Regulatory Review
October 11, 2016

Initial Impact of Solvency II Regulations and Supervision on Mexico's Insurance Market

Mexico's insurance sector grew during 1Q16 as Solvency II was implemented.

The Pillar I framework of the Solvency II-type model, which sets out quantitative requirements, went into effect at the start of 2016 in Mexico's insurance market.

The cornerstone aspects of these regulatory changes are as follows:

1) The accounting principles used in the valuation of assets and liabilities must remain consistent with those used in generating an economic balance sheet at market value.

2) Procedures for the valuation of technical reserves follow the method of the best estimator, registered by the insurers with the National Insurance and Surety Commission.

3) Calculation of Required Capital Adequacy is performed using the general formula, or by using internal models, at a confidence level of 99.5% and with a one-year time horizon.

4) A coverage requirement scheme for Technical Reserves introduces changes in the investment regime and for solvency capital through capital resources, and is to be considered as Eligible Own Funds.

When analyzing the Mexico insurance sector's performance relative to its results in previous years, changes to the balance sheets and income statements arising from regulatory changes should be taken into account. This especially applies to the removal of the valuation of investments under the held-to-maturity criterion, as well as the amount of technical reserves left by the removal of explicit prudential assumptions through an approximation of their market value and the determination of susceptible own funds to cover the Solvency Capital Requirement.

In this context, the Mexico insurance sector grew 14.5% during first-quarter 2016, compared with the same period in the prior year. Life operations grew 25.7%, mainly due to accounting records changing from being based upon receipt of payment, to being recorded according to the contract term.

The technical performance of the sector in the same period was satisfactory, with a combined ratio of 91.0%, which is made up of an average acquisition cost of 16.3%, an average claims cost of 69.2%, and an average operating cost of 5.5%. This generated a premium sufficiency of 9.0%.

At the end of March 2016, the sector also recorded a profit of $12.2 billion pesos, which in just one quarter, represents nearly half of the profit generated during 2015.

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