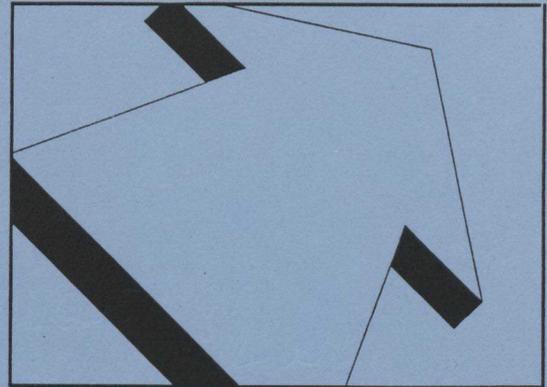


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# **CHILE'S SERVICE SECTOR**

**A SURVEY OF BUSINESS OPPORTUNITIES FOR CANADIAN SERVICES  
AND SERVICE PROVIDERS**

**Financial, Health, Consulting and Engineering Services**

**Francisco Javier Prieto**

**Santiago de Chile, January 1994**



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## EXECUTIVE SUMMARY

### INTRODUCTION

The current survey is part of a larger work programme being implemented by the Canadian Embassy in Santiago, Chile. This programme intends to explore the various possibilities opening up for the Canadian business community in Chile. Several studies have already been conducted in this regard. Sectors such as Forestry, Energy, Mining, Telecommunications, Software, Fisheries and the Environment have been the subject of specific research. All of them have explored the potential for Canadian firms and individuals in the Chilean market.

The current study examines the potential for Canadian services and service suppliers in the Chilean market for various activities. It provides general information on the Chilean economy as well as on its service sector, including the most pertinent norms affecting the supply of services by foreign providers. It also provides more detailed information on specific services. Sectoral profiles are included for financial services such as banking, life insurance and private pension funds; construction, consulting and engineering services in the context of infrastructure development and health services. All of these are areas where Canadian expertise and know-how could profit from a growing, fairly deregulated and open economy such as Chile's.



## EXECUTIVE SUMMARY

As Chile is becoming increasingly industrialized, the importance of services as a contributor to the country's GDP is expanding. In 1992 alone, services accounted for 62% of GDP. Services in Chile include a wide range of sectors of which, transport, communications, commerce and construction have been the leading ones in terms of growth during the period 1988-1992. Ongoing deregulation and privatization characterize the Chilean Government's modernization policy and have greatly contributed to the sustained growth registered in sectors such as banking, insurance, telecommunications, energy and transport.

Because the services sector includes such a wide range of activities, we have concentrated our analysis on those areas that have not been covered in previous Embassy studies. More specifically, the following service sectors will be profiled: banking, private pension funds, life insurance, health services, and consulting and engineering services as they apply to infrastructural development.

### BANKING

Banking activities are controlled and supervised by the Superintendency of Banks, an autonomous agency linked to the Government through the Ministry of Finance.

As a result of the 1982 banking crisis when the Central Bank was forced to bail out all national banks (except for one) through subordinated debt, in 1986, the Government implemented a new banking regulation which generated a more stable but also more restrictive environment.

Chile's banking system is made up of 36 commercial banks of which 22 are predominantly foreign owned. Two Canadian banks are represented in Chile - the Bank of Nova Scotia owns 30% of Banco Sudamericano while La Banque Nationale du Canada holds a 10% participation in Banco Osorno.

The Association of Banks and Financial Institutions has been pushing for the authorization of a less restrictive banking law. A proposed Bill of Law was sent to Congress recommending to expand activities of the banking system, including: leasing, factoring, securitization, issuing and operating credit cards, transporting securities, and providing financial consulting services among other business activities. There is very little local expertise in these new activities. Possible changes in the regulatory banking framework could open interesting opportunities for the supply of services in these fields.

### PENSION FUNDS

In 1981 a private pension plan system based on individual capitalization was created. AFPs (Administradoras de Fondos de Pensión) are private corporations whose sole and exclusive purpose is that of managing a pension fund and the granting of the benefits and social security assistance stipulated in the law. Members can switch from one AFP to another if they wish to do so since the profitability margin varies monthly from one AFP to another. In 12 years, the system has managed to incorporate over 5 million people in the Chilean labour force.

The institutions which regulate the AFPs are the Superintendency of AFPs and Superintendency of

Securities and Insurance. Even though the regulatory framework is very restrictive regarding the diversification of their portfolio, AFP's are still the largest institutional investor in the country. Their assets amount to more than US\$15.94 billion (approx 36% of GDP). Given the limits imposed by law they tend to limit the spectrum of sectors in which they buy financial instruments. The majority of their funds are invested in the energy and telecommunication sectors, and to a lesser extent, heavy industry, mining, and agroindustry.

There is a proposed Bill of Law which is recommending: an increase in the type of financial instruments in which AFPs can invest; a modification in the limits of investment to enable a greater diversification; and an improvement in capital market regulations, especially those pertaining to conflict of interest guidelines. Also, the proposed modifications include a broader spectrum of activities performed by the AFPs, such as consulting services abroad and private safe customer service of securities.

## **INSURANCE**

Life insurance in Chile has experienced a significant expansion over the past few years as it closely related to the evolution of the social security system (private). Compared to other countries of Latin America, Chile has a relatively low premium/GDP ratio (3.3% in 1992). In 1992, 46 insurance and 2 reinsurance companies were operating in Chile, of which 27 were life insurance companies. The insurance sector has a wide participation of foreign investment which operate in conjunction with national investors.

The Superintendency of Securities and Insurance Companies is responsible for the supervision of the insurance business. The insurance companies are, after the pension funds, the second most important institutional investors in the country. By December 1993, they had invested US\$3.34 billion. The main volume of investment is allotted to fixed income instruments.

Given the Chilean Government's forecasts for continued economic growth in Chile through the 1990s, the insurance business, as well as other financial services, will undoubtedly realize an increase in operational revenues. Also, the proposed Bill of Law for insurance companies, if accepted, should allow this sector to expand its investments in a broader spectrum of financial instruments, should entail greater expediency for risk coverage, and should improve the operational processes in the intermediation and sale of insurance. Canadian expertise in this field could find interesting business opportunities with the expansion of insurance services in Chile.

## **HEALTH SERVICES**

Since 1981, the Chilean health system has been comprised of two different entities, where private and state institutions co-exist, but service two different markets. Any person affiliated to any social security system automatically belongs to the State Health Regime (FONASA). Several years of neglect coupled with fiscal austerity have left state run hospitals in very poor condition. Although the private health sector (ISAPRE) has reduced their administrative costs and lowered the prices for their plans, the private health scheme is available mainly to the richest third of the population, leaving an important segment of the community to the state administered FONASA scheme. Given that the per capita income is steadily rising (US\$3000 as of 1993), ISAPREs are looking at designing low priced schemes where medium to low income people could join.

Improvement of state health care services is a Government priority. In fact, over the period 1991 to 1993, public expenditures on health care have risen from 86,000 million Chilean pesos to over

180,000 million pesos (nominal), an increase of close to 110% (this compares to a 58% increase in total public expenditures for the same period). The World Bank and Inter-American Development Bank are looking at projects in this field. Given Canada's world class expertise in developing and providing health care services, there exists a real potential for Canadian companies to participate in these future developments.

## **CONSULTING AND ENGINEERING SERVICES**

The gap between the dynamism of the national economy and the slow modernization of the physical infrastructure, particularly in the transport sector, must be resolved in order to ensure sustained growth in Chile. The Chilean Government, in order to ensure an adequate development of infrastructure, established a system of public concessions in public works.

Among the various components that comprise Chile's infrastructure, Canadian companies can play a particularly active role in assisting the country develop its energy and transport systems. Chile's increasing demand for energy has meant the need for additional thermoelectric and hydroelectric plants. Instead of relying on a depleting domestic base of oil and coal stock though (for its thermoelectric plants), Chile is looking to Argentina and Bolivia for the supply of natural gas. Questions such as, 'how to reconfigure the plants from hard combustibles, such as coal or wood, to soft combustibles, such as natural gas', or 'how to manage an efficient distribution system', must be, and can be answered with Canadian solutions. As well, Canadian expertise in the area of co-generation is something that could be exploited in Chile.

With respect to transport, opportunities are unfolding in road construction and port operations. The privatization of railroad services, and the possible construction of a monorail in Santiago bring with them other potential market opportunities that the Canadian business community should explore.

Water resource management is another topic that is becoming increasingly important in Chile, especially as the country continues to industrialize. Canadian companies can, and in fact are already starting to provide consulting services in this particular area.

President Frei's Government has repeatedly identified the improvement of Chile's standard of living as one of its highest priorities. It is therefore anticipated that a great deal will be accomplished over the next six years, in the areas of health, education and infrastructure. Also, with the arrival of natural gas, the increase in energy demand and the depletion of national oil reserves, the energy sector should be one of great diversification and expansion in the coming years. These are the sectors where international financial institutions are focusing their projects, and subsequently the sectors where Canadian companies should direct their efforts



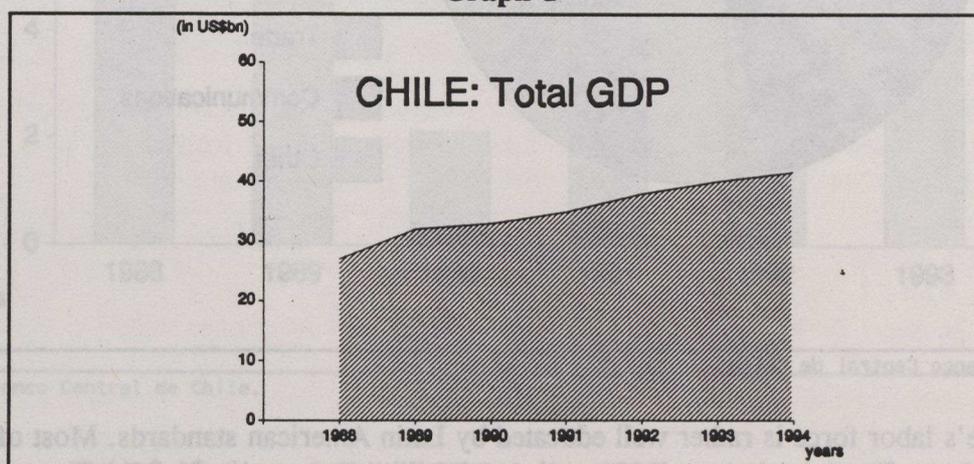
## CHAPTER I

## CHILE: SOME GENERAL INFORMATION

## I. THE ECONOMY:

1. Chile is located in the South-western tip of Southamerica and borders with Perú on the North; Bolivia and Argentina on the East; South with the South Pole and West with the Pacific Ocean.
2. Chile covers a continental area of 756,626 square kilometers and over 2,000,000 square kilometers if islands and the Antarctic territory are included. Santiago, the capital city, is located in the Metropolitan Region while the rest of the country is divided into 12 Regions. According to the 1992 National Census, Chile's population borders 13,300.000 people, with nearly 40% of it concentrated in Santiago. The VIIIth (Bio-Bio) Region and the Vth (Valparaiso) Region concentrate another 24.0% of the total population.

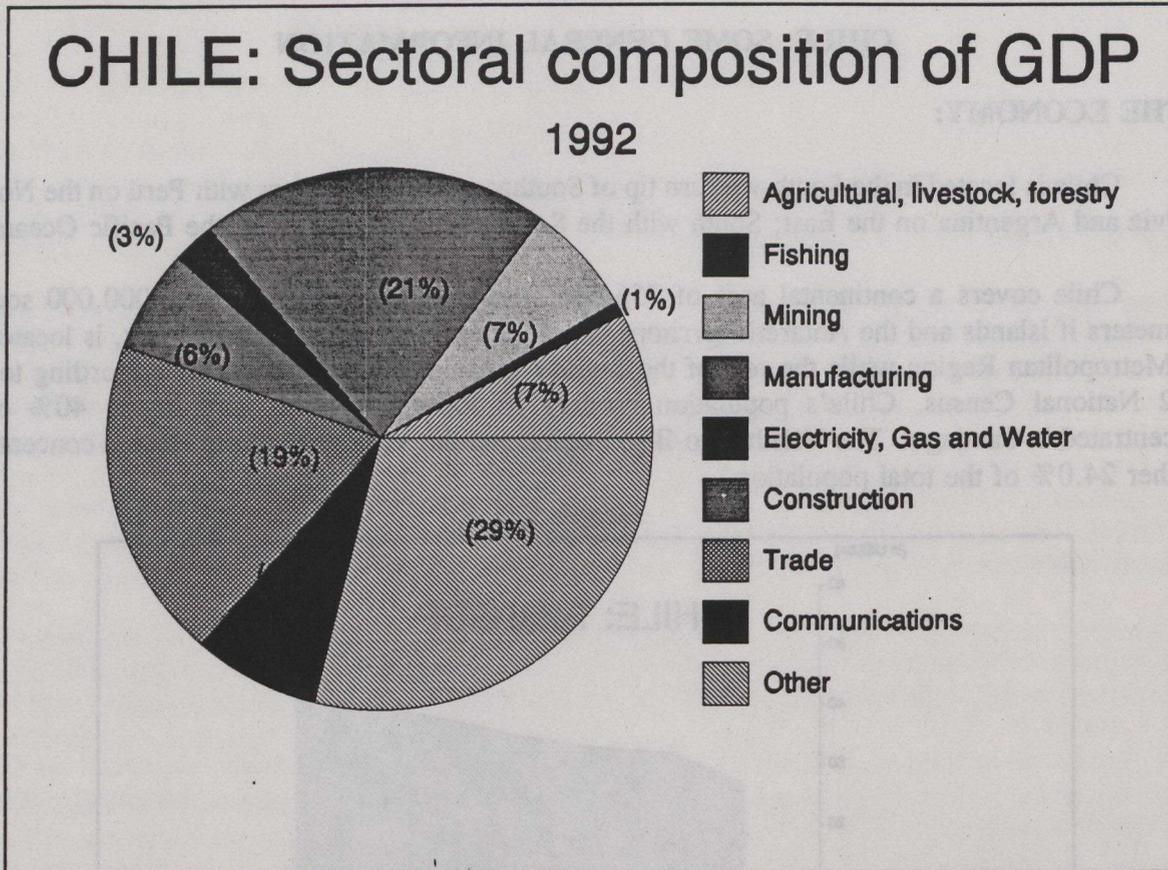
Graph 1



Source: Banco Central de Chile.

