical and professional knowledge is required to obtain an agent or broker license, or the endorsement of such license. This is accomplished by presenting an exam at the CNSF, or the legal entity designated for such effect. Over the last 3 years an average of 9000 prospects applied for the certification. In 2010 there were 8949 applicants. 2978 approved, 473 failed and 5498 forfeit the test.</p>

¹Article 41 of the LGISMS allows the marketing of insurance products, through legal entities that are not agents. The LGISMS foresees that insurance formalized through adhesion contracts, with exception of those referred to annuities derived from social security laws, can be carried out by legal entities, other than insurance agents or brokers (*i.e.*, automobile dealers). Respective outsourcing contracts have to be previously registered at the CNSF.

Different types of licenses can be issued:

Types of Licenses for Insurance Intermediaries

Type of license	Description
A	Personal and family risks
B	Personal and P&C insurance business risks
C	Special risks
D	Agricultural, animal insurance
E	Credit insurance
F	Sureties
G	Special

Source: CNSF

Among the intermediaries' obligations stated by the RASF, disclosure of the independence or employer of the agent or broker is required as well as that the agent is not an official representative of the insurer or surety firm for accepting risks and for subscribing or modifying policies, and that agents are only entitled to receive policy's payments upon the presentation of a valid insurance or surety's invoice. Also disclosure of the commission upon request is required and stated in the policies.

The RASF authorizes the CNSF to impose sanctions to insurance and surety intermediaries, which gravity goes from warnings, fines, suspension, prohibition or even revocation of the corresponding license. Articles 139, fraction XI, of the LGISMS and 111, fraction XI, of the LFIF, establish penalties in the following cases: (i) to the person who acts as an insurance and surety agent, without authorization; (ii) to directors, managers, Board members, representatives and agents of insurance agents who operate as such without the authorization required by the Law; (iii) the insurance or surety agent which under its authorization permits a third party to do the activities only for the authorized agents, and (iv) the insurance institutions to conclude transactions with unauthorized insurance and surety agents. In the last three years 7940 sanctions were imposed on brokers and agents. The highest fine around USD 5000 which is deemed to be low, in particular for brokers.

According to Articles 16 and 17 of the RASF, insurance and surety undertakings and brokers will be responsible for the individuals that under their authorization, carry out intermediary activities, without evading the corresponding administrative sanctions.

Similarly, insurance institutions are responsible for all acts performed by legal persons under Article 41 of the LGISMS that sell or offer products on the market.

It is a criminal offence for non-admitted insurers to offer their products in Mexico. Sanctions of fines and even prison sentences are laid down in Articles 132 to 147 of the insurance law. Article 141 lays down prison sentences of between three and 15 years plus a corporate or personal fine of between 1,500 and 5,000 days' minimum salary in Mexico City for illegal insurance operations or placement with non-admitted insurers.

Agents may collect premium payments but only against the official premium receipt issued by the insurer. They have a maximum of 10 days in which to pass on

	<p>payment to the insurer, although it is now more common for premiums on larger risks to be paid directly by the insured to the insurer by bank transfer. There no special provision to safeguard policyholders' money, but premium paid to an authorized broker is deemed to be paid to the insurer.</p> <p>Commissions are not subject to regulation. The following table illustrates typical rates for major classes of business:</p> <table border="1" data-bbox="565 432 1271 747"> <thead> <tr> <th style="text-align: left;">Line of business</th> <th style="text-align: right;">percentage</th> </tr> </thead> <tbody> <tr> <td>Fire and allied perils (excluding large risks)</td> <td style="text-align: right;">15</td> </tr> <tr> <td>Fire and allied perils (large risks)</td> <td style="text-align: right;">12.5</td> </tr> <tr> <td>Earthquake/hurricane</td> <td style="text-align: right;">4.5 to 5</td> </tr> <tr> <td>Motor</td> <td style="text-align: right;">8 to 10</td> </tr> <tr> <td>General third party</td> <td style="text-align: right;">15</td> </tr> <tr> <td>Individual personal accident</td> <td style="text-align: right;">20</td> </tr> <tr> <td>Marine cargo</td> <td style="text-align: right;">16</td> </tr> </tbody> </table> <p style="text-align: center;">Source: Axco Report.</p> <p>Under the insurance law insurers may rebate up to 100 percent of the commission provided it is so stated in the policy.</p>	Line of business	percentage	Fire and allied perils (excluding large risks)	15	Fire and allied perils (large risks)	12.5	Earthquake/hurricane	4.5 to 5	Motor	8 to 10	General third party	15	Individual personal accident	20	Marine cargo	16
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<p>Principle 25.</p>	<p>Consumer protection</p> <p>The supervisory authority sets minimum requirements for insurers and intermediaries in dealing with consumers in its jurisdiction, including foreign insurers selling products on a cross-border basis. The requirements include provision of timely, complete and relevant information to consumers both before a contract is entered into through to the point at which all obligations under a contract have been satisfied.</p>																
<p>Description</p>	<p>In order to operate as insurance or surety undertaking, a license is required and should be granted by the SHCP. To be licensed the companies have to prove that they have in place the systems, procedures and administrative infrastructure required to provide services; that the development of those activities is carried out complying with the legal and administrative provisions that establish corporate government guidelines, solvency parameters, legality and fairness in the content of insurance contracts; so before starting operations, insurance and surety institutions should have a favorable CNSF's opinion. It corresponds to the CNSF the inspection and surveillance of insurance and surety companies (Articles 1, 16, 16-Bis, 18, 29, 29-Bis1, 31, 32, 36, 36-A, 36-B, 36-C, 36-D, 37, 38, 46, 60, 106 and 107 of the LGISMS and 1, 7, 8, 15, 15-Bis, 15-Bis 1, 17, 18, 19, 32, 33, 46, 66, 67, 82, 83, 85, 86 of the LFIF-Articles 1, 41, 46 to 69, 70, fraction I, paragraph a), 72, 73, 167, 200 to 216, 220, 232, 241, 250, 252, 256, 257, 258, 259, 382 to 384, 389, 391, 392 167, of the LISF project).</p> <p>Surety and Insurance agents must be authorized by the CNSF to carry out their intermediation activity and they are subject to its regulation, inspection and surveillance (Articles 23, 24 of the LGISMS and 87 and 88 of the LFIF; Articles 93 and 94 of the LISF project). In order to be authorized, agents must prove their technical capacity; as well as, a minimum educational level in order to perform intermediation activities (Article 10, fractions IV and V of the Insurance and Sureties Brokers Rules, RASF).</p>																

