

Managing Transit
Exposures in Mexico
MacAfee & Edwards, Inc.
Mexican Insurance Specialist



MEXICO

- Official Name: Estados Unidos Mexicanos (United Mexican States)
- Federal Republic with 31 states and 1 Federal District.
- Capital: Mexico City (Mexico, DF)
- Size: 761,606 sqmi (14th)
- Population: 125,400,000 (11th)
- 9% of Mexican born, live in the USA.
- Official Language: Spanish (Most populous Spanish speaking country).
- Mexican Currency: Peso (MXN)
- Exchange rate: \$1US = 16.70 MXN
- Calling Code: +52
- Internet TLD: .mx



MEXICO

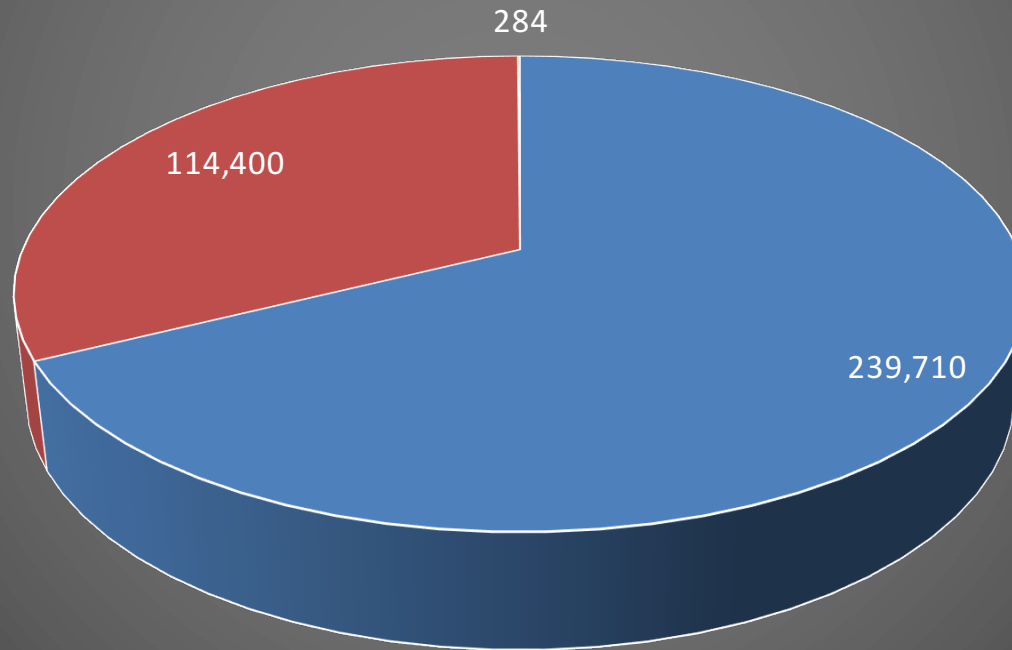
- Mexican tribes include: Olmecs, Aztecs, Mayas, etc.
- 1519 Spanish conquest starts.
- 1521 end of the Aztec Empire.
- Mexico then called “Nueva España”.
- Sept. 16, 1810 – Independence starts.
- 1846 USA declares war on Mexico.
- 1861 France (Napoleon III) invades Mexico.
- May 5, 1862 Battle of Puebla against French.
- 1877 to 1910 – Dictatorship with Porfirio Diaz
- November 20, 1910 – Mexican revolution starts
- 1938 Petroleum Industry is nationalized (PEMEX)
- 2000 - Opposition party candidate (PAN) is elected to be president, ending PRI ruling of 70+ years.



MEXICO

Transportation Figures

Cargo Transported Tons (Millions)