3. Total GDP will have expanded from US\$ 27 billion in 1988 to around US\$40 billion by 1993. As a result, per capita income was expected to reach US\$3,000 by the end of that year (See Graphic 1). Gross fixed capital formation grew steadily from 16.7% of GDP in 1988 to almost 20% during 1992.
4. Some key social indicators for the year 1990 were: a population growth rate of 17 per 1000 inhabitants, infant death rate at 16.0 per thousand inhabitants and life expectancy at birth of 72 years. According to the 1992 Census, the illiteracy rate for those 15 years old and over was only 8.9%, down from 11% in the 1970 Census. Students enrolled in Primary school amounted to 2,002,957 (98% of the corresponding age group), those in Secondary School to 699,455, in Scientific-Humanistic Secondary Schools to 436,893 and in Technical-Professional Secondary Schools to 262,563 in 1991.

Graph 2

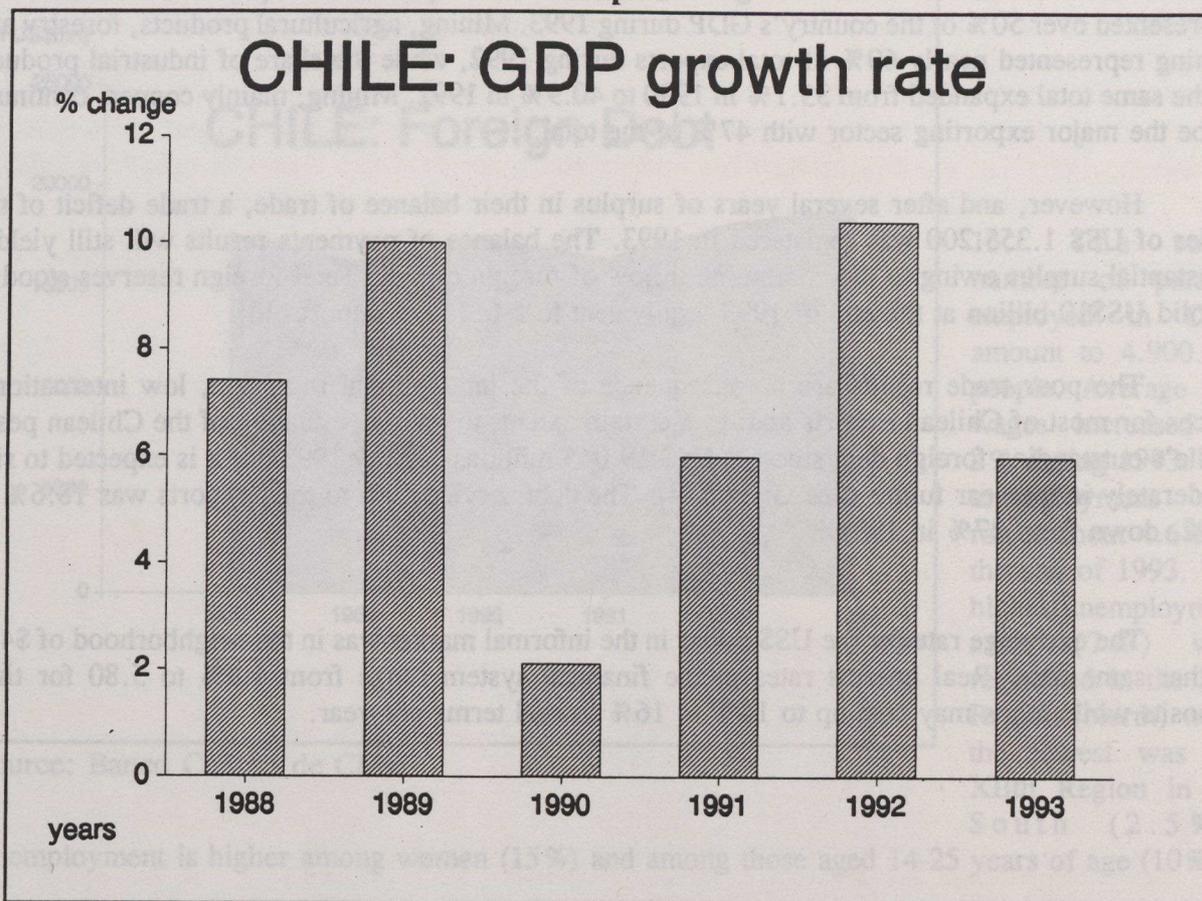


Source: Banco Central de Chile

5. Chile's labor force is rather well educated by Latin American standards. Most of those with no education are found in the rural areas where the illiteracy rate is 21.9%. The proportion of persons 14 years old and over with at least a high school degree is over 70%, and 27% have completed special and higher education in the Santiago Metropolitan area.

6. During 1991, students attending the University amounted to 146,720, while in professional institutes there were 37,376 and in polytechnical centers, 65,987. There are 23 state universities, 44 private universities, 2 professional institutes and numerous polytechnic centers and professional institutes which operate without state support.

Graph 3



Source: Banco Central de Chile.

7. The sectoral composition of Chile's GDP during 1992 can be seen in Graph 2.
8. Between 1987 and 1992, Chile's GDP expanded by 41%. The fastest growth was registered by Transport and Communications activities with an expansion of almost 80% in the five-year period; Commerce and Construction followed, with 59.1% and 46% respectively. Not even Manufacturing nor Fishing -with rates of growth of 41% and 32% each- came close to such performance.
9. With the exception of 1990 - a severe adjustment program was implemented that year to counterweight the building up of strong inflationary pressures- Chile's GDP has been growing at rates well over 6% per annum since 1988 (See Graph 3).
10. Inflation in Chile has been rather low by Latin American standards. After a peak of 27.3 per cent rate during 1990, consumer prices increased by 12% during 1993.

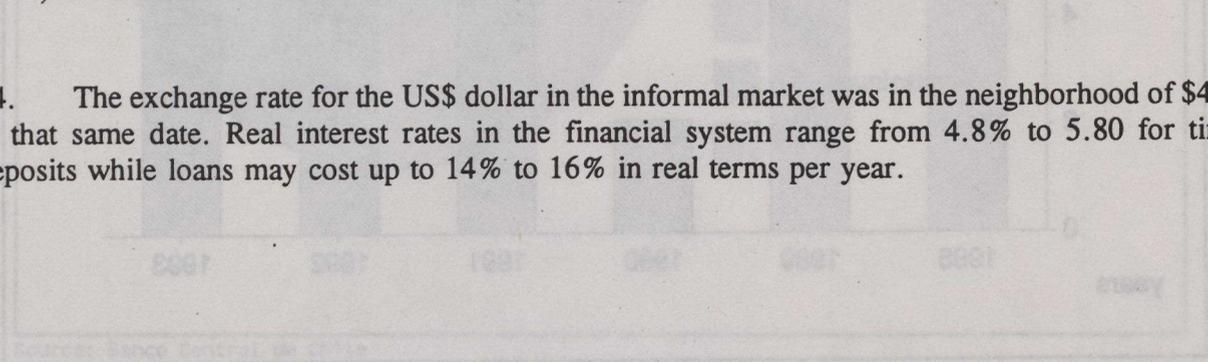
SECTORAL PROFILES-CHILE

11. Total merchandise exports were around US\$10 billion during 1993, roughly 25% of GDP, up from US\$7 billion in 1988. Foreign trade -the sum of exports and imports of merchandises- represented over 50% of the country's GDP during 1993. Mining, agricultural products, forestry and fishing represented nearly 60% of total exports during 1992, while the share of industrial products in the same total expanded from 33.1% in 1990 to 40.9% in 1992. Mining, mainly copper, continues to be the major exporting sector with 47% of the total.

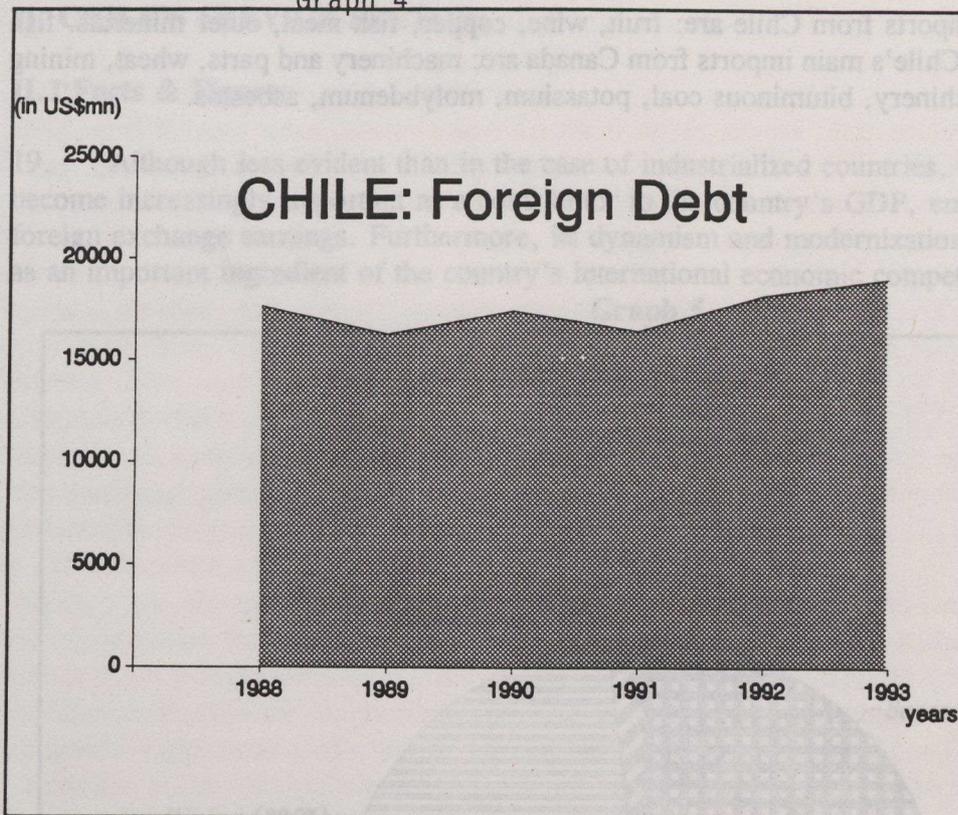
12. However, and after several years of surplus in their balance of trade, a trade deficit of the order of US\$ 1.355.200 was registered in 1993. The balance of payments results will still yield a substantial surplus owing to the continuing inflow of foreign capital. Total foreign reserves stood at a solid US\$10 billion at the end of 1993 (equivalent to a full year import bill).

13. The poor trade results are a consequence of the international recession, low international prices for most of Chilean exports and, to a certain extent, to an overvaluation of the Chilean peso. Chile's outstanding foreign debt stood at US\$ 19,045 millions in May 1993 but it is expected to rise moderately in the near future (See Graphic 4). The debt service ratio to total exports was 18.6% in 1992, down from 27% in 1988.

14. The exchange rate for the US\$ dollar in the informal market was in the neighborhood of \$430 at that same date. Real interest rates in the financial system range from 4.8% to 5.80 for time deposits while loans may cost up to 14% to 16% in real terms per year.



Graph 4



Source: Banco Central de Chile.

15. The total number of persons employed in Chile amount to 4.900.000 people. Average real wages increased by 2% during 1993. The unemployment rate ran at about 4.6% by the end of 1993. The highest unemployment rate (7%) was registered in the IInd Region (North) while the lowest was the XIIth Region in the South (2.5%).

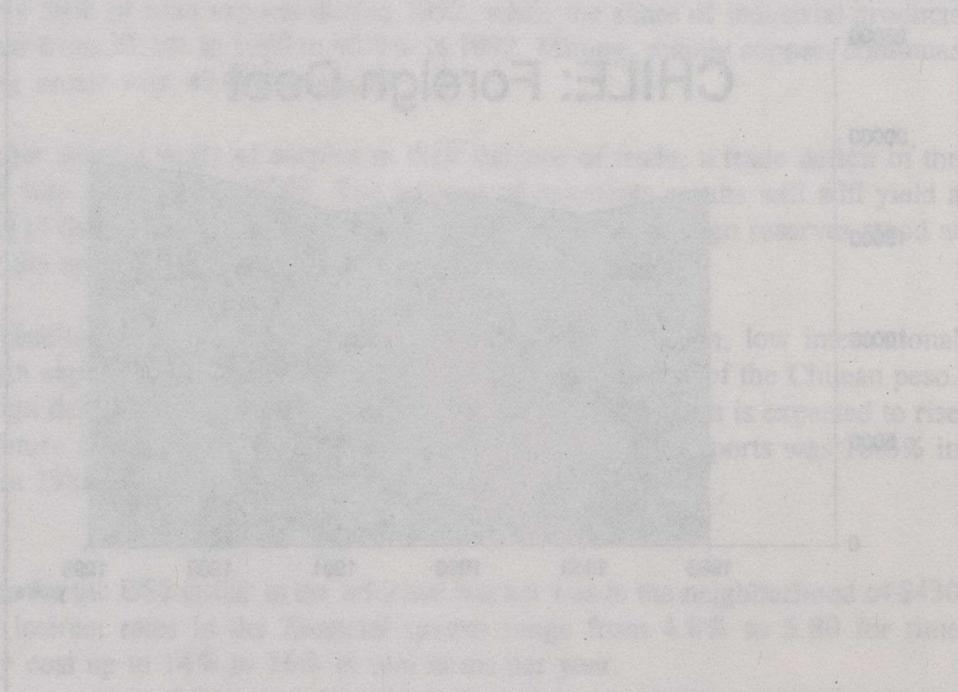
Unemployment is higher among women (15%) and among those aged 14-25 years of age (10%)

16. A recent survey conducted during ENADE 1993 ( Encuentro Nacional de la Empresa) showed a moderate optimism on the part of the domestic business community with respect to the prospects of the Chilean economy for 1994. Chilean GDP is expected to grow at 4.0% with unemployment rising to 5% during 1994. Gross Domestic Investment is expected to be of the order of 26 to 28% of GDP, while National Savings will be around 20% of GDP, with total consumption expanding by 4.5% during the year. Total exports will be roughly the same as during 1993 while imports will fall slightly. According to the same survey the foreign external debt will rise moderately to US\$20.500 millions. On the other hand, the international price of copper is expected to remain in the range of US\$ 0.80 per pound during 1994 while the consumer price index is expected to rise by 12% during between January and December 1994.