It is also important to mention that the Law for the protection and defense of financial services' users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*, LPDUSF) empowers CONDUSEF to revise, and given the case, ask for modifications to insurance contracts, if it considers that such contracts are not adjusted to the legal requirements nor have confusing clauses. As well, the CONDUSEF may ask insurers to inform its clients on the operations characteristics that are being formalized in their contracts (Title 4, Chapter 2 "On Users information"). As well, Article 50 BIS of the LPDUSF, establishes that every financial institution must have a Specialized Unit in charge of attending requests and consultations from its users.

The LPDUSF (Articles 1 to 4 and 11, fraction VII) establishes the protection and defense of the interests of financial services' users among them the insurance and surety policyholders and beneficiaries. CONDUSEF is the agency in charged to promote, advise, protect, and defend the rights and interests of such users; to arbitrate their differences in an impartial way, and to provide to the fairness in the relations between the users and the financial institutions, granting to the first elements to fortify the legal security in the operations they perform, and in the relationships they establish with the financial institutions. Article 50 of the LPDUSF establishes the obligation to have a Specialized Unit in charge of attending requests and consultations from its users, in this sense, Articles 29 Bis-1 of the LGISMS and 15 Bis-1 of the LFIF establishes that the compliance officer should revise the company's fulfillment on both, internal and external regulations and policies to make sure that the company has such a specialized unit (Article 72 of the LISF project establishes this duty for the audit committee).

The LGISMS at Articles 36 to 36-D establishes an administrative control regime for the insurance products in which it is revised the content of adhesion contracts, by reviewing that contracts do not contain illegal clauses and that they do not establish unfair obligations or conditions for any of the contracting parts, either policyholders or beneficiaries. In that same sense, Article 85 of the LFIF, arranges that the sureties' institutions must present before the CNSF, for registry and monitoring aspects, the documentation related to the supply, demand and sureties' contract or that derived from these aspects.

The LPDUSF at Article 56 entitles the CONDUSEF, as a protection measure, to review and, if such is the case, to propose to the companies, modifications to the adhesion contract models.

According to Articles 23 and 24 (Articles 91, 93 to 97 of the LISF project) of the LGISMS; as well as Article 87 of the LFIF, (Articles 92, 93 to 97 of the LISF project) in relation to the provisions of the RASF insurance intermediaries must provide the advising for the signing, conservation or modification of the insurance and surety contracts, according to the best interests of both parts.

The RASF (Article 5) states that the insurance agents must inform to prospects: their full name, type of authorization, number and validity of their card, as well as the address where they made their activities, the actual extent of insurance coverage and how to preserve or to terminate it in a detail manner: that they don't have authorization to accept risks and to subscribe or modify policies representing the insurance company, except in the case of the representative agent, which can only charge premiums from the official receipt issued by the insurer and that the premiums charged will be understood as received by this means, and that filling out

