

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

U.S. insurers and pension providers value the North American Free Trade Agreement and doing business in Mexico.

OVERVIEW

The U.S. life insurance and private pension industry have benefitted substantially from the North American Free Trade Agreement (NAFTA). Expanding upon the U.S.-Canada Free Trade Agreement, NAFTA's implementation in 1994 led to an opening of the Mexican insurance market. Prior to NAFTA, U.S. life insurers did not have a large presence in Mexico, as the Mexican insurance market was dominated (80 percent) by domestically owned and managed companies. Today, foreign insurers hold 62.4 percent of Mexico's premium market share, including 34 percent held by the 20 U.S. companies operating in Mexico. Those same U.S. companies accounted for about 37 percent of the net profit distribution in Mexico in 2016 – an obvious success story for U.S. life insurers and pension providers.

Due to NAFTA, Mexico removed its 30 percent foreign equity cap, allowing U.S. insurers to own 100 percent of locally established companies for the first time. NAFTA also includes provisions providing insurance firms with the right to enter the market and the ability to freely determine the legal form of the entity. The agreement levels the playing field with Mexican insurers by securing "national treatment" obligations, with Mexico committing to non-discriminatory treatment of foreign businesses, ensuring that U.S. insurers are treated the same as their local counterparts. NAFTA commitments substantially increase transparency and administrative procedural safeguards for U.S. insurance companies in Mexico. Additionally, NAFTA contains what were the first-ever commitments on cross-border data flows for financial institutions in a free trade agreement.

Notably, the NAFTA provisions on government procurement have enabled U.S. firms to take advantage of a non-discriminatory procurement market in Mexico. NAFTA also contains a strong state-to-state dispute resolution mechanism, providing a known and transparent adjudication process if problems arise. In addition, NAFTA provides investment protections and access to investor-state arbitration that protect U.S. investors from unfair treatment. Finally, NAFTA created a trilateral Financial Services Committee that meets annually to review and discuss issues of mutual interest.

NAFTA'S IMPACT

Among our members with operations in Mexico, there is strong consensus that NAFTA has had a positive impact on their business. NAFTA opened the insurance market to U.S. companies. Our members especially value the Financial Services Committee, which has allowed for dialogue between Canada, Mexico and the United States to clarify regulatory proposals and avoid any misunderstandings or unintended consequences.

**FUTURE
GROWTH**

With a population of over 120 million citizens, most of whom are young (below 24 years of age), and an increasing life expectancy on par with Organization of Economic Cooperation and Development member averages, Mexico is a demographically attractive market for U.S. life insurance and pension providers. Mexico is also an underserved market for life insurance and retirement products, leaving tremendous room for U.S. companies to expand further by providing new and innovative products to meet emerging Mexican consumer demand.

For comparative purposes, Mexico currently spends only 1 percent of its national GDP on life insurance, compared to 2.9 percent in Chile and 3.2 percent in the United States, equating into an annual per capita spending of only \$90 (U.S.) compared to \$386 (U.S.) in Chile and \$1,719 in the United States. Mexico thus offers great potential for increased growth and profits for U.S. companies.

**POSSIBLE
IMPROVEMENTS**

After consultation with our members, ACLI believes that NAFTA's benefits should be preserved in any renegotiation. NAFTA has provided our companies with commercially meaningful access to the Mexican market and we are seeking to maintain those benefits. However, we would welcome modernization in areas that reflect and clarify technological and business model advances that were not generally applicable when the agreement entered into force over 20 years ago. In particular, while NAFTA contains commitments on cross-border data flows for financial institutions, it is important to promote digital trade in such a way that eliminates barriers to data flows and prohibits data localization measures, including incorporating the recent U.S. proposal offered in the Trade in Services Agreement negotiations prohibiting data and information technology infrastructure localization. Furthermore, we would hope modernized NAFTA investment provisions would reflect positive advances captured in the Trans-Pacific Partnership negotiations and agreed to there by Mexico and Canada.

SUMMARY

U.S. life insurers and pension providers value the benefits which the North American Free Trade Agreement has brought to our industry by opening the Mexican insurance market to U.S. insurance providers. The agreement has allowed our members to gain significant market share and profits in the rapidly expanding Mexican market, and those dividends are repatriated to the United States and support further investments in the United States or other global markets.

U.S. companies believe that the large, underserved and young Mexican life insurance and retirement security market will continue to grow at rates higher than in the United States. We are proud that our members' exports of insurance and retirement service products provide benefits to Mexican consumers, as well as here at home to the American economy and workers.

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