Motor Rail Marine

MEXICO

Main Highways



MEXICO

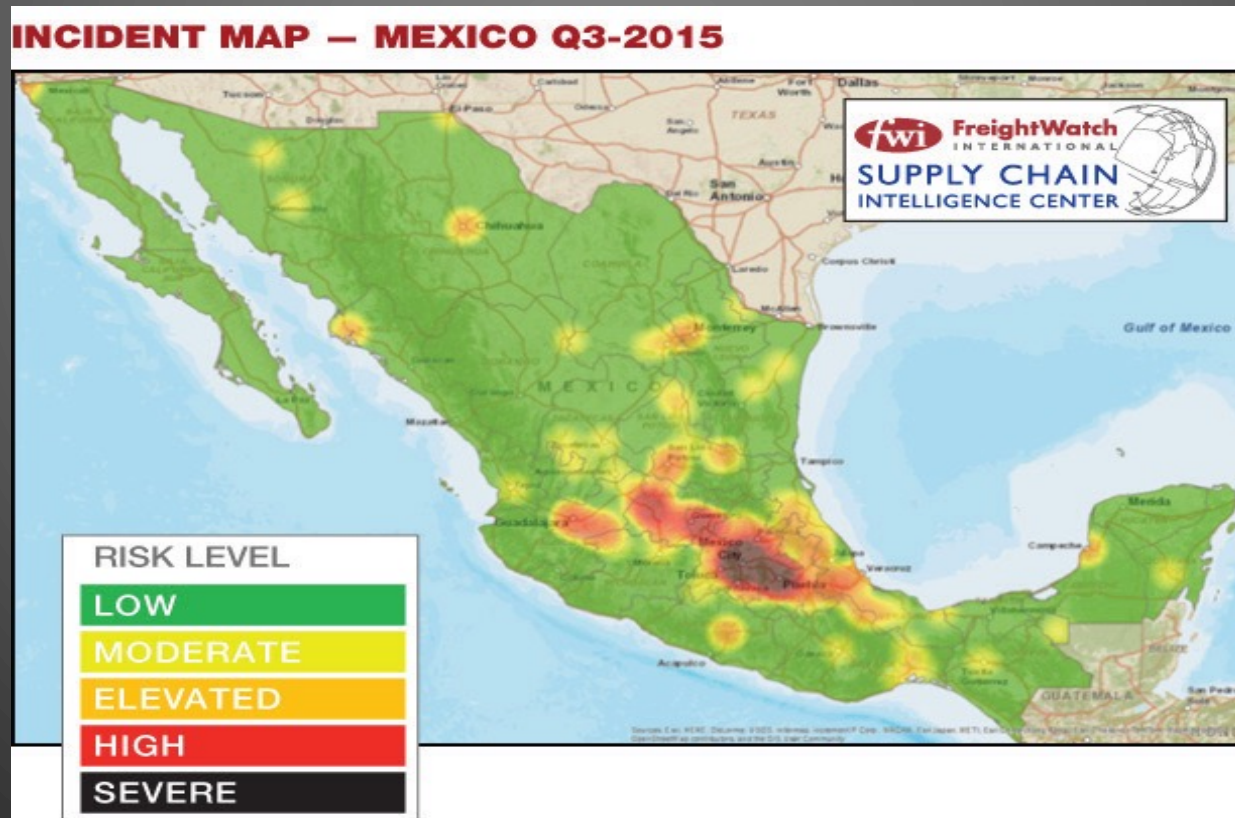
Main Railways



MEXICO

Inland Transit Facts

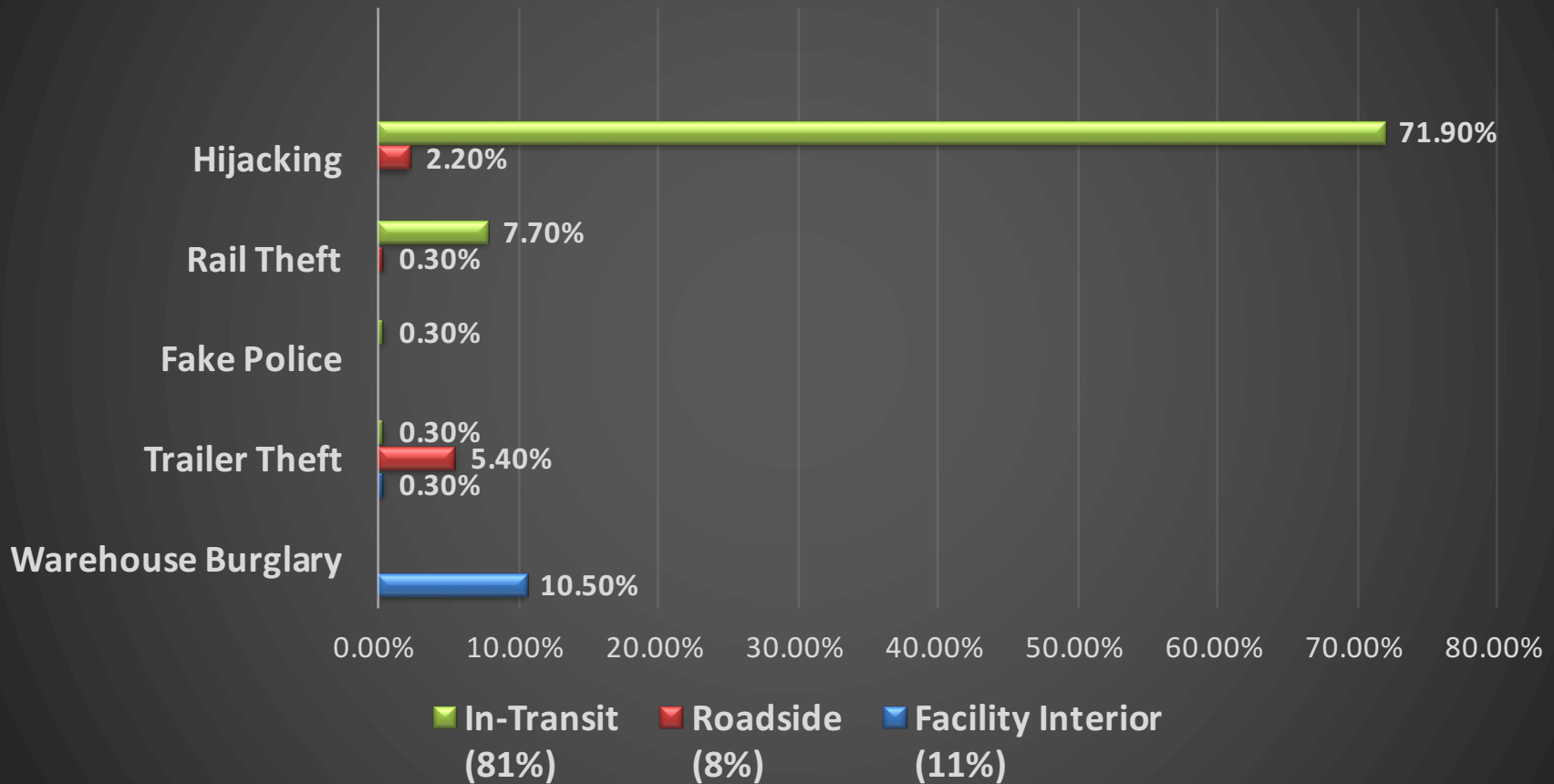
- No. of Registered Cargo Vehicles = 763,480
- Total Km of Rail System = 26,727
- Cargo legal liability = \$65 US per Ton
- Major Cargo Losses = THEFT



MEXICO

Inland Transit Facts

Theft by Location & Type of Event



Legal Aspects

General Insurance Law

- Article 3, Section II: It is forbidden to purchase insurance from foreign insurers:
 - A) Personal Insurance: If the Insured resides in Mexico when the contract is made.
 - B) ~~Transit of goods: Ownership or responsibility is of a resident of Mexico-~~DELETED
 - C) Hull (ships, aircraft or vehicles): When registered in Mexico or owned by Mexican residents.
 - D) Property/Liability: For risks that may occur within Mexico.
- Section III: When none of the legally established insurers can or will accept a proposed insurance, then the corresponding authorities may authorize the purchase from a foreign company.

Legal Aspects

Law for Insurance & Bond Institutions

- Article 21: It is prohibited to purchase insurance from foreign insurers.
- Section V: Insurance for other classes against risks which may occur in national territory.
- ✓ Not considered as such, are insurances contracted outside national territory on goods being transported from national to foreign territory or vice versa.
- Conclusion:
 - The legal position is very open to interpretation.
 - It can be assumed that non-admitted insurance is acceptable for imports/exports to/from Mexico, as well as goods/property owned by non-Mexicans.
 - Admitted insurance will be for shipments within Mexico and owned by a Mexican entity.

Legal Aspects

Non-Admitted Consequences

- *Insured's Perspective:*
 - Possible fine and/or incarceration.
 - Losses paid in Mexico are viewed as income and subject to tax (35%).
 - Policy terms & conditions are not registered in Mexico and therefore not protected by the insurance regulatory commission.
 - The payment of premium of local admitted policies are tax deductible, so local Insured has a tax benefit.
- *Insurer's Perspective:*
 - Possible penalties by Mexican authorities.
 - Could be “black-listed” by Mexican authorities.
 - Need to incorporate a “Tax Liability” clause.

