

MEXICO – PREMIUM PAYMENT

Around the world, the prompt payment of insurance premiums is important to ensure that policy coverage is not adversely affected following a claim. This is especially true in Mexico, where the 30-day payment deadline is strictly enforced. Willis is familiar with many cases in which policies have been cancelled because of failure to follow these rules, leaving insurance buyers unprotected.

Below, we outline the background to Mexican premium payment rules and offer 10 recommendations that any organization buying insurance in Mexico should follow to avoid unwelcome surprises.

BACKGROUND

Mexican premium payment regulations have been in place since 1935. Some of the key statutes surrounding this subject are:

- **Regulation for Insurance Agents – Article 23:** Insurance premiums may be collected from the insured once the carrier has issued the corresponding invoice and the premium payment notice has been issued on behalf of the insurer.
- **Insurance Contract Law Article – 40:** If the premium has not been fully paid within 30 days of inception, the insurance contract will be cancelled automatically.
- **Insurance Contract Law – Article 41:** Any agreement that contravenes the previous article will be null and void.
- **Insurance Contract Law – Article 44:** The premium should be paid in full even if the initial term of the policy is reduced

KEY FACTS ON MEXICAN INSURANCE PREMIUM PAYMENT

- Only insurers may invoice and collect premiums. Insurance brokers are prohibited from these tasks by law.



- Brokers may (and often do) facilitate payment and reconciliation.
- The method of payment and proof of payment are addressed in detail in the payment rules issued by the insurance company
- Failure to pay insurers within 30 days of inception may result in policies being voided without notice.
- Late receipt of an invoice/premium payment notice, partial payment or errors in the settlement of any premium do not grant buyers a grace period.
- Invoices cannot be sent to buyers until actual policies have been issued. Although many Mexican insurers have made significant improvements in their accounting and administration systems, delays in issuing policies frequently lead to delays in the release of premium notices by carriers.

- In order for a carrier to acknowledge a premium payment, the local broker often needs to submit to the carrier details of the payment, including:
 - Whether the premium was wired electronically or a check issued
 - When the wire was processed/where the check was sent, including details of the bank account if electronic transfer was used
 - How much was paid and for what specific policies

WILLIS' TOP 10 RECOMMENDATIONS

1. Work with your insurance broker to identify the premium payable and expedite the issuance of policies, invoices, etc.
2. Where global programs are involved, ensure the premium allocation is concluded and communicated promptly to the insurer's Mexican office.
3. Obtain early confirmation of payment instructions (bank account numbers, currency, beneficiary details, etc.).
4. Utilize a secure and fast method of payment, preferably electronic bank transfer. If payment must be made by check, use a recognized international courier service with registered delivery. Do not rely on the regular Mexican postal system.
5. Always make provision in any transfers for the cost of the transfer or bank charges, which may be added to the premium amount – any shortage in the payment may result in its being rejected.
6. Wherever possible, make payment in the same currency as the currency invoiced; this will avoid any shortage (or overpayment) due to foreign exchange fluctuations.
7. Any errors in the invoice (or policy) should be corrected after the premium payment has been made. This will help avoid cancellation of coverage.
8. Always allow sufficient time for your payments to reach insurers and don't leave it to the last minute!
9. Ensure that full details are provided to your insurance broker in advance, so they can work with insurers to identify and apply the correct payment – verification of the payment is almost as important as the payment itself.
10. Monitor payment obligations regularly – review the situation with your insurer or broker at least monthly.

Please also refer to the Willis *Alert* on Mexico's money laundering law (Artículo 140), which offers important information about documentation that is required by local carriers in order to issue local policies.

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