	<p>the questionnaire that requires the insurer, the proponent should underline the comprehensive important facts for the accuracy of risk that may affect the terms to be agreed.</p> <p>According to Articles 24 and 71 of the LGISMS and 81 of the LFIF, and Chapter 10.1 of the SSLO and Chapter 13.1 of the <i>Circular Única de Fianzas</i> (Articles 96, 196, 197, 200 fraction IV and 345 of the LISF project), the CNSF has issued provisions that regulate the advertising and publicity of the insurance and surety companies, and agents, so that it does not induce the public to deceit, error or confusion on the services provided by those companies.</p> <p>The CONDUSEF is in charge to spread between the users the information relative to the different services that they offer, among others, the insurance and surety companies, with the purpose to create and promote an adequate culture in the use of financial services operations. (Article 51 of the LPDUSF)</p> <p>In this sense, it is important to mention that the Chapter 5.3 of the SSLO and Chapter 14.3 of the <i>Circular Única de Fianzas</i>, states that the insurance contracting party, the guarantor or the applicant may request to the insurance or surety institution disclosure of the commission paid to the intermediary or legal person for its intervention in the conclusion of the contract celebration.</p> <p>In addition, Chapter 5.3 of the SSLO and Chapter 14.3 of the <i>Circular Única de Fianzas</i> established the obligation for insurance and surety institutions to disclose through notes to the financial statements the information of contingent commissions paid to intermediaries or legal persons used in their marketing strategies.</p> <p>The LPDUSF states that each financial institution should include a specialized unit to attend in a prompt way any consultation or complaint from their users; it establishes a conciliation procedure before the CONDUSEF; as well as arbitrage procedures to solve the differences between the users of financial services and institutions; provides legal orientation services and defense to the users that demonstrate that they do not have enough economic resources to hire an specialized defender (Article 50-Bis and 60 of the LPDUSF).</p> <p>The Federal Law on the Protection of Personal Data in the Possession of Private Parties establishes a regime that guarantees the individuals' privacy. In particular, the LFIF (Article 126) foresees the confidentiality of the reports that these institutions obtain from guarantee applicants or from those offering counter-guarantees.</p> <p>Additionally, the rules that establish general policy orientations applicable to insurance and surety intermediaries, it is stated that these should keep professional secrecy.</p> <p>According to the applicable civil legislation, the illegal handling of client's information can motivate a demand for moral damage.</p> <p>Cross-border operations are not permitted in Mexico (some exceptions can be made when a given product is not being offered by established companies). In this sense, according to general attributions stated in the control laws, the CNSF has issued warnings on the illegal character of contracting insurance from nonsupervised entities. As well, it is important to mention that the CNSF has in its website a list of authorized companies that can make business in Mexico. Additionally, under the Frequent Questions heading, a section emphasizes the fact,</p>
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	<p>that under Articles 3 of the LGISMS and 4 of the LFIF (Articles 20 to 24 and 33 to 35 of the LISF project), it is prohibited to contract with foreign companies that are not authorized to carry on business in Mexico or that do not have license to work as insurance or surety institutions.</p> <p>The LPDUSF (Articles 51 and 58) entitles the CONDUSEF to disclose by any means (website, periodical publications, etc.) among financial services users the information related to the different services offered by the financial institutions, as well as to report on the characteristics of the operations formalized with adhesion contracts (Article 39 of the LGISMS and Chapter 5.4 of SSLO, and Article 208 of the LISF project).</p> <p>With the purpose of strengthening the insurance culture and to extend the protection benefits to more of the population, Article 39 of the LGISMS (Article 208 of the LISF project) states that the insurance institutions, in attendance of its authorized lines of business as well as insurances and coverage, will be required to offer basic standardized insurance products for the death coverage of life insurance, personal accidents, medical expenses and health in Accidents and Health insurance; and liabilities in auto insurance. In order to ensure that these basic products are comparable, the CNSF through general provisions announces the “adhesion contract model” that insurance institutions should use for each one of these products.</p> <p>The contractual models consider standardized risk covered exclusions, insured amount, deductibles, term of the contract, frequency of premium payment, procedure for compensation recovery, etc. To compare the cost of the insurance net premiums of these products and disseminate them to the public, the institutions must report in a monthly basis to the CONDUSEF the total cost of the premium charged, or disseminate and update the information on their website homepage.</p> <p>Articles 51 and 52 of the LPDUSF provide that the CONDUSEF should reveal to the policyholders information regarding the general characteristics of the different products and financial services offered to the users. In this sense the CONDUSEF grades insurance aspects of the contractual documentation such as, the minimum information about its scope and limitations as well as the rights and obligations of the parties, the clarity content, validity and consistency with the average understanding level of them recipients and accessibility for its reading. The CONDUSEF website publishes the rates of the contractual documentation of auto insurance, individual health, life with an investment component, life without investment component, major medical expenses and education offered by insurance institutions.</p>
Assessment	Partially Observed
Comments	<p>The licensing requirements to operate as insurance or surety undertaking contain provisions to have in place the systems, procedures and administrative infrastructure required to provide services; that the development of those activities is carried out complying with the legal and administrative provisions that establish corporate government guidelines, solvency parameters, legality and fairness in the content of insurance contracts. The compliance with these requirements is monitored through the onsite and offsite inspections by the CNSF.</p> <p>The LPDUSF empowers CONDUSEF to promote, advise, protect, and defend the rights and interests of such users; to arbitrate their differences in an impartial way, and to provide to the fairness in the relations between the users and the financial</p>