Market Facts

- Mexican Transit Policy Forms:

- 1) Standard Mexican Transit policy.
- 2) Institute Cargo Clauses (only offered by a few carriers)

- Special Notes:

- Policy Time: 12pm (Noon)
- Premium Payment: Within 30 days, if not policy is automatically cancelled WITHOUT any notice.
- Besides the policy premium, a nominal policy fee (\$50-\$200) and sales tax (16%) apply.
- Local Commissions range from 15% to 20%
- Policy Language: Official is Spanish; English translations are available as a courtesy.
- Notice of Cancellation: 15 days
- Art 492 – Illegal money laundering law (Named Insured needs to provide information regarding it's incorporation). Policies cannot be issued and losses will not be paid.

Mexican Transit Policy

- Standard Transit Policy is not a “true” All Risk policy.
- Term of Insurance: Begins when transit initiates; Ends when property is delivered.
- Basic Coverage: Ordinary Transit Risks (OTR-Road Risks) – Losses due to fire, lightning, explosion, falling aircraft, railroad derailment, collision-overturn, settlement or bridge collapse (for marine risks: sinking-collision, running aground, total loss during loading-unloading operations).
- Additional Perils:
 - a. Total Theft
 - b. Partial Theft
 - c. Wetting
 - d. Stains
 - e. Rusting
 - f. Contamination
 - g. Breaking, Denting, Bending or Cracking.
 - h. Leakage
 - i. All Risk (items a to h)
- Other Available Extensions:
 - i. Strikes & Riots
 - ii. War
 - iii. Fraud of the captain or crew (Marine)
 - iv. Jettison and/or Sweeping Overboard (Marine)

Mexican Transit Policy

- Special Coverage's:

- ✓ Bulk Products
- ✓ Livestock
- ✓ Refrigerated Products
- ✓ Stay-Over (storage in custom warehouses)
- ✓ Deferred Unpacking
- ✓ Loading & Unloading
- ✓ Special coverage for Samples

- Types of Transit Insurance:

- ✓ Specific (single) shipment
- ✓ Multiple shipments
- ✓ Annual coverage with monthly/quarterly reports
- ✓ Annual coverage with yearly adjustment

- Valuation:

- ✓ Imports: Invoice value + expenses
- ✓ Exports: Production or acquisition costs + expenses
- ✓ National Shipments: Production or acquisition costs + expenses
- ✓ Selling Price is available per request.

Mexican Transit Policy

- Major Exclusions:
 - ✓ Insured's infringement of any law or regulation.
 - ✓ Confiscation, appropriation, nationalization.
 - ✓ Abandonment.
 - ✓ Theft without violence and/or Mysterious disappearance.
 - ✓ Delay or loss of market.
 - ✓ Use of inadequate means of conveyance; Excess of weight/dimensions.
 - ✓ War & Nuclear.
- Safety Warranties (depends on risk and carrier):
 - ✓ Use of Toll Roads; Day light shipping; No logos on trucks.
 - ✓ Use of metallic enclosed trailers with naval locks.
 - ✓ Use established transportation routes.
 - ✓ In case of overnight stay over, this should be done at a secure & closed pension with proper security.
 - ✓ Never leave shipments in unattended areas or without proper lighting and police protection.
 - ✓ Use of operational GPS system. For high value shipments, use of private security-escort service.

Mexican Transit Policy

- Underwriting Considerations:

- ✓ Deductibles are normally a percentage (%) over the total shipment value. Other perils (2% to 5%) and Theft (10% to 30%). Fixed amount deductibles (\$) are not common, but available.
- ✓ Rates are established per hundred (%).
- ✓ Premium is calculated over the Estimated Annual Value of shipments or Annual sales.

- Basic underwriting information to quote:

- Point of Origin & Final Destination
- Type of product(s) shipped and packing
- Means of transportation
- Maximum limit per shipment
- Estimated annual value of shipments or sales
- Loss history

- Other Special Notes:

- Local carriers include a “Revision of Results Clause” (for loss ratio above 60%).
- Non-compliance of safety warranties may “void” coverage. Other carriers apply a surcharge (50% to 100%) to the deductible.

THANK YOU
(Questions-Comments)