17. Chile's trade with Canada during 1993 amounted to some US\$ 208.2 million in exports from Chile (0.8% of the total) and US\$ 211.6 million in imports from Canada and after two consecutive years of deficit it generated a surplus favorable to Canada of the order of US\$ 3.4 million. Canadian exports to Chile grew by 36.8% while imports from Chile expanded at only 2.8% in the 1992/1993 period.

**SECTORAL PROFILES-CHILE**

18. Canada's main imports from Chile are: fruit, wine, copper, fish meal, other minerals, fish and seafood. Meanwhile Chile's main imports from Canada are: machinery and parts, wheat, mining equipment and other machinery, bituminous coal, potassium, molybdenum, asbestos.



Source: Banco Central de Chile

16. A recent survey conducted during ENADE 1993 (Encuesta Nacional de la Empresa) showed a moderate optimism on the part of the domestic business community with respect to the prospects of the Chilean economy for 1994. Chilean GDP is expected to grow at 4.0% with unemployment rising to 5% during 1994. Gross Domestic Investment is expected to be of the order of 26% of GDP, while National Savings will be around 20% of GDP, with total consumption expanding by 4.2% during the year. Total exports will be roughly the same as during 1993 while imports will fall slightly. According to the same survey the foreign external debt will rise moderately to US\$230,500 million. On the other hand, the international price of copper is expected to remain in the range of US\$ 0.80 per pound during 1994 while the consumer price index is expected to rise by 12% during between January and December 1994.

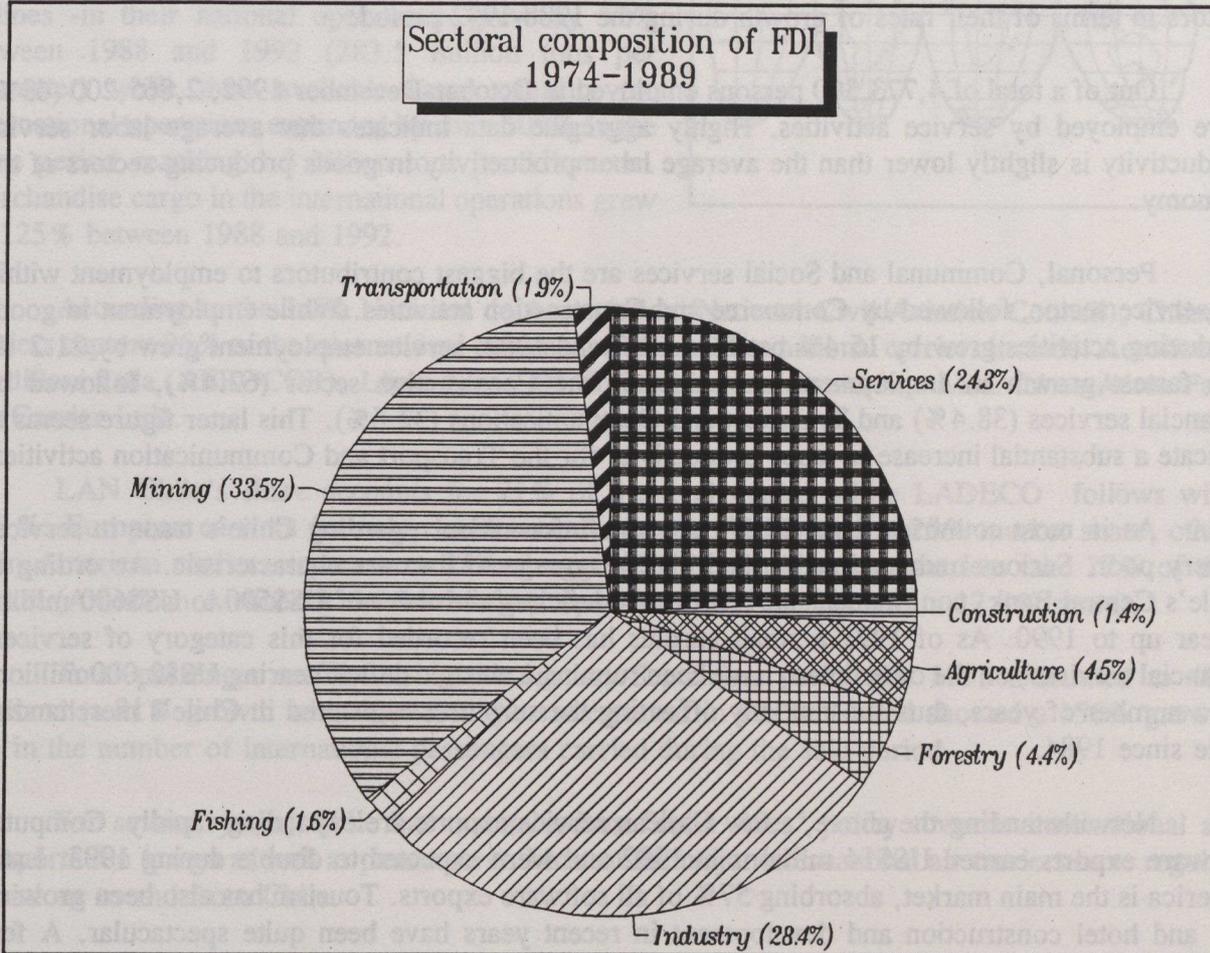
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II. CHILE'S SERVICE SECTOR:

II.1 Facts & Figures

19. Although less evident than in the case of industrialized countries, Chile's service sector has become increasingly important as a contributor to the country's GDP, employment generation and foreign exchange earnings. Furthermore, its dynamism and modernization is growingly recognized as an important ingredient of the country's international economic competitiveness.

Graph 5



Source: Foreign Investment Committee

20. Foreign direct investment (FDI) has played a key role in the modernization and growth experienced by service activities in the 1974-1989 period (See Graph 5). Key to this development is the fact that a number of service industries have been directly affected by the modernization policies adopted by the Chilean Government. Deregulation, privatization and the opening up of business opportunities for foreign service providers and investors have focused substantially in major

## SECTORAL PROFILES-CHILE

service industries such as banking, insurance, telecommunications, energy, transport as well as many professional and business services.

21. The relative importance of the service sector in the Chilean economy grew steadily from 52 % of GDP in 1974 to almost 62 % in 1992. The service sector in Chile includes wholesale and retail trade, transportation and telecommunications, utilities and a variety of financial, professional, business, personal and government services.

22. As stressed above, Transport, Communications, Commerce and Construction were the leading sectors in terms of their rates of growth during the 1988-1992 period.

23. Out of a total of 4,773,300 persons employed in October-December 1992, 2,865,200 (63 %) were employed by service activities. Highly aggregate data indicates that average labor service productivity is slightly lower than the average labor productivity in goods producing sectors of the economy.

24. Personal, Communal and Social services are the biggest contributors to employment within the service sector, followed by Commerce and Construction activities. While employment in goods producing activities grew by 15.4% between 1987 and 1992, service employment grew by 21.2 %. The fastest growth in employment took place in the Construction sector (62.4%), followed by Financial services (38.4%) and Transport and Communications (32.6%). This latter figure seems to indicate a substantial increase in labor productivity for the Transport and Communication activities.

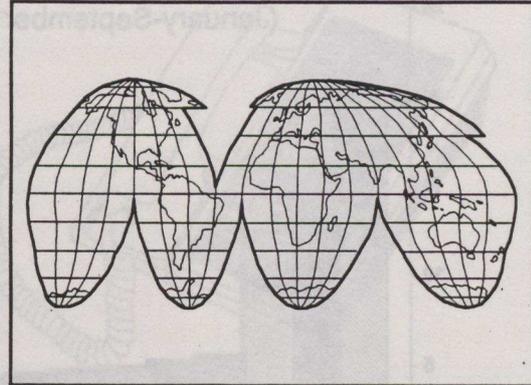
25. As in most countries, balance of payments information regarding Chile's trade in services is very poor. Serious underestimation and highly aggregated data are characteristic. According to Chile's Central Bank, non financial services run a deficit of the order of US\$500 to US\$600 million a year up to 1990. As of 1991 a small surplus has been recorded for this category of services. Financial services, on the other hand, have been running a chronic deficit nearing US\$2,000 millions for a number of years, thus substantially offsetting the surpluses registered in Chile's merchandise trade since 1984.

26. Notwithstanding the above, a few Chilean service exports are expanding rapidly. Computer software exports earned US\$14 millions in 1992 and were expected to double during 1993. Latin America is the main market, absorbing 57% of all software exports. Tourism has also been growing fast and hotel construction and development in recent years have been quite spectacular. A few financial services, namely in the area of financing trade in the Latin American region as well as in private pension funds management, is another area of rapid export growth. Many professional services are beginning to be exported, specially in the area of management and economic consultants.

## II.2 Some Key Infrastructure Facilities

### II.2.a Air Transport Facilities

27. There are six major commercial national airlines in Chile. Línea Aérea Nacional (LAN) and Línea Aérea del Cobre (LADECO) are the biggest national airlines and both are private and partially foreign owned. Available cargo capacity for these airlines -in their national operations- grew by 57% between 1988 and 1992 (283.5 million tons per kilometer) while their available cargo capacity for international operations expanded by over 105% in the same period reaching 1.3 billion tons per kilometer. Merchandise cargo in the international operations grew by 125% between 1988 and 1992.

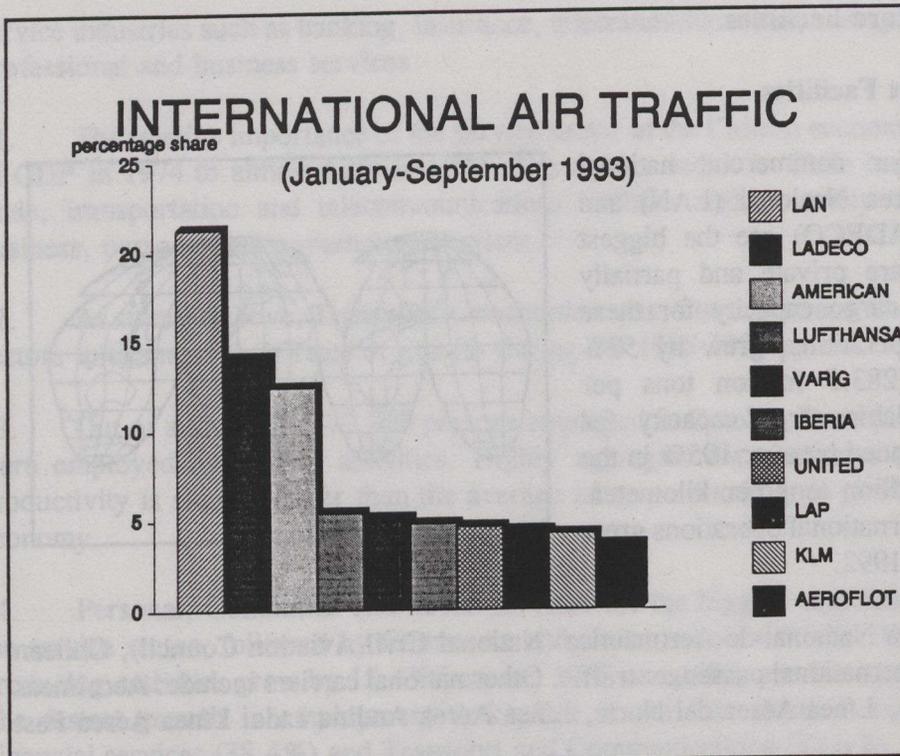


28. According to the Junta Nacional de Aeronáutica (National Civil Aviation Council), Chilean carriers capture 35% of the international passenger traffic. Other national carriers include: Aerolíneas Cordillera Ltda. (AEROCOR), Línea Aérea del Norte, Línea Aérea Andina Ltda. Línea Aérea Fast Air Carrier Ltda.

29. LAN Chile's share accounts for 21% of the total market while LADECO follows with 14.1%. European carriers (namely, Lufthansa, Iberia and KLM) have a 25% market share, other Latin American carriers represent a 22% share, while North American carriers take 17% of the market (American Airlines is the third largest operator in this market with a 12.4% share).

30. Total passenger traffic during the January-September period for 1993 amounted to 463 thousand (a 21% growth with respect to the same period in 1992). United showed a 156% growth rate in the number of international passengers carried during the said period.

31. For several years, Chile has maintained an "open skies" policy towards international air transportation (cargo as well as passengers). Most of the major international air carriers have regular operations to and from Chile.