	<p>institutions, granting to the first elements to fortify the legal security in the operations they perform, and in the relationships they establish with the financial institutions. As of 2009 CONDUSEF has the powers to impose monetary sanctions for violations of the LPDUSF.</p> <p>Regulation requires that every financial institution has a specialized unit in charge of attending requests and consultations from its users. Such unit should comply with the following:</p> <ul style="list-style-type: none"> • The unit's main officer must have the faculties to represent (and, given the case, to oblige) the financial institution to fulfill any agreement derived from the claim's resolution. • It must have personnel in every Mexican federal state where the company has a branch or office. • All derived operation and organization's expenses should be supported by the financial institution. • The financial institution must send a written response to the complying or requesting client, within a term that does not exceed thirty working days. • The unit's main officer should inform on a quarterly basis to the CONDUSEF, its activities (by areas that have the higher number of claims or consultations). <p>The market conduct responsibility is today under the CEO and will be elevated to the Board of Directors with the new LISF project in line with the improvement of governance.</p> <p>Surety and Insurance agents must be authorized by the CNSF to carry out their intermediation activity and they are subject to its regulation, inspection and surveillance. The authorization requires passing an examination with regard to technical capacity; as well as, a minimum educational level in order to perform intermediation activities.</p> <p>There are minimum requirements on the disclosure of information that intermediaries need to comply with that include the working relationship of the intermediary, and disclosure of the commission at request. However, no detailed guidelines pertaining the offering, sale operations and financial services of the insurance and surety institutions, seeking to protect the public has been issued. The LISF project will grant these powers to CONDUSEF.</p> <p>Given the low insurance penetration and insurance culture in Mexico, requirements for more clarity and transparency in the contracts aiming to protect insurance consumers is needed. It is recommended that the authorities work on improving the contracts' understanding , for instance by adding:</p> <ul style="list-style-type: none"> • A requirement that the key features of the contract be shown in large print on a "key facts" page at the front of the policy. • A requirement that basic information be sought from a client before a proposal is prepared and signed. These records should be retained for a minimum period of, say, seven years.
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	<ul style="list-style-type: none"> • The introduction of a ‘cooling off’ period² where life insurance and individual pension savings contracts are involved, particularly if high-pressure multi-level selling techniques are involved. • Clear rules for the separation of policyholder and intermediary monies, including the use of separate bank accounts. • A requirement that a claim cannot be denied on the grounds of nondisclosure if the cause of the claim is unrelated to the nondisclosed underwriting factor (although a premium adjustment offset should be allowed). <p>It is reported that the SSLO, to improve transparency and disclosure of the contracts will including a new chapter “Prospectus of the basic rights of the parties, policyholders and beneficiaries” with the aim that contracting policyholders and beneficiaries can have appropriate and adequate information to enable them to be acquainted with the terms and scope of the contract to sign and to timely exercise their rights against the mentioned financial institutions.</p> <p>The adhesion contracts are scrutinized by CONDUSEF with regard to simplicity, fairness and clarity. A price comparison is also provided.</p> <p>The CNSF has issued provisions that regulate the advertising and publicity of the insurance and surety companies, and agents, so that it does not induce the public to deceit, error or confusion on the services provided by those companies. It appears however that the monitoring of misleading advertising has no dedicated resources at CNSF or CONDUSEF, and only in sporadic occasions a wrongful advertisement has lead to its modification or suspension.</p> <p>The CONDUSEF is in charge to spread between the users the information relative to the different services that they offer, among others, the insurance and surety companies, with the purpose to create and promote an adequate culture in the use of financial services operations. CONDUSEF webpage contains educational and informative information with respect to financial sector products including the different types of insurance. Also surveys are carried out as well as presentations and publications. CONDUSEF has a dedicate line to attend the public questions and complaints. Also physical presence in all States of the Federation allows for face to face service.</p> <p>CONDUSEF has establishes a conciliation procedure free of charge; as well as arbitration procedures to solve the differences between the users of financial services and institutions. Free legal advice is provided to needed persons. However, there is limited success in the usage of these alternative mechanisms. While the consolation service has gain some acceptance there has been no arbitration.</p> <p>The Federal Law on the Protection of Personal Data in the Possession of Private Parties establishes a regime that guarantees the individuals’ privacy and intermediaries are required to treat personal data with due regard to confidentiality. According to applicable civil legislation breaches of confidentiality can motivate a demand for moral damage.</p>
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²A cooling-off period enables the policyholder to annul the contract within a defined period after the proposal has been signed or contract received—typically up to 14 days after the proposal is signed and 5 days after the policy is received.

	<p>The LISF project preserves the confidentiality of personal records (Article 190) and reinforce the established regime by “<i>Ley Federal de Protección de Datos Personales en Posesión de los Particulares</i>” stating the prohibition of insurance and surety institutions to provide, for purposes other than the provision of services that has been obliged, information of the conclusion of transactions with its clients, except with the express consent of the client (Articles 294, fraction XIV and 295, fraction XIV).</p> <p>Cross-border operations are not permitted in Mexico (some exceptions can be made when a given product is not being offered by established companies) and can lead to imprisonment.</p>
<p>Principle 26. Information, disclosure & transparency toward the market The supervisory authority requires insurers to disclose relevant information on a timely basis in order to give stakeholders a clear view of their business activities and financial position and to facilitate the understanding of the risks to which they are exposed.</p>	
Description	<p>According to Article 177 of the Commercial Companies Law (<i>Ley General de Sociedades Mercantiles</i>, LGSM), the institutions should publish their financial statements, along with its notes and the commissaries’ opinion at the state’s official gazette where the company has residence. In case of institutions that have offices in more than one entity they should disclose such information at the DOF.</p> <p>According to Article 105 of the LGISMS and 65 of the LFIF, (Article 304 of the LISF project) the CNSF through general provisions, will determine the basis for the administration’s approval and disclosure of the company’s financial statements.</p> <p>Additionally, these articles state that the CNSF, through general provisions, must determine the format and content of the institutions’ financial statements and the responsibility level that administrators, commissaries and external auditors should bear derived from its presentation and publication. They should also guarantee that statements reasonably show the institution’s financial and accounting situation; otherwise if statements are not adjusted to the CNSF’s provisions, they will receive any of the applicable sanctions.</p> <p>Likewise, it is stated that the external auditors who evaluate the institution’s financial statements should also have a professional license and an in-force certificate issued by their profession’s association and be registered at the CNSF, once all applicable requirements are fulfilled. They should also provide reports and other relevant elements that support their dictums and conclusions.</p> <p>Quarterly publications (March, June, and September) should be posted in a national newspaper, and the annual publication should be published at the DOF, independently of the means by which the insurance and surety institutions may disclose its financial statements through any communication media, including electronic, optic or any other technology.</p> <p>The CNSF, through its website, discloses information on the overall aggregated insurance sector’s financial and technical positions, as well as information on each one of the institutions that confirms it. Similarly, in accordance with the LFTAIPG, the CNSF, with the exception of reserved information foreseen by such law, must disclose and update governmental available information, according to the corresponding rules.</p>

