10-16-1996

Mexican Government Begins Privatization of Pension Program

LADB Staff

Follow this and additional works at: https://digitalrepository.unm.edu/sourcemex

Recommended Citation


This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
Mexican Government Begins Privatization of Pension Program

by LADB Staff

Category/Department: Mexico

Published: 1996-10-16

In early October, the government officially launched its program to privatize Mexico's system of pension funds by opening the bidding process to private companies. Under the plan, approved by the Mexican Congress in mid-April, retirement funds will no longer be managed exclusively by the social security institute (Instituto Mexicano del Seguro Social, IMSS) but instead will be turned over to private companies that will be known as Administradoras de Fondos de Retiros (AFORES). Workers will be given the choice of placing their funds in one of the privately managed plans.

In a press conference marking the start of the privatization program, Fernando Solis Soberon, who heads the commission in charge of the privatization (Comision Nacional del Sistema de Ahorro, CONSAR), said potential participants in the program would have until Oct. 18 to submit their applications. According to Solis, the list of companies whose bids are accepted will be announced at the beginning of December. Those companies will then be eligible to begin operating their pension-management program during the first quarter of 1997. To start an AFORE, companies will be required a minimum of 48 million pesos (US$6.2 million) in start-up capital. Those same companies will also have the choice to begin a specialized retirement program (Sociedades de Inversion Especializada, SIEFORES), which requires only 4 million pesos (US$518,000) in start-up funds. Solis Soberon said the relatively low capital requirements are intended to provide the opportunity for small companies to offer AFORES.

The AFORES and SIEFORES participation rules were published on Oct. 10 in the federal government's daily register (Diario Oficial). According to the register, the rules were designed with several objectives in mind: * to offer clear investment choices through the "transparent, accurate, and accessible" dissemination of information to workers, employers, and the general public regarding their operations and investments; * to provide workers with the right to join the AFORE of their choice, with the option to change administrators once per year; * to protect workers from discrimination by prohibiting AFORES from turning away any worker unless the group is "saturated;" and * to promote free competition among AFORES by establishing transparent and evenly applied regulations.

Solis Soberon said legislation prohibits large entities, such as labor unions, from creating an AFORE. He said this move is intended to ensure that workers truly have a choice of programs in which to place their money. The legislation approved by the Senate and Chamber of Deputies in April also sets strict limits on foreign participation. Companies based in Canada, the US, and Chile will only be allowed to offer AFORES if they form a joint venture with a Mexican company. And, even in those cases, the participation from the foreign partners is limited to a 49% share (see SourceMex, 05/15/96). By opening participation in the AFORES and SIEFORES programs to companies from those three countries, the Mexican government is complying with terms of the North American Free Trade Agreement (NAFTA) and the Mexico-Chile bilateral free-trade agreement.
The legislation approved by the Senate and Chamber of Deputies prohibits direct participation from companies based in countries other than the US, Canada, and Chile. However, companies such as Spanish-based Banco Santander have submitted bids through their Mexican subsidiaries. According to Ernesto O’Farrill Santoscoy, director of the economic analysis company Bursametrica, the privatization of Mexico's pension program is expected to eventually create 30,000 to 50,000 direct jobs in the financial-services field.

More importantly, O’Farrill estimated that the program could double the pool of savings in Mexico, which currently stands at only about 31 billion pesos (US$4 billion). For his part, Roberto Gonzalez Barrera, president of Grupo Industrial Maseca, projected that workers will place the equivalent of US$400 million into the pension program each month, thus enhancing the country’s savings pool. "By the beginning of the next century, the savings pool in Mexico will increase to an unprecedented level of between US$22 billion and US$25 billion," said Barrera. "By building up our domestic savings program, we will become less dependent on foreign investment to support our economy."

Some private analysts expressed concern about some elements of the AFORE regulations published in the Diario Oficial. For example, Humberto Allendes of Grupo Financiero Santander questioned whether the government should have allowed workers the flexibility of four years to choose an AFORE. He expressed concern that many workers would delay making their choice until the last minute, in effect reducing the effectiveness and benefits of the pension privatization. According to the daily newspaper El Universal, Santander is anxious to establish its pension management program, having already succeeded with similar ventures in Chile, Argentina, Peru, Uruguay, and Spain.

Bursametrica's O’Farrill urged the Zedillo administration to approve the creation of at least 15 AFORES, in the first phase of the program, to provide the greatest coverage for the estimated 8.8 million workers who currently have their retirement funds in the IMSS. In addition to Santander, the companies or partnerships expected to submit bids to operate an AFORE include Bancomer-Aetna, Banacci-Aegon, Grupo Nacional Provincial-Provida-BBV, Banorte-Bankers Trust, Serfin, Inverlat, Inbusa- Citicorp, GBM-Promex, Invermexico, Bital-Cuprum, Seguros Genesis-Metropolitan, CNIC-Empresas, Bancrecer, Seguros Territorial y Asociadas, Alianza-Magister, and Vector.

The IMSS will also be offering its own AFORE. In fact, according to O’Farrill, the AFORES offered by the IMSS and Bancomer-Aetna together are expected to attract as much as 25% of the new pension market. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 16, reported at 7.72 pesos per US$1.00] (Sources: Novedades, 08/28/96, 09/17/96; The News, 08/30/96, 10/11/96; El Economista, 10/03/96, 10/11/96; El Financiero, 10/11/96; Excelsior, 08/29/96, 10/12/96; El Universal, 08/22/96, 08/29/96, 08/30/96, 09/05/96, 10/11/96, 10/16/96)

-- End --