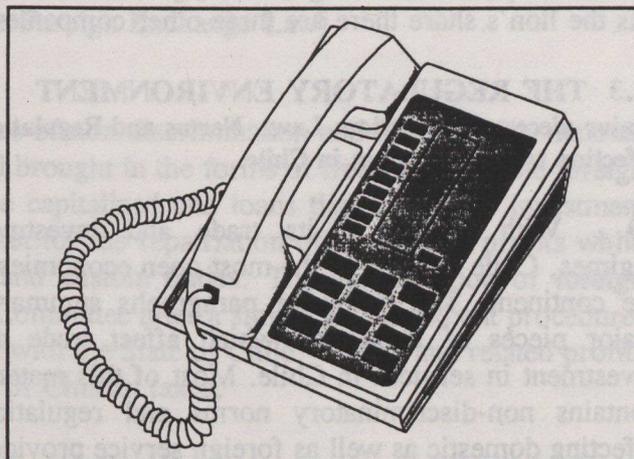


Source: Junta Nacional de Aeronautica.

## II.2.b Telecommunications Facilities:

32. There are nine major telecommunication conglomerates in Chile serving a fast growing long distance and international market ( it is estimated to be growing at 20% per year since the 1970's).

33. The full telecommunications market was worth about US\$1 billion in 1992. Compañía de Teléfonos de Chile (CTC), of which 44% is owned by Telefónica de España, has a virtual monopoly of the local calls market while, until early 1993, Entel Chile had a monopoly over the international long distance market.



34. After Congress approved the multicarrier system, the battle for the international calls market has intensified with fierce discount competition among the companies operating in this area. There are, at present, four companies positioning themselves for this market: Entel-Chile, CTC, VTR and Chilesat. All of them will compete with heavy investment underway in long distance and international networks, including fiber optics and satellite equipment.

35. Data, voice and fax transmission as well as an ever growing number of new value-added services are increasingly available to companies and individuals through private and public networks and though they represent only 10% of the market, they are growing fast. The market is so attractive that only during 1993 investment in the sector is expected to reach US\$600 millions, favoring international long distance infrastructure as well as the development of fiber optics networks to serve the national long distance needs. Profit margins in Entel for the international long distance market were around 50% during 1992 while the local phone service yielded only 20% for CTC. It is estimated that international calls are heavily concentrated in a rather small number of customers (around 7.000), basically companies.

36. Although Chile has only about 10 lines per 100 inhabitants, local telephone lines have doubled since 1990 and are expected to reach 1.700.000 during 1994 and 2.500.000 by the end of the decade.

37. The number of national long distance calls more than doubled between 1990 and 1993 when they reached 280 million, while international calls expanded by nearly 60% in the same period to a level of 160 million calls.

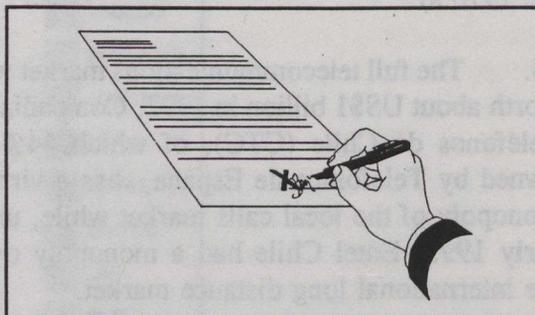
38. International phone call rates are estimated to be roughly similar to those in the United States and substantially lower than in Europe. According to some analysts, with the introduction of the multicarrier system, rates may drop by as much as 30% below the current values.

39. The most spectacular growth has been registered in the cellular telephone market. Only during 1993 it is expected to grow by 50%, reaching 100.000 lines during 1994. While CTC cellular has the lion's share there are three other companies operating in this market.

### II.3 THE REGULATORY ENVIRONMENT

#### Major pieces of legislation: Laws, Norms and Regulations affecting trade in services in Chile.

40. With regard to its trade and investment regimes, Chile has one of the most open economies in the continent. The following paragraphs summarize major pieces of legislation which affect trade and investment in services in Chile. Most of this material contains non-discriminatory norms and regulations affecting domestic as well as foreign service providers in the country and they mainly describe the administrative procedures which must be followed and the prudential measures and by-laws which may, directly or indirectly, affect investment and the supply of services in the country.



#### II.3.a Foreign Trade regime affecting merchandises:

41. In general, all imports are charged with a flat 11% ad valorem tariff. Only exceptionally a few imports are affected by specific tariffs, or additional or compensatory duty rates. Import of motor vehicles vary according to the cylinder capacity. In addition, imports are subject to 18% Value Added Tax (VAT) and loans to finance imports are subject to a stamp tax (0.1% per month elapsed with a 1.2% maximum). Imports of capital goods by foreign investors are exempted from the VAT under given conditions. There are no non-tariff barriers in Chile's trade regime.

#### II.3.b Foreign Exchange legislation:

42. Foreign exchange may be freely traded. There are two legal exchange markets, i.e., the Formal (banking system) and the Informal Market. The Central Bank may request that certain transactions be executed only through the Formal Market<sup>1</sup>.

#### II.3.c Foreign Investment Regime:

43. Foreign investors can carry out business in Chile through: a Chilean limited liability company, a corporation or a branch. Each one of these options has different legal and tax regimes. With few exceptions there are no limitations as to the type of business to be carried out and no restrictions exist regarding foreign ownership of local companies.

<sup>1</sup>This is the case of imports and exports of goods and services, foreign loans, capital flows and profit remittances.

44. There are three legal ways to invest in Chile through the Formal Market, i.e., Foreign Investment Law (Decree Law 600), Chapter XIV of the Foreign Exchange Law and Capitalization of the Chilean Foreign Debt (Chapter XIX of the Foreign Exchange Law)

II.3.c.i Decree Law 600:

45. Decree Law 600 is based on the principles of non discrimination and it grants full national treatment to foreign investors. It applies to capital brought in the forms of freely convertible foreign exchange, tangible assets, technology that can be capitalized and loans tied to foreign investment projects. It guarantees access to the Formal market for the repatriation of capital and profits while providing special exemptions relating to taxes and custom duties. The authorization of foreign investment is granted by the Foreign Investment Committee after a simple and expedient procedure. Under this law, the investor enters into a contract with the State of Chile. Capital and related profits may be repatriated after one year, after payment of Chilean taxes.

II.3.c.ii Chapter XIV:

46. Chapter XIV of the Foreign Exchange Law only applies to capital brought in and registered with the Central Bank in the form of foreign currency. A certificate is issued by the Bank. Capital and profit repatriation is subject to the terms and conditions in force at the time the foreign exchange has been converted into local currency. Capital may be repatriated after one year and there are no limits regarding time or amount for the repatriation of profits.

II.3.c.iii Chapter XIX:

47. Chapter XIX of the Foreign Exchange Regulations regulates the acquisition of certain documents of the Chilean debts by foreign investor to invest in Chile. Such papers are purchased at a discount value and converted into local currency, through the banking system, at their face value to implement the investment which may be a newly established operation or the acquisition of an existing company. Capital may not be repatriated before ten years while profits earned during the first four years may only be repatriated as from the fifth year onwards, with a limit of 25% of the accumulated earnings. The increasing value of these papers in the secondary market as compared to its face value (around 95%) has made this option less and less attractive to foreign investors.

**II.3.d The Tax Regime:**

48. Apart from the Custom duties, there are six major taxes in Chile: Value Added Tax (VAT), Income Tax, Stamp Tax, Real Estate Tax, Gifts and Inheritance Tax, and a Special Sales Tax. All of them are levied by the State of Chile, as there are no regional or municipal taxes. Financial statements for income tax purposes must be prepared as of December 31 while income tax returns must be filed during April of the following year. VAT, payroll and withholding taxes must be reported and paid on a monthly basis.

II.3.d.i Income Tax Regime:

49. There are two major distinctions to be made with regard to the application of the income tax law in Chile:

**a) Taxation applicable to the commercial presence of foreign service providers: foreign owned companies, subsidiaries and branches:**

50. Income of foreign corporations and whose shareholders and partners are not domiciled in Chile are taxed in two stages: a) when income is accrued and b) when profits are distributed to shareholders or remitted abroad in the case of branches. The general regime, which is expected to be implemented in 1994 as it is now under discussion in Parliament, sets a 15% First Category tax rate on accrued but undistributed taxable income computed according to the Income Tax Law. Business income which is withdrawn, distributed or remitted abroad is subject to an additional 35% tax rate.

51. In spite of the above, foreign investors have the option of undersigning a contract with the Republic of Chile, under the Foreign Investment Statute, whereby they may opt for a guaranteed fixed overall income tax rate of 42% for a period of ten years instead of the normal tax rates described in paragraph 50. Foreign investors who are partners or shareholders must pay an Additional tax of 27% on dividends and profits which are distributed, withdrawn or remitted abroad.

52. Partners and shareholders can benefit from a tax credit, provided profits have been subject to the First Category Tax. The credit is treated as taxable income for the assessment of the tax on distributions or withdrawals of profits.

53. Foreign investors under the Foreign Investment Statute (FIS) contracts are not subject to VAT taxes on their imports of capital goods, provided they are included in an official list issued by the Government.

54. Foreign investors under FIS contracts may include a clause which guarantees custom duties treatment until investment is completed.

**b) Taxation on payments to nondomiciled individuals or entities: applicable to services provided through national borders or through the temporary movement of people to and from the country:**

55. On certain payments to non-domiciled persons or entities, providing services locally or from abroad, there is a 35% withholding tax. Likewise, interests on money borrowed abroad are also subject to a 35% withholding tax rate. Certain interest payments to foreign banks or financial institutions which are authorized by the Central Bank are taxed at 4%.

56. Personal remunerations of non-resident or non-domiciled individuals are subject to a 20% tax rate on their fees or salaries for cultural, scientific, technical or sport activities in Chile during a maximum period of six months. All other services are taxed at 35%. After six months the progressive personal tax is applicable in the same way as for nationals. Canada has proposed a double taxation agreement to Chile. At this stage, Chilean authorities have yet to determine if they wish to sign this type of agreement.

57. Royalties, patents and fees for technical assistance are subject to a general withholding tax of 35%. Intercompany charges made to local branches and remitted abroad to the headquarters, although tax deductible for income tax purposes may be charged with a 35% withholding tax as well.

58. Exempted from the withholding tax are payments for freight, shipping and clearing expenses, weighing, sampling and analysis of products, certain insurance, international telecommunications, smelting, refining, and application of special processing of Chilean products.

59. Lower withholding tax rates are applicable in some exceptional cases. These cases are described below.

60. Payments to insurance companies with no commercial presence in Chile for the insurance of equipment or goods located in Chile and for life and medical insurance of individuals residing in Chile are subject to a 22% rate.

61. Payments for rental, lease, charter or other contracts for the use of foreign vessels in coastal trade are subject to a 20% rate, while remunerations to nondomiciled individuals or entities for maritime transport from and to Chilean ports as well as from services to vessels and freight in Chilean or foreign ports are subject to a 5% withholding tax.

62. Technical assistance or engineering services provided abroad are subject to a 20% rate. Reinsurance is subject to a 2% rate as well as payments for the rental of imported capital goods which are eligible for the deferral of custom duties are also subject to a 2% rate.

#### II.3.d.ii Other taxes:

63. Real estate taxes are annually charged at a rate of 2% on the fiscal appraisal value of the property. Gifts and inheritances are levied with a progressive tax ranging from 1% to 25%. Such tax is not applicable to the property of deceased foreigners located abroad, unless it has been acquired with income produced in Chile.

#### **II.3.f Regional and free zones incentives:**

64. A special tax regime and special regulations apply to the extreme northern and southern regions of the country, including a reduction of the First Category Tax to 9%. There is also a bonus of 20% of total investment for some of them, subject to a given limit. Free zones (Iquique and Punta Arenas) benefit from an exception to VAT taxes and custom duties. Income taxes are exempted from the First Category Tax.

#### **II.3.g Labour regime:**

65. Authorization from the official immigration authorities is required of foreigners wishing to work in Chile.

**SECTORAL PROFILES-CHILE**

66. Non-nationals or non-permanent residents are subject to the same legislation as Chilean employees, with a few exceptions:
67. Companies with more than 25 employees, must employ at least 85% of Chilean personnel, with few exceptions.
68. Remunerations to be paid in foreign currency to non-nationals must be authorized by the Central Bank. However, it does not automatically grant access to the Formal Market. Non-nationals may obtain a waiver of social security contributions, provided they are affiliated abroad to a system covering benefits at least similar to those rendered in Chile.