	<p>The SSLO in Chapter 14.4 and <i>Circular Única de Fianzas</i> in Chapter 10.2, establish the obligations to the insurers and sureties to disclose, as part of their financial statements, relevant information on aspects regarding contingent commissions paid to brokers (amount, broker's type and name, etc).</p> <p>Additionally, the SSLO in Chapter 14.3 and the <i>Circular Única de Fianzas</i>, in Chapter 10.4, establish the obligation of the institutions to release publically quantitative and qualitative information regarding their operation, technical and financial situation and risks inherent to their activities, by including notes to their financial statements.</p> <p>The notes to the financial statements, required by the SSLO, Chapter 14.3, and <i>Circular Única de Fianzas</i>, Chapter 10.4, should be published in a Report of Disclosure Notes to the annual financial statements at the DOF, or it should be published, as part of the annual financial statements in the homepage of their website. The requirements set out in these <i>Circulares</i> are considered as minimum requirements. Therefore, to the extent that institutions carry out operations with an importance that justifies it, the notes should include the elements that are necessary for their understanding.</p> <p>Based on Articles 105 of the LGISMS and 65 of the LFIF (Article 304 of the LISF project) as well as other applicable provisions, institutions must submit to the Board of Directors the Balance Sheet, Income Statement, Statement of Financial Position Changes, and the Statement of Stockholders' Equity Changes, for revision and approval, accompanied by support documentation in order to allow the Board of Directors to count with the financial elements permitting an accurate assessment of key operations that explain the changes and evolution occurred during the respective exercise.</p> <p>Those institutions, subject to Board of Directors previous approval, should publish their balance sheet corresponding to the months of: March, June, and September during the following month of that reference date; as well as the Annual General Balance within the 60 days following the respective exercise closure.</p> <p>Additionally, they should present to the CNSF, their external auditor's report and the following information, within 120 days from the exercise closure: Balance Sheet, Income Statement, Statement of Financial Position Changes, and the Statement of Stockholders' Equity Changes, a comparative with the immediate previous exercise and the Financial Statements Notes, as well as a certified copy of the minutes of the Board of Directors meeting, where such statements have been approved and their respective disclosure notes. Additionally, the institutions are required to publish on their websites the opinion of their external auditors.</p> <p>Based on Articles 105 of the LGISMS and 65 of the LFIF, (Article 305 of the LISF project) the presentation as well as the publication of financial statements will be under the strict responsibility of the administrators, commissaries and external auditors of the institution that have sanctioned and considered the authenticity of the data contained in the accounting statements. They are also responsible for the accurate disclosure of the financial and accounting situation of the company and in case this is not done adequately, such persons are subject to be sanctioned according to applicable legal provisions.</p> <p>Additionally, according to the applicable legislation, the CNSF at the moment of carrying out the Annual Financial Statements revision is entitled to order further</p>
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	<p>revision whenever it deems it necessary. Also, it has the faculty to order the publication of Financial Statements after amendments. Such publication will take place within 15 days following the agreement notification regarding the respective modifications. The revised statements should clearly comply with the accounting provisions issued by the CNSF, which must be consistently applied in order to reflect adequately the operations performed by the institution until that date. These activities have to meet sound institutional practices and applicable legal and administrative provisions as well as to count with the proper accounts registry, according to the up-dated accounts' catalogue.</p> <p>As discussed in previous assessment of essential principle a, the SSLO Chapter 14.3, and <i>Circular Única de Fianzas</i>, Chapter 10.4, establish the obligation of institutions to publish quantitative and qualitative information regarding their operation, technical and financial situation and risks inherent in their activities, by including notes to their financial statements. In particular, regarding the information on exposure to different kinds of risks, it establishes that such notes should include:</p> <ul style="list-style-type: none"> • The risk management policies approved by its Board of Directors and the controls in place for their monitoring. • The measures taken for the measurement and manage risks, as well as potential losses with respect to credit, market, liquidity, operational and legal risks. • Qualitative or quantitative description of the types of responsibilities of those who are exposed and their dimension, describing the methods and assumptions used to obtain quantitative data. <p>It's important to mention that in order to enhance the information, disclosure and transparency toward the market, the LISF project (Articles 304 to 308 and 312) states that insurance and surety undertakings must develop and let the general public know quantitative and qualitative information on their corporate information, financial, technical, reinsurance, refinance, risk management, regulatory, administrative, operational, economic, risk level, credit and legal. In this sense, the project establishes that institutions must inform the public in general, through a Report on its Solvency and Financial Condition (RSFC), which should be published on the website on the Internet that corresponds to the institution within ninety days following the close of the year concerned. The RSFC should be uploaded in the Internet website of the institution, at least during the three years following its publication.</p>
Assessment	Observed
Comments	<p>The amount of information available to the public on insures is sufficient to gain a good understanding of their financial situation. The information is presented in a format indicated by the CNSF that has been improved over the years.</p> <p>The CNSF, through its website, discloses detailed information on each one of the institutions on their financial and technical position that includes the balance sheets and investment portfolios as well as the solvency position. The SSLO supports further disclosure by requiring relevant information on aspects regarding contingent commissions paid to brokers (amount, broker's type and name, etc).</p> <p>The information is current. The publication of financial statements follows on a quarterly term. The March, June and September statements are posted the following month of that reference date in a mass media accessible to the public,</p>

and the annual publication at the DOF within the 60 days following the respective exercise closure. Additionally, according to the applicable legislation, the CNSF at the moment of carrying out the Annual Financial Statements revision is entitled to order further revision whenever it deems it necessary. Also, it has the faculty to order the publication of Financial Statements after amendments. Such publication will take place within 15 days following the agreement notification regarding the respective modifications.

