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LADB Staff

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U.S. Company Acquires Insurance Unit From Grupo Serfin

by LADB Staff

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In mid-November, one of the largest US insurance companies, USF&G, finalized plans to enter the lucrative Mexican insurance market through the acquisition of Afianzadora Insurgentes Serfin from the business conglomerate Grupo Serfin. According to Jose Antonio Contreras, Serfin's director of acquisitions and mergers, USF&G paid US\$65 million to assume full control of Afianzadora Insurgentes, which specializes in offering surety bonds. A surety bond is an agreement providing for monetary compensation for a person, corporation, or other legal entity in case of another's default in payment of a given obligation, improper performance of a given contract, or failure to perform other legally agreed upon acts within a stated period. Contreras said the sale of Afianzadora Insurgentes was a part of Serfin's capitalization program, which is now 66% complete.

The transaction is still subject to approval from the Mexican government, which is expected before year-end 1996. As of the end of the July-September quarter, Afianzadora Insurgentes reported net profits of 48 million pesos (US\$6.1 million). Afianzadora Insurgentes which controls more than one-fourth of the surety bond market in Mexico was expected to obtain about US\$200 million from direct premiums during calendar year 1996 from its combined operations under Serfin & USF&G. The company currently operates 38 branch offices throughout Mexico. USF&G sources said management of Afianzadora Insurgentes will remain basically unchanged, with Carlos Abascal continuing as chief executive officer. Abascal is also the president of the employers confederation (Confederacion Patronal de la Republica Mexicana, COPARMEX).

The strong potential in the Mexican insurance market has attracted strong interest from Mexican, Canadian, and Chilean companies. Changes implemented under the North American Free Trade Agreement (NAFTA), and under the bilateral Mexico-Chile trade agreement, allow some companies from those countries to acquire as much as a 100% share in Mexican insurance providers (see SourceMex, 09/08/93). According to the Mexican insurance providers association (Asociacion Mexicana de Instituciones de Seguros (AMIS), the Mexican insurance sector attained 1.6 billion pesos (US\$203 million) in profits during January-June of this year, an increase of about 13% from the same period in 1995.

In an interview with the daily newspaper Novedades, AMIS president Alfonso Castro Toledo said sales of insurance premiums in the first half of 1996 surpassed the total for the same period in 1995 by about 3.2 billion pesos (US\$406 million). Juan Ignacio Gil Anton, president of the national insurance commission (Comision Nacional de Seguros y Fianzas, CNSF), estimated that premiums obtained by the insurance industry would total between US\$25 billion and US\$30 billion annually by the year 2010. In 1993, the year before NAFTA went into effect, the insurance industry, obtained only US\$4.5 billion in premiums. According to Gil Anton, because of the growth in premiums the insurance industry could become an important source of capital for long-term investment and development projects. Several domestic companies are also gaining a foothold in the insurance market. In April of this year, Consorcio de Desarrollo de Negocios, a subsidiary of Monterrey-

based Grupo Pulsar, acquired a 70% share of Mexico's largest insurance company Aseguradoras Mexicanas (Asemex). Consorcio de Desarrollo de Negocios immediately merged its newly acquired Asemex with its subsidiary Seguros Comercial America.

The merged company is expected to gain control over 32% of Mexico's total insurance market (see SourceMex, 05/01/96). The rapid growth in the market has led President Ernesto Zedillo's administration to propose a new insurance law that would facilitate the orderly development of the insurance sector. CNSF vice president Arturo Sanchez Cerezo said the legislation, which offers about 40 modifications to the existing law, is intended primarily to protect the interests of the insured. These changes include a requirement that all foreign insurance companies seeking to conduct business in Mexico receive a rating of satisfactory from one of the major business rating organizations, such as Standard & Poor's, Moody's, or Duff & Phelps. Sanchez said the law also creates a mechanism for consumers to file complaints against insurance companies. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Nov. 26, reported at 7.87 pesos per US\$1.00] (Sources: Novedades, 08/13/96; PRNewswire, 11/20/96; El Universal, 11/21/96, 11/25/96)

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