## CHAPTER II

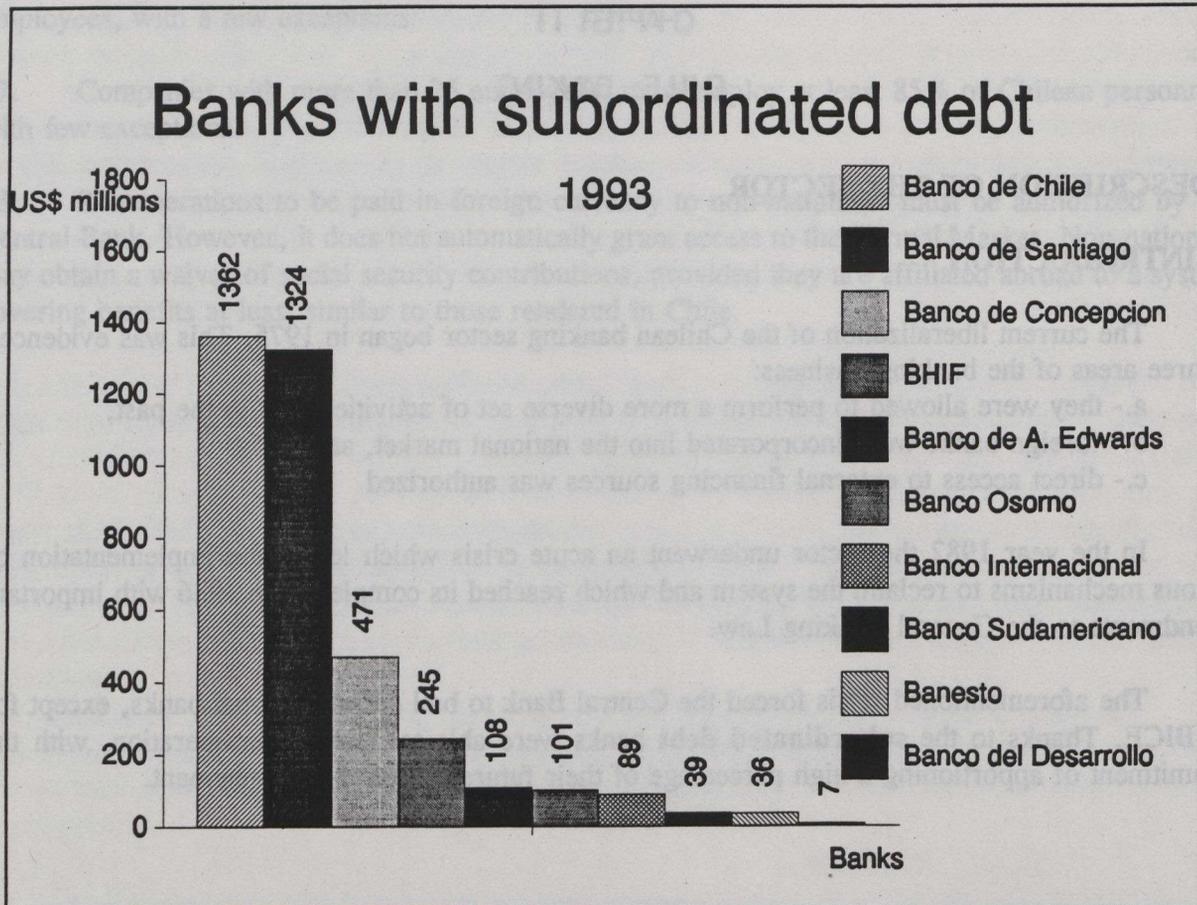
### CHILE: BANKING

#### I. DESCRIPTION OF THE SECTOR

##### I.1 INTRODUCTION

1. The current liberalization of the Chilean banking sector began in 1975. This was evidenced in three areas of the banking business:
  - a.- they were allowed to perform a more diverse set of activities than in the past,
  - b.- foreign banks were incorporated into the national market, and
  - c.- direct access to external financing sources was authorized
2. In the year 1982 the sector underwent an acute crisis which led to the implementation of various mechanisms to reclaim the system and which reached its completion in 1986 with important amendments to the General Banking Law.
3. The aforementioned crisis forced the Central Bank to bail out all national banks, except for the BICE. Thanks to the **subordinated debt** banks were able to continue in operation, with the commitment of apportioning a high percentage of their future profits to its repayment.

GRAPH I



Source: Superintendencia de Bancos e Instituciones Financieras

4. In 1992, the ten most indebted banks apportioned 73% of their profits (US\$ 205 million) to the repayment of this debt. It is estimated that some banks will take up to eighty years to fully pay off all their obligations. This situation has made it difficult for foreign banks to acquire national banks which carry a subordinated debt. The ten banks with the highest subordinated debt are the following: Banco de Chile, Banco de Santiago, Banco de Concepción, BHIF, Banco de A. Edwards, Banco Osorno, Banco Internacional, Banco Sudamericano, Banesto and Banco del Desarrollo<sup>1</sup>. (See Graph 1)

5. The regulation implemented as of 1986 has generated a more stable, though more restricted, environment for the operation of the system.

<sup>1</sup> Banco del Desarrollo has just recently prepaid all of its subordinated debt.

**1.2 SCOPE AND NATURE OF THE SYSTEM**

6. The banking system is made up of 36 commercial banks<sup>2</sup>. Of these, 22 banks are predominantly foreign-owned and 14 are national banks<sup>3</sup>. These figures show an average of one bank for every 330,000 people in Chile (in the U.S.A. this ratio is of one bank for every 16,000 people); however, several banking executives are anticipating some bank mergers in the future.
7. National banks control the largest share of the banking activity. Of the foreign banks, 15 are either agencies or subsidiaries of their Head Offices and 7 are set up as public corporations.
8. Canadian banks are represented in Chile through their participation in two banks classified as national ones: the Banco Osorno, in which the Banque Nationale du Canada has 10% participation, and the Banco Sudamericano, in which the Scotia Bank owns 30% of the stock.
9. The government participates in the banking system through the Banco del Estado de Chile, which has a monopoly of the Banking operations of the Chilean public sector ("Cuenta Unica Fiscal).
10. The number of banks operating in Chile has not changed over the last seven years. This is due to the fact that the Superintendency has not authorized new entrants into the system. However, during the same period there have been important changes in the ownerships of already existing banks. Likewise, there have been changes in the names of banks as an outcome of the acquisition of already existing institutions.

Bank	Assets	Liabilities	Capital	Reserves	Profit	Other
Banco de Chile	1.1	0.8	0.2	0.1	0.1	0.1
Banco de Santiago	0.8	0.6	0.2	0.1	0.1	0.1
Banco del Estado	0.1	0.1	0.1	0.1	0.1	0.1
TOTAL	2.0	1.5	0.5	0.3	0.3	0.3

<sup>2</sup> The Banking Law also allows the setting up of financial companies. At present, 4 of these institutions exist in Chile. These corporations are allowed to carry out the same transactions as the commercial banks with two limitations: they are neither allowed to open current accounts nor to deal in foreign currency, especially foreign trade transactions.

<sup>3</sup> Several of the banks defined as national, have partial foreign ownership (in no case more than 50%). For statistical purposes, the Superintendency only considers the Banks to be foreign if their equity of that origin is greater than 50%.

11. The banking activity -- measured through total loans and its share in the GDP -- is reflected in Tables I and II:

**TABLE I**  
**Total Loans by the Banking System**  
**(in million US\$)**

	1988	1989	1990	1991	1992
Private National Banks	6.634	8.078	7.777	8.189	10.273
Banco del Estado	1.427	1.964	2.210	2.307	2.891
Foreign Banks	1.316	1.784	1.710	1.839	2.674
	9.377	11.826	11.697	12.335	15.838

Source: Monthly Bulletin Banco Central

**TABLE II**  
**Total Loans as a percentage of GDP**  
**-en porcentajes-**

	1988	1989	1990	1991	1992
Private National Banks	30.1	31.8	27.9	26.2	27.1
Foreign Banks	6.5	7.7	7.9	7.4	7.6
Banco del Estado	5.9	7.1	6.2	5.9	7.1
<b>TOTAL</b>	<b>42.5</b>	<b>46.6</b>	<b>41.0</b>	<b>39.5</b>	<b>41.8</b>

Source: Monthly Bulletin Banco Central

12. Over the last years, the growth of financial intermediation<sup>4</sup>, has been much higher than the average expansion of the GDP. However, the rate of growth of the banking activity, as such, has been lower than the growth of the GDP.

13. The number of institutions went down from 37 to 36 banks, between 1987 and 1992. Nevertheless, the number of offices increased from 862 to 1070 over that period, whereas employment in the sector increased from 30,000 to 39,000 people.

14. The loss of relative importance of the banking system in national financial intermediation over the last years is accounted for -- among other reasons -- by:

a.- the entry to the financial industry of institutions which directly compete with services traditionally offered by the banking system. Such is the case of the saving accounts managed by the Pension Funds Management Companies (AFPs), the so-called Account II, and of other entities such as the Mutual Funds. These companies are, as a rule, subsidiaries of banks established in the market;

b- the rapid rate of increase in consumer's credits (personal installment loans) provided by Department Stores on their own and through Financial Companies; and,

c.- Additionally, the high cost of money in the local market which has led many corporations - especially between the years 1991 and 1992 - to resort to issuing stock as a source for funding. This situation is not observed at present. A limited number of large companies have been able to resort to external financing by issuing ADRs (American Depositary receipts) through the New York Stock Exchange. This phenomenon has been supported of late by the improvement in the rating of the country-risk which Standard and Poor releases and which increased the Chilean rating from BBB to BBB+ as of december 1993.

15. Table III shows the results of the banking system at the beginning of 1993. Among the privately-owned national banks, the Banco de Chile accounts for 12.8% of total loans, followed by the Banco de Santiago with 9.7%. Of the foreign banks, the Banco Santander (of Spanish-ownership) covers 5% of total loans. In terms of profits, the Banco de Chile, the Banco de Santiago and the Banco Santander are the most profitable ones.

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<sup>4</sup> It includes, besides the banking system, among others, The Pension Management Funds (AFPs), Mutual Funds, Stock Exchange Brokers and Financial Companies.

TABLE III

RESULTS OF THE BANKING SYSTEM AS UP TO FEBRUARY 1993  
(figures in Ch\$ million)

Banks	Total Loans	Capital and Reserves	Total Profits
<b>Private National Banks:</b>			
de Chile	1.069.092	173.238	1.699
de Santiago	807.498	93.350	1.006
Osorno	611.783	41.934	293
de Crédito e Inversiones.	489.499	42.546	896
O'Higgins	471.262	36.344	863
De A. Edwards	444.404	30.038	300
Sud Americano	443.964	37.089	143
BHIF	409.749	30.591	515
Concepción	276.650	24.870	75
Del Desarrollo	227.027	14.645	178
Bice	182.909	24.528	665
Internacional	96.028	8.079	1
<b>Total National Banks</b>	<b>5.529.964</b>	<b>557.253</b>	<b>6.590</b>
<b>Banco del Estado</b>	<b>1.192.274</b>	<b>171.767</b>	<b>1.084</b>
<b>Foreign Banks</b>			
Santander-Chile	425.504	52.698	1.227
Citibank	190.001	40.181	794
Boston	122.451	30.487	699
Security	115.000	21.623	337
Centrobanco	105.957	24.023	576
Banesto Chile	91.658	13.003	71
Continental	90.189	13.651	63
Chase Manhattan	75.339	18.117	305
Sudameris	56.959	11.720	156
Republic National	51.365	13.403	118
ABN Tanner	47.534	5.197	75
Exterior	46.197	12.906	193
American Express	33.663	11.930	294
Hong Kong	31.192	7.709	23
Of America	26.893	12.370	224
Do Brasil	16.893	8.839	182
Real S.A.	12.507	5.119	55
Chemical Bank	9.304	6.919	184
Of Tokyo	7.852	5.186	123
Nación Argentina	7.164	5.766	49
ING Bank Chile	6.656	7.366	236
Chicago Continental	4.335	5.072	36
Do Estado S.Paulo	3.546	6.913	143
<b>Total Extranjeros</b>	<b>1.578.158</b>	<b>326.656</b>	<b>6.166</b>

Source: Superintendencia de Bancos e Instituciones Financieras Note: Average rate of exchange for February:  
Ch\$ 1 = US\$ 387.91

16. Even though there are no discriminatory legal provisions regarding the activities which national and foreign banks may carry out, the latter are concentrated in the Metropolitan Region and their major activity is corporate banking providing (i) working capital and financial services, (ii) financing of foreign trade. To a lesser extent, some of them are involved in retail banking.

### I.3.- WHAT BANKS CAN AND CAN NOT DO IN CHILE

#### I.3.A REGULAR BANKING OPERATIONS

17. The operations which commercial banks can carry out are as follows:
- (i) Acceptance of deposits and other repayable funds from the public, in national or foreign currency,
  - (ii) lending of various types including consumer credit, mortgage loans, credit and financing of commercial transactions,
  - (iii) grant loans and discount documents as well as money transmission services,
  - (iv) intermediate effects or papers of commerce and securities, make collections, payments and transfer funds,
  - (v) deal in foreign trade transactions,
  - (vi) issue letters of credit,
  - (vii) guarantee negotiable drafts or bills of exchange and act as guarantor,
  - (viii) issue bid or surety bonds,
  - (ix) accept values in safe custody,
  - (x) accept and carry out trust commissions,
  - (xi) act as financial Agents for national and international institutions,
  - (xii) buy, hold and sell bonds or securities issued by the State or authorized international Institutions, and
  - (xiii) buy, hold and sell fixed-income securities.

#### I.3.B OTHER TRANSACTIONS OF FINANCIAL INTERMEDIATION

18. The law authorizes<sup>5</sup> banks to set up subsidiaries to become involved in activities which complement their main activity. These are: Securities Agent, Stock Exchange Broker<sup>6</sup>, Mutual Funds and Investment Funds Management, companies which lend financial services such as, for instance, leasing (restricted to financial leasing), managing credit cards and rendering financial consulting services.

19. The Head Bank must be the majority partner in these subsidiaries. The concept of majority partner has been interpreted by the Superintendency as a participation of no less than 95%. This limit, in justified cases, can be reduced to 51%. As a subsidiary, they may not acquire shares in other corporations. On the other hand, the law requires that the management of the subsidiaries must be completely independent from the head bank.

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<sup>5</sup> If it does fulfill the objective conditions of equity backing, expansion of risk and quality of management.

<sup>6</sup> The stock exchange brokers set up as a subsidiary of a bank face greater restrictions than autonomous brokers, as they are not entitled to maintain or purchase stock in public corporations, unless these transactions are indispensable to the operation of the subsidiary.

20. Banks, under the current legislation, have created more than 30 subsidiaries. Some foreign investors have created institutions which offer services similar to those of the subsidiaries, though relating themselves directly to their Head Offices in their country of origin. Such is the case of the Toronto Trust, which operates as a manager of mutual funds in the local market. In this way, they bypass the restrictions established by the Banking Law on the operation of subsidiaries of banks with a commercial presence in the country.

### 1.3.C. FINANCIAL TRANSACTIONS WHICH ARE NOT PERMITTED TO BANKS.

21. The Banking Law forbids established banks to participate in any of the following transactions:

- (i) hold shares in public corporations (considering the potential conflicts of interest which could arise therefrom),
- (ii) manage Pension Funds Management Companies,
- (iii) invest in insurance Companies,
- (iv) all leasing transactions, other than financial leasing,
- (v) factoring,
- (vi) securitization, and
- (vii) issue and operate credit cards<sup>7</sup>.

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<sup>7</sup> At present, banks undersign agreements with Transbank, which is the institution that issues credit cards, though, in terms of image, the cards seem to be issued by each bank. However, the banks are only intermediaries of those cards.