Within 120 days from the exercise closure the companies present to the CNSF, their external auditor's report and the following information: Balance Sheet, Income Statement, Statement of Financial Position Changes, and the Statement of Stockholders' Equity Changes, a comparative with the immediate previous exercise and the Financial Statements Notes, as well as a certified copy of the minutes of the Board of Directors meeting, where such statements have been approved and their respective disclosure notes. Additionally, the institutions are required to publish on their websites the opinion of their external auditors.

The institutions release publically quantitative and qualitative information regarding their operation, technical and financial situation and risks inherent to their activities, by including notes to their financial statements. The notes to the financial statements are published in a Report of Disclosure Notes to the annual financial statements at the DOF or in their websites and include as a minimum:

- Information related with lines of business authorized and operating.
- The policies concerning management policies and corporate governance practices.
- Statistics related to its operation.
- Information concerning the level of compliance of statutory requirements.
- Information regarding the premium adequacy by line of business.
- Detailed information on their assets (debtors, availability, investment properties, derivatives transactions, etc.).
- Information related to their technical operation.
- Assumptions and methodologies used for the valuation of its assets, liabilities and capital.
- Objectives, policies and practices on reinsurance.
- Description of financial reinsurance operations.
- Characteristics of the retirement plans of their staff.

Information related to the identification and description of the risks taken and the policies, controls and measures implemented to measure and manage their risks, should also be disclosed. In particular such notes should include:

- The risk management policies approved by its Board of Directors and the controls in place for their monitoring.

	<ul style="list-style-type: none"> • The measures taken for the measurement and manage risks, as well as potential losses with respect to credit, market, liquidity, operational and legal risks. • Qualitative or quantitative description of the types of responsibilities of those who are exposed and their dimension, describing the methods and assumptions used to obtain quantitative data. <p>The CNSF assigns the responsibility of the presentation as well as the publication of financial statements to the administrators, commissaries and external auditors of the institution. They are responsible for the accurate disclosure of the financial and accounting situation of the company and in case this in not done adequately, such persons are subject to be sanctioned according to applicable legal provisions.</p> <p>The LISF project will transfer the responsibility to the Board of Directors. Article 305 states that both, the submission and the publishing of financial statements of the Institutions and mutual insurance societies, will be the responsibility of the directors, commissaries and independent external auditors of the institution or mutual insurance society. The commissaries and independent external auditors should ensure that the financial statements disclose reasonably the financial position and accounting of the company. In this regard, it states that the insurance institutions must inform to the public the content of external auditor's opinion.</p> <p>In the spirit of solvency II, the information, disclosure and transparency toward the market will be enhanced in the LISF project. Articles 304 to 308 and 312 state that insurance and surety undertakings must develop and let the general public know quantitative and qualitative information on their corporate information, financial, technical, reinsurance, refinance, risk management, regulatory, administrative, operational, economic, risk level, credit and legal. In this sense, the project establishes that institutions must inform the public in general, through a Report on its Solvency and Financial Condition (RSFC), which should be published on the website on the Internet that corresponds to the institution within ninety days following the close of the year concerned. The RSFC should be uploaded in the Internet website of the institution, at least during the three years following its publication. The RSFC must include the following sections:</p> <ul style="list-style-type: none"> • Executive Summary. • Business Overview and Results. • Corporate Governance. • Risk Profile. • Capital Management. • Internal Models. • Annex Quantitative Information.
	<p>Principle 27. Fraud The supervisory authority requires that insurers and intermediaries take the necessary measures to prevent, detect and remedy insurance fraud.</p>
<p>Description</p>	<p>Mexican legislation considers insurance fraud as generic fraud. Whenever such conducts confine any of the criminal penalties prescribed at the LGISMS or LFIF, the CNSF should act accordingly. Such actions and corresponding sanctions are mentioned in Articles 140 of the LGISMS and 112 of the LFIF. (Articles 141 to 147-Bis 2 of the LGISMS and 112-Bis to 112-Bis 9 of the LFIF -Articles 492 to 510 of the LISF project-).</p>

