



CMF Chairwoman Solange Berstein spoke before the Chamber of Deputies' Constitutional Committee on bill proposing a second advance payment of life annuities

- *“A weakened capital increases the probability of insurance companies not paying pensions and other policies taken out by millions of people,” said the Chairwoman.*

April 12, 2022 — Solange Berstein, Chairwoman of the Financial Market Commission (CMF), and Deputy Chairman Kevin Cowan spoke today before the Chamber of Deputies' Constitutional Committee about a bill that proposes a second advance payment of life annuities. In their [presentation](#) before the Committee, the Chairwoman stressed the importance of the Commission's role on supervising life insurance companies (LICs), whose main goal is to guarantee payments of pensions and other contracted policies to their beneficiaries.

Berstein highlighted capital requirements as a key component of rules and regulations in force. “A weakened capital increases the probability of insurance companies not paying pensions and other policies due to the materialization of various risks,” added the Chairwoman. She also explained that LICs insure especially complex risks for policyholders, such as illness, disability, and death. In addition to over 662,000 life annuity pensions, the Chilean population has taken out over 2.5 million life insurance policies; 7 million complementary health coverage policies; and 2 million credit loss policies. Another 6 million people are beneficiaries of the Disability and Survivors Insurance.

Mrs. Berstein stressed that insurance companies are significantly interconnected to the rest of the financial system, and they are the third-largest institutional investor in Chile. Insurance companies are highly relevant to long-term financing for both natural and legal persons. “Problems in this industry can create disruption on other services,” she said.

Effects of the Proposed Bill

Deputy Chairman Kevin Cowan stated that the bills under discussion alter life annuity contracts. While LICs are contractually mandated to pay pensioners a monthly annuity for their entire life, amendments to the current law mean they will have to

immediately pay up to 10 percent of their technical reserves, with a maximum of UF 150. Mr. Cowan said that the current life annuity advance project is not equal to the first advance since the paid amount is not discounted proportionally (and for life) from companies' future obligations.

The Deputy Chairman also divided the bill's side effects between direct and indirect. Direct effects include a deterioration in the companies' solvency, which puts payment of all underwritten insurance policies at risk, and the liability of the Chilean State to be hit by lawsuits filed at both local and international courts.

Meanwhile, indirect effects comprise increased legal uncertainty, which in turn has a negative impact on the supply of insurance and the availability and prices of risk coverage for individuals and SMEs. Financial market impact would be substantial due to LICs and Pension Fund Administrators having to sell their assets, meaning a loss of trust from foreign investors and even more restrictions to housing loans and long-term project financing.

According to preliminary simulations carried out by the CMF, the bill's direct impacts mean four out of 15 LICs which sell life annuity policies would have capital levels below the legal minimum.

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