## II.- REGULATORY INSTITUTIONS

### II.1.- Superintendency of Banks and Financial Institutions

22. The Superintendency is an autonomous agency which relates itself with the Government through the Ministry of Finance. It is responsible for exerting full control and supervision over the activities of the commercial banks, the financial institutions, the subsidiaries of banks, offices established abroad, representations of foreign banks and issuers and operators of credit cards.

23. The main responsibilities of the Superintendency are to: (i) authorize the setting up, suspension or termination of a banking activity, (ii) apply and interpret the legal provisions governing the sector, (iii) examine and request information on the transactions of the institutions which are supervised by it, (iv) issue guidelines to correct deficiencies, (v) establish standards for submitting financial statements, (vi) authorize the publication of financial statements and (vii) control the proper disclosure of information to the public.

24. Additionally, the Superintendency has optional rights: if an institution becomes insolvent, it can cancel its authorization and declare (with the prior agreement of the Central Bank) its bankruptcy<sup>8</sup>. It can also censor or apply fines on financial institutions. If a financial institution displays instability or inefficient management, it can restrict or forbid its operations for a fixed period of time. It can also designate an inspector or provisional administrator fully empowered with all the rights of both the Board of Directors and the General Manager in the case of an institution which has been the object of repeated fines or presents a situation which is a cause of concern in what respects its economic stability.

25. Finally, the Superintendency has the obligation of providing the public with information regarding the placement of funds, investments made and other asset-related matters of the financial institutions, evaluating the financial soundness of their operations.

### II.2.-Banco Central de Chile

26. The Banco Central de Chile (Central Bank) must ensure the stability of the currency and the normal operation of the system of internal and external payments. The Law entrusts the Bank with the function of regulating the amount of money, credit and all transactions in matters of foreign exchange. The Central Bank is an autonomous institution, regulated by the Organic Law No. 18,840.

27. The major responsibilities of the Central Bank are to : (i) regulate the way in which deposits are taken, (ii) regulate credits between similar institutions, (iii) set the maximum rate of interest and the rate of legal reserves, (iv) authorize maximum levels on commissions charged, (v) establish limits between assets and liabilities, (vi) grant emergency loans (for instance, to avoid bank runs), (vii) set the interest rates to operate with the Central Bank, (viii) receive deposits from the banks, (ix) obtain external loans and transfer them to the commercial banks, and (x) deal in foreign exchange transactions and authorize the commercial banks to do so<sup>9</sup>.

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<sup>8</sup> Any penalty imposed by the Superintendency can only be challenged through the Court of Appeals in Santiago.

<sup>9</sup> The Central Bank is empowered to impose limitations, restrictions and even prohibitions in any aspect related to transactions in foreign currency.

### III. THE RENDERING OF BANKING SERVICES BY FOREIGN PROVIDERS.

#### III.1 MARKET ACCESS

28. The Chilean financial authorities only allow access to the national market through the establishment of a commercial presence or the acquisition of an existing bank. To enter the market foreign companies must charter themselves as a juridical person, either as a subsidiary or as a public corporation. Alternatively, they may set up non-operative offices solely in the character of a "representative" of their Head Offices. If they should opt for the latter modus operandi, they are only allowed to establish contacts to grant loans or to initiate business operations with enterprises or other banks in Chile.

29. To enter the system, by committing more than 10% of an already existing institution, prior approval from the Superintendency of Banks is required, which on the basis of criteria of solvency and past performance of the banks or the intermediaries, internal economic conditions, etc. may either authorize or reject the application, without expressing any cause whatsoever.

30. Transborder rendering of services (without establishing a commercial presence in Chile) is only allowed to grant foreign loans or render a few other financial services from abroad. The normal procedure for these services rendered is that they are channelled through a bank operating in Chile and, only exceptionally, in a direct way to a person or corporation.

#### III.1.A. General Provisions

31. National and foreign banks are subject to the same legal provisions in matters of regulation and supervision. Banking regulation is prescribed in the General Banking Law, in the Organic Law of the Superintendency of Banks and Financial Institutions and in the Compendium of Norms of the Central Bank.

32. Among the **non-discriminatory** regulatory norms are the following:

a.- **Capital Requirement:** The paid capital and reserves for a bank can not be lower than 400,000 UFs (equivalent to US\$ 10 million). Current liabilities may not exceed 20 times the paid capital. The law forbids individuals to own more than 10% of the stock of a bank, either directly or through third parties, unless authorization is obtained from the Superintendency.

b.- **Credit limits:** Loans to the same debtor can not exceed 5% of a bank's capital (except if the loans are covered by real guarantees, in which case the limit increases to 25% of the capital).

c.- **Classification of assets and provisions:** Banks must classify their assets (loans and investments) according to a uniform methodology. The classifications are used to estimate potential losses of the assets and to establish provisions for that amount.

d.- **Insurance on Deposits:** The Law considers a State insurance which covers up to 90% of the amounts involved with a limit of US\$ 2,400 per person. Besides, it defines a mechanism which implies a State guarantee for all on sight or demand deposits.

e.- **Transparency in Information:** The banks are obliged to publish their financial statements four times a year. The closing of the financial period must be examined by external auditors. Additionally, at least two risk classifiers must conduct an evaluation of these institutions.

### III.1.B- Specific Procedures to establish subsidiaries of foreign banks.

33. The steps are as follows:
- a.- **Submit an Application:** Submit an application with the Superintendency of Banks in order to obtain a Provisional Certificate. This application may be rejected without expressing any cause whatsoever. The application must contain the following information: certificate of legal existence issued by the competent authority of the country of origin, name and domicile of the Head Office, actual capital involved in the operation of the subsidiary in Chile and a power of attorney to whomsoever will handle the establishment of a commercial presence of the subsidiary in Chile. With this information and, should it be accepted, the Superintendency will issue a Provisional Certificate which has a duration of 10 months.
- b.- **Final Authorization:** In order to obtain it, the following procedures must be complied with: (i) obtain the authorization from the Foreign Investment Committee to bring the capital into the country either under DL No. 600 on Foreign Investment or Chapter XIX, (ii) legitimate the following documents: articles of incorporation of the corporation<sup>10</sup>, charter of legal existence in the country of origin, agreement of the Board of Directors to establish a commercial presence through a subsidiary in Chile and the power of attorney granted by the corporation to the agent who will represent it in the country, (iii) make a statement indicating the name of the subsidiary in Chile operating as a banking institution pursuant to what is prescribed in the General Banking Law, (iv) all property belonging to the branch or subsidiary will be subject to Chilean laws and, (v) which is the actual capital and the domicile of the Agency in Chile and of the Head Office in the country of origin. With all the above information, the Superintendency will issue a Resolution approving the installation of the subsidiary which to have full legal effect must be registered in the Chilean Register of Commerce and be published in the Official Gazette of the Republic of Chile.

### III.1.C.- Other specific situations

34. The temporary movement of technical and professional providers in connection with the banking activity are not subject to any restrictions other than normal migration requirements regarding their access to the national market. There exist some differences regarding the taxation treatment to non-residents which are described in Chapter I.

## III.2 NATIONAL TREATMENT

35. In Chile, as a rule, national treatment is granted to foreign capital. However, in the area of taxation, the investors who so wishes it may operate under the frame of the Foreign Investment statute by undersigning a contract which ensures him a fixed surtax on income of 42% for a period of 10 years in lieu of the normal taxation regime (see Chapter I, section on taxation).

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<sup>10</sup> When setting up as public corporation they must, as is the case of any national institution, file some additional documents with other government agencies in Chile.

#### IV.- FUTURE BUSINESS OPPORTUNITIES

36. As stated before, the proportion of banks in the national economy (measured by the ratio of loans to GDP) has not varied substantially over the last years. Even though the banking system has modernized itself by incorporating computerized terminals, automatic telling machines, mobile banks connected via satellite and spacious and comfortable standardized facilities which strengthen a "corporate image", banks operate in an environment which is strongly regulated. This factor has become an obstacle to expanding their activities to new businesses activities. Most of banking executives agree on the convenience of entering into activities such as pension funds management, brokerage transactions, factoring, health insurance, leasing, securitization, participation in issuing financial certificates and instruments of Chilean corporations abroad, installing new branches and subsidiaries in other countries and many other transactions which are offered nowadays by the banking system in other countries, including some Latin American countries.

37. The Association of Banks and Financial Institutions<sup>11</sup>, has been requesting, for quite a considerable time, that the banking system be authorized to expand its operations to other financial transactions, including many of those mentioned above.

38. To respond to those demands, the Executive Branch, through the Ministry of Finance, has sent a proposed Bill of Law to Congress recommending reforms to the banking law.

39. The proposed Bill of Law did not deem it convenient to expand the activities of the banking system to either include transactions such as the management of pension funds, health insurance or the possibility of setting up subsidiaries to do so. Such caution responds to the goal of liberalizing the banking sector in a very gradual manner. Likewise, it is thought that such activities are very specialized and that they are being handled most suitably by the institutions which already have a commercial presence in the market.

40. Among the new activities considered for the banking system, the proposed Bill of Law considers the possibility of authorizing the setting up of subsidiaries in activities such as leasing, factoring, securitization and financial consultation.

41. Additionally, the reforms would enable banks to undertake new operations such as issuing and operating credit cards, render services in transporting securities and provide other financial consulting services.

42. Furthermore, changes in the domestic and regional situation have opened up the possibility of other interesting business activities.

43. At the domestic level, it must be borne in mind that the loans for consumption grew by 23% during the 5 first months of 1993. Many banks are interested in satisfying the needs for consumption loans of people with relatively low incomes. To this end, they are creating specialized divisions oriented to that market. The Banco Sudamericano (with Canadian participation) has created a division of consumption loans called Cofinsa.

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<sup>11</sup> Non-profit private association.

44. At the regional level, local banks are obtaining funding abroad to finance foreign trade in Latin America. Taking advantage of the good financial image of the country, they obtain resources at a low cost in the U.S.A. and grant loans to banks in Perú, Brazil and Bolivia at much higher rates. The Latin American Association of Integration (LAIA), through the Agreement of Reciprocal Payments and Credits obliges the central banks to guarantee the letters of credit and payment orders; through this mechanism, the Chilean banks transfer the risk involved in these operations to the central banks of the debtor countries and benefit from a high profitability at a low risk.

45. In none of these new activities there exists great local expertise. Hence, the changes in the regulatory norms open up an interesting market to the supply of diversity of services of technological support and management. Also, an interesting field would open up to render services directly to final users.

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## CHAPTER III

### PRIVATE PENSION FUNDS MANAGEMENT

#### I. DESCRIPTION OF THE AFP'S SECTOR

##### I.1 INTRODUCTION

1. The pension system which prevailed in Chile as from the beginning of the century was characterized by operating under a sharing system, whereby the contributions of active affiliates were used to finance the pensions of passive affiliates. Among the major problems of the old system were: lack of equity (since there did not exist any direct relationship between the contributions of the workers and the benefits received), the high dependance on State funding (since the system was out of funds due to the increase of passive workers as compared to active ones over the last decades), and the existence of social security evasion (contributions were made on the legal minimum wage).

2. In the year 1980, Decree Law 3,500 was enacted creating a new pensions system, the main characteristics of which are the following:

a.- It is based on a mechanism of individual capitalization whereby the affiliated worker makes a monthly social security contribution to an individual capitalization account. The money accumulated in this account is managed by a specialized company designated as Administradora de Fondos de Pensiones ( Pension Funds Management Company -- A.F.P.). The funds belong to the worker and they increase according to contributions made by the affiliated worker and by the rate of return on investments made with those funds.

b.- AFPs (which are private institutions) are responsible for the financial management of these resources.

c.- The affiliates can only make contributions in one Pension Funds Management Company, even though they may work for several employers. The workers are free to choose among the different AFPs existing in the market and may change from one Management company to another, whensoever they may deem it convenient. AFPs are not entitled to reject the incorporation of an affiliate.

##### I.2 NATURE AND SCOPE OF THE SYSTEM

3. The system began to be implemented in Chile in 1981 when a total of 12 AFPs were set up. As up to the month of November 1993 there were in all 21 AFPs. Additionally there was one approved by the Superintendency of AFPs which had not started to operate as yet.

4. Some AFPs are linked to organizations of different sectors of the economic activity such as, for instance, copper mining, trade union organizations as teachers, bank employees, steel and construction, etc. Others are related to domestic business consortia and the remainder to different institutions, many of them the property of foreign investors (Citicorp-Chile, Santander-Chile, etc.).

PRIVATE PENSION FUNDS-CHILE

5. With respect to the social security systems which existed previously, they were all merged into the INP (Social Security Normalization Institute), which still operates, but marginally, in the market. Apart from this, there are social security regimes subject to a special legal framework for the Armed Forces (Caja de Previsión de la Defensa Nacional -- Social Security Agency for the National Defence) and for the uniformed police (Carabineros de Chile Social Security Directorate).

6. Though the system has been in operation for scarcely a decade, it has managed to incorporate approximately four million four hundred and forty thousand affiliates (including both salaried and self-employed workers) from a total of about five million people in the Chilean labor force.

7. The AFPs Provida, Santa María, Habitat and Summa, are the largest in the country in terms of the number of affiliates. The evolution of the number of affiliates by AFP - between 1982 and 1992- is shown in the following Table (Table I):

**TABLE I**  
TOTAL NUMBER OF AFFILIATES BY AFP  
(December of each year)

AFP	1982	1984	1986	1988	1990	1992
Alameda	124712	140141				
Bannuestra					453	
Banguardia						10793
Bansander						14079
Concordia	26968	43954	67690	97483	128177	150172
Cuprum	18957	24218	26806	39236	67484	117474
Libertador	22313	47036	58917	77132	81300	95359
Fomenta						1601
Futuro				2051	6772	8155
Habitat	98089	202936	328720	498738	638005	803781
Invierta	119431	138644	157189	144024	143979	135487
Laboral						513
Magister	13648	30541	43959	53550	63919	68851
Planvital	58386	62348	69684	87192	96338	100498
Previpan						1135
Protección			6275	18959	38061	54319
Provida	453708	584259	757229	901476	1084923	1284427
Qualitas						2407
San Cristobal	137055	140891				
Sta. Maria	276752	357607	510995	650822	752318	922617
Summa	89980	157778	241513	281855	299303	332712

PRIVATE PENSION FUNDS-CHILE

Unión			323227	330124	338510	330415
TOTAL (million)	1.440	1.930	2.591	3.183	3.740	4.435

Source: Monthly Statistical Report Superintendencia de Administradoras de Fondos de Pensiones.