	<p>In this sense, Article 140 of the LGISMS (Article 492 of the LISF project) states that in order to take penal actions, in case of the crimes foreseen in Articles 141 to 146 and 147 to 147 Bis 2, (Articles 492 to 508 of the LISF project) the SHCP must formulate a petition, with a previous CNSF's opinion, a petition formulated by an insurer or anyone that has legal interest should also take due course. In this sense the CNSF, whenever it estimates that a felony has been committed, establishes a communication with the <i>Procuraduría Fiscal de la Federación</i> (SHCP's Fiscal Attorney, PFF) and, if necessary, with the <i>Procuraduría General de la República</i> (Republic's General Attorney, PGR).</p> <p>Nevertheless, general actions to prevent and detect insurance fraud are entrusted to the ministerial authorities, both federal and local. (<i>This statements apply for the assessment of criteria a, b and c of this ICP</i>).</p> <p>The LGISMS and the LFIF establish the agents' liability to comply with the SHCP's provisions, which state the agents' commitment with respect to institutions and clients. As well, fractions VII Bis and VII Bis-1 of Article 29 of the LGISMS and fraction VIII Bis and VIII Bis-1 of Article 15 of the LFIF (Articles 56 to 58 of the LISF project) establish the requirements for insurers and surety' companies' senior managers. In general, Articles 29, fraction VII, penultimate paragraph of the LGISMS and 15, fraction VIII, penultimate paragraph, of the LFIF (Article 55, fraction II of the LISF project) establish that the Board of Directors is entitled to approved the policies for the appropriate employment and proper use of the institution's human and material resources, as well as the mechanisms to monitor and control the achievement of its aims, among other things. In this sense, the institutions have institutional arrangements to exchange information, in order to prevent, detect and report insurance fraud. On the other hand, the CNSF is entitled to participate in such fraud cases when they are related to the crimes foreseen in the LGISMS and LFIF.</p> <p>As a part of the information exchange mechanisms, the CNSF is enabled to work with other supervisory agencies (<i>see assessment of ICP 5</i>) in order to exchange information and, more specifically, to ask for assistance in order to establish the appropriate contact with the jurisdiction's relevant fraud-combat authorities. Such contact may be carried on between the relevant agencies in charge of fraud combat. In this sense, the General Attorney of the Republic (PGR), within its faculties, has the power to carry out cooperation and assistance activities to combat fraud offence.</p>
Assessment	Largely Observed
Comments	<p>Mexican legislation considers insurance fraud as generic fraud and the LGISMS identifies several actions that are considered fraud and can lead to imprisonment up to 15 years and fines that can reach the amount of 100,000 minimum day salaries. Among the fraudulent actions is the unlicensed activity of insurance, the misuse of assets backing up the technical provisions, hiding or misrepresenting the information to the general assembly or the CNSF of the financial situation of the company or providing false information to the reinsurer.</p> <p>The fraud committed by policyholders is included in the list of actions considered a crime like simulation of a claim or misrepresentation of the severity of the claim or falsifying the policy or certificate. International studies have demonstrated that the cost of padded claims and other policyholder fraud, adds significantly to the cost of</p>

	<p>insurance for the population as a whole. Many countries have therefore put in place measures designed to reduce fraudulent claims by policyholders. We recommend that Boards of directors be required to put in place systems that are reasonably designed to reduce policyholder fraud.</p> <p>The CNSF, whenever it estimates that a felony has been committed, establishes a communication with the <i>Procuraduría Fiscal de la Federación</i> (SHCP's Fiscal Attorney, PFF) and, if necessary, with the <i>Procuraduría General de la República</i> (Republic's General Attorney, PGR).</p> <p>The requirements that apply to the members of the Board, the compliance officer and CEO, include that of persons with a high technical quality, honorable, a satisfactory credit history, and with financial, legal or management expertise. For the case of intermediaries, the license cannot be granted if the applicant had committed a crime against someone's patrimony or against public health; had filed for bankruptcy and not being reinstated, among others.</p> <p>There are indirect requirements that encourage the detection and combat of fraud, like the appropriate employment and proper use of the institution's human and material resources, as well as the mechanisms to monitor and control the achievement of its aims, among other things. Companies use data bases in the case of life and health to exchange information on possible fraudulent applicants. However, there is not explicit power in the law to allow the CNSF to require that the intermediaries or institutions have specific measures to prevent or detect the frauds in their operations including providing counter-fraud training to management and staff.</p> <p>The LISF project (Article 70) incorporates some aspects that can include measures to avoid, detect and prevent fraud. In this sense, Article 199 of the LISF project establishes the bases to allow the institutions to exchange information with the purpose of strengthening the measures to prevent and detect acts, omissions or operations that can facilitate, help, assist or cooperate with any kind of crime or offense against their clients or the institution itself, including fraud. Additionally, the LISF project establishes that the institutions should consider, among other aspects, the operational risks when calculating their solvency capital requirements, which will reflect the potential loss, among other things, due to any other adverse external events associated with the institutions operation, including fraud.</p> <p>The CNSF is enabled to work with other supervisory agencies (<i>see assessment of ICP 5</i>) in order to exchange information and, more specifically, to ask for assistance in order to establish the appropriate contact with the jurisdiction's relevant fraud-combat authorities. Such contact may be carried on between the relevant agencies in charge of fraud combat. In this sense, the General Attorney of the Republic (PGR), within its faculties, has the power to carry out cooperation and assistance activities to combat fraud offence.ytr545.</p>
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Principle 28. Anti-money laundering, combating the financing of terrorism (AML/CFT)	
The supervisory authority requires insurers and intermediaries, at a minimum those insurers and intermediaries offering life insurance products or other investment related insurance, to take effective measures to deter, detect and report money laundering and the financing of terrorism consistent with the Recommendations of the Financial Action Task Force on Money Laundering (FATF).	
Description	<p>The LGISMS and the LFIF set the basis to prevent and detect business operations performed with illicit resources (Article 492 of the LISF project), according to FATF guidelines applicable to the insurance and surety sector. It is important that México, as an active member of the FATF, is obligated to implement the 40 Recommendations and 9 Special Recommendations.</p> <p>The LGISMS and the LFIF provide the CNSF the powers to supervise the compliance with all regulatory frameworks, as well as to impose the corresponding sanctions (Articles 140 of the LGISMS and 112 of the LFIF, and Article 492 of the LISF project). Additionally, there are General Provisions related to Articles 140 of the LGISMS and the 112 of the LFIF, to deal with AML/CFT requirements.</p> <p>In addition to the requirements needed to constitute an insurance or surety institution, or to acquire entities' shares, investors must clarify the origin of their resources (Articles 16 and 29 of the LGISMS and 7 and 15 of the LFIF;-Articles 41 and 48 to 50 and 65 to 68 of the LISF project).</p> <p>The CNSF co-operates and collaborates with the Financial Intelligence Unit (Unidad de Inteligencia Financiera, UIF) and with other domestic financial supervisors coordinated by the SHCP, to obtain information directly from institutions. Furthermore, the CNSF must collaborate with ministerial authorities responsible for the prosecution of offences.</p> <p>The CNSF has the attribution to have information exchange agreements with other supervisors (Article 108, fraction VIII-Bis of the LGISMS;-Article 366, fraction XXXVII of the LISF project).</p> <p>Since June 2008, the Specialized Supervision Direction within the CNSF was created, as a specialized area responsible for the inspection and monitoring in the prevention of operations with resources derived from illicit and terrorist financing. It has the human, financial and technical resources to carry out such functions.</p> <p>Mexican regulatory framework related to AML/CFT states that insurance and surety undertakings, as well as agents and brokers, must put in place the necessary measures and procedures to prevent and detect actions, omissions, or operations that may favor, help or cooperate with any money laundering or financing of terrorism activity preview on Articles 139 or 148 of the Federal Penal Code or that could be located in the assumptions of Article 400 of the same Code. They should also consider relevant data regarding background information, professional and economic activities and specific conditions of their customers, in order to achieve adequate client knowledge so they can implement straighter measures when high risk situations are identified. (General Provisions related to Articles 140 of the LGISMS and the 112 of the LFIF).</p>

