

MEXICO'S FEDERAL LABOR LAW REFORM

AMENDMENTS TO MEXICO'S FEDERAL LABOR LAW (LABOR REFORM)

The reform is effective from December 1, 2012 and represents the first major changes to Mexican labor laws in more than 40 years. It eases legal constraints on a company's ability to hire and dismiss, lifts the ban on part-time employment, allows probationary periods for new hires and caps the amount of money a company must pay to laid-off workers.

Among the reform's provisions are the following:

- Limit awards of back wages
- Eliminate closed shop rule
- Broaden wage payment methods
- Allow probationary periods and training contracts, and some others

The most important change relating to insurance is that the Mexican Congress established an increase in the amounts of indemnities in the event than an individual causes death to a third party This change is stated in the Federal Labor Law (article 502) in which the death benefit increases substantially.

Prior to November 30, 2012, the indemnities were based on "Seven Hundred and Thirty {730} days of The General Minimum Wage or



the highest Professional Minimum Wage", plus funeral expenses.

The new Labor Law states:

"Article 502. In case of death, the compensation due to persons shall be the amount equal to the amount of "Five thousand {5000} days of The General Minimum Wage or the highest Professional Minimum Wage", plus funeral expenses.

As a result of this change, the liability exposure has been multiplied by two, three and up to four times, depending on the state where the accident occurs. Below are some examples.

UNDER PREVIOUS LAW: *(All Figures in Mexican Pesos)*

LAW	FEDERAL DISTRICT	MEXICO STATE	COAHUILA STATE
LOCAL CRIMINAL	730 (1) + 60 (2) x 62.33 (3) = \$49,241	730 (1) + 60 (2) x 62.33 (3) x 2 = \$98,482	730 (1) + 60 (2) x 176.72 (4) x 4 = \$558,436 30% MORAL DAMAGE = 177,018
FEDERAL CRIMINAL	730 (1) + 60 (2) x 186.73 (4) x 4 = \$590,068	730 (1) + 60 (2) x 186.73 (4) x 4 = \$590,068	730 (1)+60 (2)x186.73 (4) x 4 = \$590,068
COMMON	730 (1) + 60 (2) x 186.73 (4) x 4 = \$590,068 (same rule as federal criminal)	730 (1) + 60 (2) x 62.33 (3) = \$49,241	730 (1) + 60 (2) x 186.73 (4) x 4 = \$590,068

AS PER NEW LABOR LAW: *(All Figures in Mexican Pesos)*

LAW	FEDERAL DISTRICT	MEXICO STATE	COAHUILA STATE
LOCAL CRIMINAL	5000 (1) + 60 (2) X 62.33 (3) = \$315,390	5000 (1) +60 (2) X62.33 (3) X 2 = \$630, 780	5000 (1) + 60 (2) x 176.72 (4) x 4 = \$ 3,576,812 30% MORAL DAMAGE = \$1,073,044
FEDERAL CRIMINAL	5000 (1) + 60 (2) X 186.73 (4) X 4 = \$3,779,416	5000 (1) + 60 (2) X 186.73 (4) X 4 = \$3,779,416	5000 (1) + 60 (2) X 186.73 (4) X 4 = \$3,779,416
COMMON	5000 (1) + 60 X 186.73 (4) X 4 = \$3,779,416 (same rule as federal criminal)	5000 (1) + 60 (2) X 62.33 (3) = \$315,390	5000 (1) + 60 (2) X 186.73 (4) X 4 = \$3,779,416

Notes: (1). Death indemnification
(2). Funeral expenses

(3). Current minimum wage.
(4). Professional Minimum Wage (Maximum of each zone)

RECOMMENDATIONS FOR RISK MANAGERS

The above mentioned changes in labor reform make it necessary to rethink liability limits, principally for mandatory insurance on both Auto Liability and General Liability, as well as in regard to compensation for death, where benefits under the new law are several times those formerly in place.

For example, under the old law, after an accident causing a fatality, the insurer had to pay approximately the equivalent of US\$46,000 per deceased person (this amount varied depending on the State of the Mexican Republic where the fatality happened). Under the new law, the insurer must pay MX\$3,779,416 (the equivalent of US\$295,000) per deceased person.

Given the significance of the Labor Reform, Willis continue to monitor developments and report how the changes will be interpreted by the Mexican labor authorities and competent courts.

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