Note - The AFPs Alameda, Bannuestra y Qualitas do not exist as such since November 1993.

- The AFPs Genera and Norprevisión S.A. entered the system in the year 1993.

8. In terms of assets, the AFPs system managed about US\$ 12.415 billion (36% of GDP) in different financial instruments towards the end of 1992. As up to December 1993 the total amount of pension funds had reached US\$ 15.94 billion. The highest volumes of assets are concentrated in AFPs Provida, Habitat, Santa María, Summa and Cuprum, as shown in Table II.

9. The real rate of return<sup>1</sup> on pension funds of the AFPs system reached 29,7% in the year 1991. In the year 1992, it was scarcely 4%; however, during 1993 the real rate of return was 16.7%. The most profitable AFPs, during 1993, were Summa, Protección, Magister, Plan Vital and Concordia, all of them with real rates over 17%. The profitability margins of the total system vary every month; however, in terms of each month, no great variations are observed from one AFP to another.

10. Considering that (i) the funds generate interests which are accrued to the volume of total savings, (ii) affiliates often, apart from contributing 10% of their salary on a monthly basis, also make voluntary contributions to their savings accounts, (iii) the number of affiliates increases constantly and (iv) there are not at present major disbursements due to retirements, it is estimated that by the end of this decade, total resources in the funds will come close to the GDP (roughly US\$ 40 billion).

11. The new pensions system also permits the management of pensions by Life Insurance Companies. When an affiliate completes all the requirements to obtain a pension, he may opt for either an annuity for life or programmed withdrawals.

12. Through the first alternative the affiliate transfers the funds from his individual account to an Insurance Company, and the latter commits itself to pay him on a monthly basis while he is alive and upon his death, to pay survivorship pensions.

13. Through the alternative of programmed withdrawals the affiliate opts to maintain his fund in his individual account in his AFP or to transfer them to another one of his own choice and to make monthly withdrawals against his fund.

<sup>1</sup> Discounted by the consumer price index.

TABLE II

PORTFOLIO OF PENSION FUNDS BY FINANCIAL INSTRUMENTS  
(as up to December 31, 1992. In US\$ million)

AFP	State Institutions	Financial Institutions	Private Companies	Total Assets
Banguardia	27,72	29,27	14,76	71,75
Bansander	54,27	56,99	25,28	136,56
Concordia	64,60	39,08	45,13	149,34
Cuprum	468,94	319,33	333,81	1123,08
Libertador	93,07	124,48	109,11	326,80
Fomenta	9,7	10,00	1,17	25,58
Futuro	29,0	34,42	25,08	88,50
Habitat	1007,65	478,80	768,87	2258,55
Invierta	70,85	70,53	86,34	228,24
Laboral	0,59	0,66	0,32	1,59
Magister	94,91	82,14	94,53	271,72
Planvital	66,89	66,67	71,94	205,58
Previpan	0,84	0,68	0,46	1,99
Protección	174,25	157,48	139,36	472,18
Provida	1116,62	590,72	925,11	2634,42
Qualitas	7,28	6,84	2,77	16,89
Sta Maria	906,41	413,75	805,59	2128,12
Summa	492,31	419,58	403,31	1315,56
Unión	390,79	227,92	338,63	959,09
Total	5076,77	3129,35	4191,59	12415,57

Source: Monthly Statistical Report Superintendencia de Administradoras de Fondos de Pensiones

Note: The diversification of the pension funds are based on the source from which the financial instruments originate, that is: State Institutions, Financial Institutions or Private Companies.

14. The AFPs may render the following services to individuals or entities located abroad: social security data processing for third parties, consulting services and training in social security-related matters, management of individual accounts, portfolio management of social security resources, management of portfolio and social security resources, management of collection systems and payment of social security benefits and safe custody of securities. Besides, they can invest in AFPs chartered abroad.

## II. REGULATORY INSTITUTIONS

15. The institutions which regulate AFPs are the Superintendency of AFPs and the Superintendency of Securities and Insurance (as they are listed public corporations). Additionally, the law created the Risk Rating Commission, which advises AFPs and their affiliates on the relative risk of their investment portfolio, announce immoderate levels above a maximum guaranteed risk and others.

16. The main objective of the Superintendency of AFPs is to authorize the setting up of these institutions and to exert surveillance and control over them. This Superintendency is related to the Government through the Ministry of Labor and Social Security.

17. The main functions of the Superintendency are the following:

- Authorize the setting up of AFPs and keep a record of them.
- Supervise the operations of AFPs.
- Interpret the legal framework and regulations of the System. Its rulings are of compulsory nature for all AFPs.
- Control the setting up, constitution, maintenance and operation of the "Reserve and Profitability Fluctuation Fund" and of the "Legal Reserves".
- Supervise the investment of the resources of the Funds.
- Take all necessary actions when there is need to declare the bankruptcy of an AFP.
- Impose fines and resolve on the termination of AFPs in those cases prescribed by the law.

### III. THE RENDERING OF PENSION FUNDS MANAGEMENT BY FOREIGN SUPPLIERS

#### III.1 MARKET ACCESS

18. The only possible way that foreign suppliers can participate in the pension funds management business is through the establishment of a commercial presence under the form of a juridical person legally chartered in Chile as a corporation or through the acquisition of existing companies operating in the area. In terms of market access, there does not exist any discrimination whatsoever between national and foreign suppliers.

#### III.1.A GENERAL PROVISIONS

19. The main general provisions governing the operation of AFPS are:
- **They must be set up as corporations:** Legally they must be set up as listed public corporations, complying in their setting up and articles of incorporation by the provisions which regulate this type of corporations.
  - **Minimum capital:** The minimum capital required to set up a Pension Funds Management Company is the equivalent of 5,000 UFs (equivalent to about US\$ 125 thousand) which must be subscribed and paid at the moment the deed is authorized by a Public Notary. AFPs must permanently maintain a net equity at least equal to the minimum capital required, which will be increased in proportion to the number of affiliates:
 

Up to 4,900 affiliates	5,000 UF
5,000 to 7,499 affiliates	10,000 UF
7,500 to 9,999 affiliates	15,000 UF
10,000 or more affiliates	20,000 UF
  - **Sole and exclusive objective:** AFPs are public corporations whose sole and exclusive purpose is that of managing a pension fund and the granting of the benefits and social security assistance stipulated in the law. Consequently, they can not become involved in financial activities which pertain to banks, insurance companies or any others except the management of the voluntary savings accounts (the so called Account II).
  - **Benefits which can be provided by the AFPs:** They can only grant their affiliates old age pensions, disablement and survivorship pensions.
  - **Provisions with respect to information to the public and the affiliates:** AFPs must maintain in each one of its offices, in a place of easy access, updated information on a monthly basis about the institution (Board of Directors, agencies and branches, general balance sheet, amount of capital, reserves, composition of the investment portfolio, etc.). Additionally, every three months, they must send their affiliates a statement, in which the movements of their individual account is clearly recorded.
  - **Commissions:** AFPs are entitled to collect commissions from their affiliates, which will be freely set by the institution and discounted from the affiliates individual capitalization account or from the withdrawals. Any change in the commissions must be duly reported to the Superintendency of AFPs and to the public.
  - **Legal reserves:** AFPs must maintain an asset equivalent to, at least, 1% of Fund. These assets, called legal reserves, will be held to respond for the minimum return prescribed by the law, and it is calculated daily according to the average value of the Fund during the last previous fifteen days running and must be invested in financial instruments according to the instructions issued by the Central Bank.

### III.1.B COMPOSITION AND DESTINATION OF PENSION FUNDS. WHAT CAN THEY INVEST IN?

20. Each AFP can manage only one fund<sup>2</sup> which is composed by the individual capitalization accounts of its affiliates, their voluntary savings accounts<sup>3</sup> and the returns on the investment of those resources (deducting the commission which AFPs charge).

21. The fund must finance the pensions granted by the system (old age, disablement and survivorship pensions) and withdrawals from voluntary savings accounts.

22. The investments made with these resources must have as their sole objective the attainment of an adequate leverage between risk and profitability. In this respect, the law expressly stipulates in which instruments and within which limits the funds can be invested. This is shown in Table III.

TABLE III

TYPE OF INSTRUMENTS	(%)MAXIMUM OVER THE FUND
Government-issued instruments	45%
Mortgage bonds	80%
Deposits, securities and drafts with the surety of financial institutions	30-50%
Bonds issued by public or private Companies	50%
Quotas in other pension funds	20%
Stock in publicly traded private corporations <sup>4</sup> with no concentration in stock ownership	30%
with concentration in stock ownership	10%
Public Real Estate Corporations	10%
Shares in Investment Funds	10%
Effects and documents of commerce	10%

23. Besides, all financial instruments with the exception of those issued by the Government, must be classified within a given risk range, established by the Risk Rating Commission and must be listed in the register of securities of the Superintendency of Securities and Insurance or the Superintendency of Banks and financial Institutions, whichever the case may be.

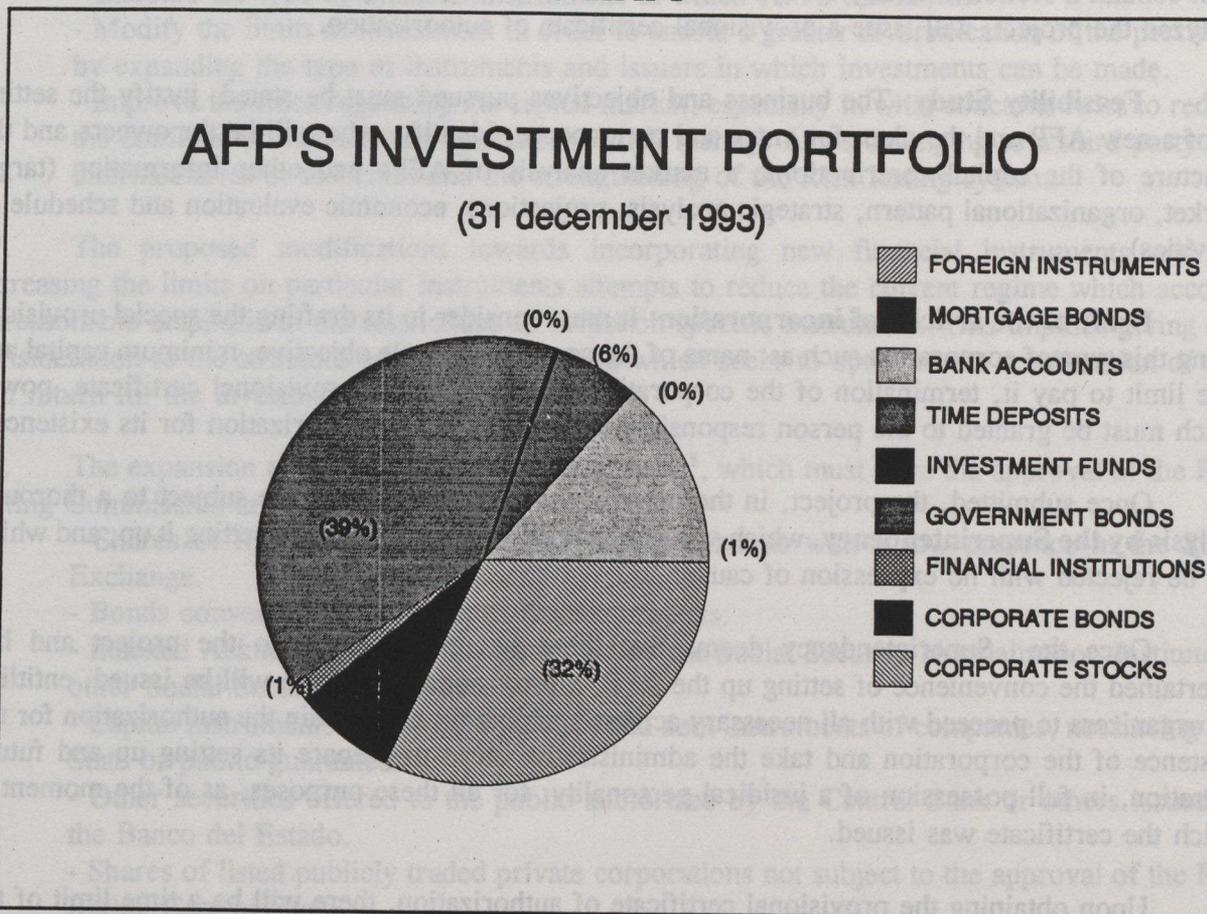
24. In turn, the bonds and shares acquirable by AFPs must be issued by companies legally chartered in Chile and all deposits are to be made in financial institutions that are either legally chartered or authorized to operate in the country.

<sup>2</sup> The fund is an equity independent from the capital of the Management company, which is not the owner of the fund.

<sup>3</sup> The Account II is an alternative investment similar to the banking savings accounts or to mutual funds, without any great restrictions to withdraw the funds.

<sup>4</sup> As a whole they can not exceed more than 30%. AFP's are also authorized to invest in foreign financial instruments up to 10% of the total.

GRAPH 1



SOURCE: SUPERINTENDENCIA DE AFP. Shares rounded to the unity.