	<p>Further, insurance and surety undertakings, as well as agents and brokers, must:</p> <ul style="list-style-type: none"> • Preserve the files containing client's information, reports and operations for, at least 10 years; • Report to the UIF, through the CNSF, relevant, unusual or worrying operations; • Provide internal training; and attempt the compliance with all the legal and regulatory provisions at their subsidiaries, agencies or offices located a Board, specifically in those located at countries where AML/CFT provisions are not sufficiently applied or not applied at all, and • Establish a Communication and Control Committee or, if applicable, the designation of a Compliance Officer (Articles 140 of the LGISMS and 112 of the LFIF, and Article 492 of the LISF project, and derived General Provisions related to Articles 140 of the LGISMS and the 112 of the LFIF published at the DOF on May 14, 2004). <p>In the case of agents, according to the applicable regulations, since they do not take risks, their obligations include: (i) collecting information and customer identification documents and transferring them to insurance and/ or surety institutions; (ii) reporting to the Compliance Officer when they have evidence or certainty that the resources of the institutions could come from illegal activities; (iii) receiving training by institutions where they are intermediates, and (iv) training their staff (General Provisions related to Articles 140 of the LGISMS and the 112 of the LFIF).</p>
Assessment	Largely Observed
Comments	<p>The relevance of having strict regulation and supervision in the area of AML/CFT in a country facing an extraordinary threat to its national security and stability from drug trafficking and organized crime highlights the importance of this principle.</p> <p>December 2008 GAFISUD issued Mexico's levels of compliance with the international standard with the FATF 40 Recommendations plus 9 Special Recommendations and a follow up document was published on December 2009. While the level of compliance is high there are specific areas that need improvement.</p> <p>With respect to Recommendation 5 on Customer due diligence. Regulation requires insurers and agents to consider relevant data regarding background information, professional and economic activities, and specific conditions of their customers in order to achieve adequate client knowledge to implement straighter measures when high-risk situations are identified. Further, in the case of agents, their obligations include: (i) collecting information and customer identification documents and transferring them to insurance and/ or surety institutions; (ii) reporting to the Compliance Officer when they have evidence or certainty that the resources of the institutions could come from illegal activities; (iii) receiving training by institutions where they are intermediates; and and (iv) training their staff. However some aspects of this recommendation remain to be implemented:</p> <ul style="list-style-type: none"> • No distinction in all cases between CDD requirements for business relationships and all types of occasional transactions, including a direct requirement for aggregating linked occasional transactions.

	<ul style="list-style-type: none"> • Inadequate provisions in all the regulations with respect to CDD requirements when there are indications and/or certainty of false, erased or altered identification documents. • No direct explicit requirement for FIs to ascertain/request that applicants for business to state whether they are acting on behalf of others. • No general requirement for obtaining information on the purpose and nature of business relationships. <p>Recommendation 13 on reporting of suspicious transactions:</p> <p>The obligation to report attempted transactions is not explicitly established in regulations, and not consistently implemented by financial institutions.</p> <p>Recommendation 23: Agents and brokers are required to put in place the necessary measures and procedures to prevent and detect actions, omissions, or operations that may favor, help or cooperate with any money laundering or financing of terrorism activity. However, the resources at the CNSF to monitor compliance are very limited. However, the insurance company is not exempt from AML/CFT obligation on business coming from the intermediaries and will complement the work initiated by the agent/broker.</p> <p>Recommendation 30. While the in June 2008 created Specialized Supervision Direction within the CNSF allocated resources to carry out inspection and monitoring in the prevention of operations with resources derived from illicit and terrorist financing, the human, financial and technical resources to carry out such functions remains thin. However, the mandate does not include the analysis of the reported activity but rather the compliance with the reporting. The resources are according to the mandate.</p> <p>On August 26, 2010, the Federal Government presented the “National Strategy for Prevention and Combat of Money Laundering and Terrorism Financing.” Derived from that presentation, on August 31, 2010 the Government Ministry sent to the Congress the project of “Federal Law for Prevention and Identification of Operations with Resources of Illicit Origin and Terrorism Financing,” which is being discussed at this very moment and looks forward to strengthen the prevention, detection, reporting, and supervision by the authorities.</p>
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