25. On account of the volume of resources managed by them, AFPs are the biggest institutional investors in the country while receiving a constant flux of new funds. Given the limits imposed by law they tend to buy similar financial instruments, which at present are issued by not more than 50 enterprises. These, in their majority, are in the energy and telecommunications sectors, and to a lesser extent, in heavy industry, mining and agroindustry and food companies.

26. The resources of pension funds **may not be invested** in shares of the following publicly traded private corporations: other AFP's, life insurance companies, mutual funds, and corporations which do not meet given requirements of capital, concentration of ownership and others.

### III.1.C SPECIFIC PROCEDURES TO SET UP AN AFP

27. To set up an AFP in Chile, it is necessary to:

28. **Submit a project which at least contains:** a letter of introduction expressing the purpose of the organizers to set up an AFP according to the current legal provisions. It must be undersigned by the organizers, establishing a domicile and include a list of the individuals who participate in the setting up of the AFP and of the shareholders. Information about the members of the Board of Directors and the Managers of the AFP should also be included. Finally, the letter of introduction

must contain a section whereby an application is submitted to the Superintendent who, after having analyzed the project, will issue a provisional certificate of authorization.

29. **Feasibility Study:** The business and objectives pursued must be stated; justify the setting up of a new AFP and the clues for entry and permanence; identify who will be the owners and the structure of the capital contributions; a market analysis of AFPs and other information (target market, organizational pattern, strategic analysis, projections, economic evaluation and schedule of activities).

30. **Draft of the articles of incorporation:** It must consider in its drafting the special provisions ruling this type of corporation such as: name of the corporation, sole objective, minimum capital and time limit to pay it, termination of the corporation, insertion of the provisional certificate, power which must be granted to the person responsible for expediting the authorization for its existence.

31. Once submitted, the project, in the manner described above, will be subject to a thorough analysis by the Superintendency, which will substantiate the convenience of setting it up, and which can be rejected with no expression of cause.

32. Once the Superintendency deems that there be no objections to the project and has ascertained the convenience of setting up the AFP, a provisional certificate will be issued, entitling the organizers to proceed with all necessary actions enabling them to obtain the authorization for the existence of the corporation and take the administrative steps to prepare its setting up and future operation, in full possession of a juridical personality, for all these purposes, as of the moment at which the certificate was issued.

33. Upon obtaining the provisional certificate of authorization, there will be a time limit of ten months to apply for a permanent authorization for the existence of the corporation. To this end, the formal authorization for the existence of the corporation and the approval of its articles of incorporation must be sought. Additionally, a public deed containing the articles of incorporation of the corporation must be submitted and a certificate issued by a Bank or Financial Institution which attests to the fact the funds subscribed to pay for the stock is available, in the amount of which must be equivalent to the paid capital.

34. Subsequently, the Superintendency will issue a Resolution authorizing the existence of the corporation and approve its articles of incorporation, by releasing a certificate that must be inscribed in the Register of Commerce and published in the Official Gazette.

### III.2 NATIONAL TREATMENT

35. In Chile there does not exist any discrimination between national or foreign investors in the business of managing pension funds, except for those mentioned in Chapter 1 in connection with taxation.

### IV.- FUTURE BUSINESS OPPORTUNITIES

36. There is a proposed bill of law on changes to be made in the legislation on capital markets, already approved by the Chamber of Deputies, in which some amendments are proposed with regard to the transactions carried out by AFPs. These amendments cover the following aspects:

- Increase the type of financial instruments in which AFPs can invest.
- Modify the limits of investment in order to enable a greater diversification of the portfolio, by expanding the type of instruments and issuers in which investments can be made.
- Improve the rules regulating the capital market, especially in what concerns rules to reduce the conflicts of interest of corporations which manage funds belonging to a third party and intermediaries in securities and the strengthening of the Risk Rating system.

37. The proposed modifications towards incorporating new financial instruments and for increasing the limits on particular instruments attempts to reduce the current regime which accords unreasonable emphasis to the restrictions to invest on specific instrument. This impedes giving due consideration to the structure of a global portfolio which seeks to optimize the combination of risk and return for the investments made by the Fund.

38. The expansion of the alternatives for investment<sup>5</sup>, which must have the approval of the Risk Rating Commission are the following<sup>6</sup>:

- Shares of listed publicly traded private corporations with a low presence in the Stock Exchange.
- Bonds convertible into shares to finance projects.
- Indexed Acknowledgement Bonds issued by the Social Security Normalization Institute or other Social Security Institutions.
- Capital instruments from foreign issuers and debt instruments of companies, not having any State or public guarantee.
- Other securities offered to the public authorized by the Central Bank or others issued by the Banco del Estado.
- Shares of listed publicly traded private corporations not subject to the approval of the Risk Rating Commission.

39. In terms of the purpose of AFPs, the new amendments authorize AFPs to set up in Chile other subsidiaries which may render consulting services abroad in matters related to their activity and invest as such on the establishment of AFPs in other countries or in foreign corporations whose activity is related to social security matters. Additionally, it allows AFPs to directly participate in the ownership and management of services which will provide private safe custody service of securities.

40. Finally, the amendments aim to correct the shortcomings of the system of life annuities, by establishing a mechanism of electronic offer which will enable the future pensioner to be aware of the best option of life annuity offered to him.

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<sup>5</sup> It is foreseen that the number of listed public corporations whose instruments will be acquirable by AFPs will increase from about 50 to 100 companies.

<sup>6</sup> Additionally, limits are established to invest in different instruments.

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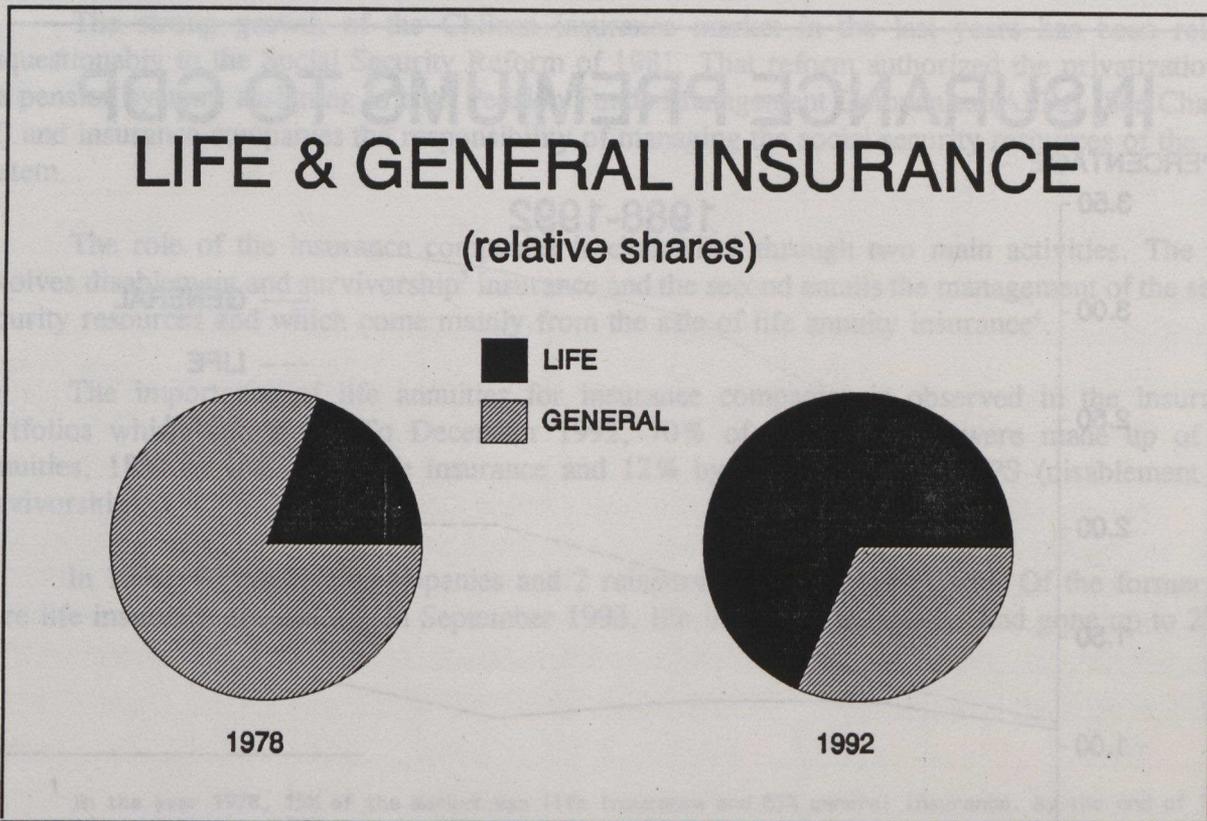
CHAPTER IV

LIFE INSURANCE SERVICES IN CHILE

I.- NATURE AND DIMENSION OF THE SYSTEM

1. Until the decade of the eighties, the Chilean life insurance market operated under conditions of poor competition. Legislation was inadequate and imposed the obligation to reinsure in the country. Companies were affected by capital shortages and they operated in a scarcely developed financial market.

GRAPH 1



SOURCE: SUPERINTENDENCIA DE VALORES Y SEGUROS

2. In the year 1980, the insurance sector underwent important changes in what respects the legal framework, which created new reinsurance alternatives and gave access to the social security sector.
3. At present, the insurance business in Chile is divided into two groups of companies: the first includes companies which insure property and casualty losses, whereas the second comprises companies covering risks to people or which guarantee an income to the insuree or his beneficiaries,

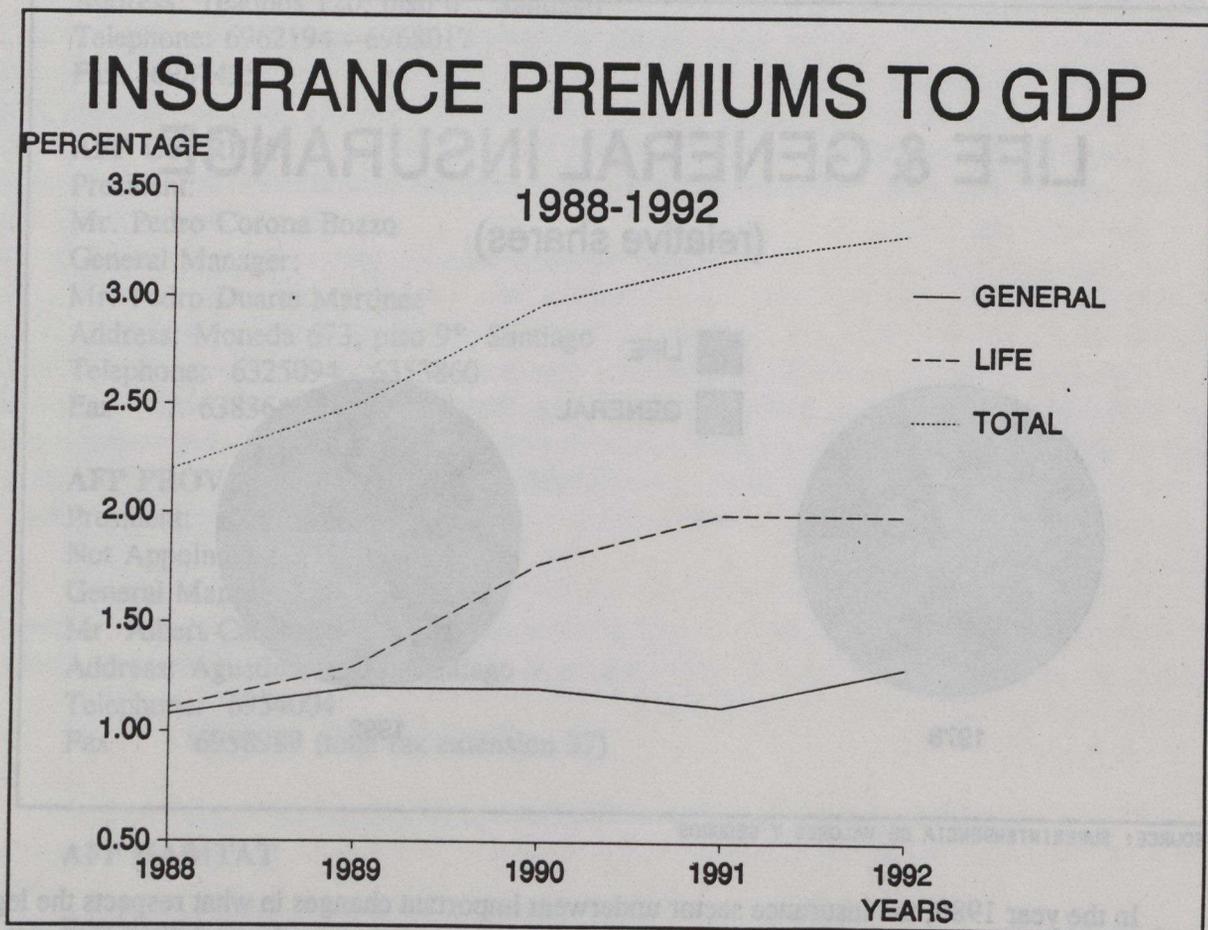
**LIFE INSURANCE SERVICES:CHILE**

either for the duration of or at the end of the policy. The first group are termed General Insurance and the second are designated Life Insurance. No company can undertake both types of activities simultaneously.

**TABLE I**  
Direct premiums as percentage of GDP  
-in percentages-

Year	General Insurance	Life Insurance	Total
1988	1,08	1,11	2,20
1989	1,20	1,30	2,50
1990	1,20	1,77	2,97
1991	1,18	2,00	3,18
1992	1,30	2,00	3,30

Source: Superintendencia de Valores y Seguros



SOURCE: SUPERINTENDENCIA DE VALORES Y SEGUROS

4. There are also institutions involved exclusively in reinsurance, that is, to take insurance from other companies. These reinsurance companies can operate in terms of one type of insurance or of both.
5. Life Insurance in Chile has experienced a great expansion over the last years<sup>1</sup> and it is closely related to the evolution of social security system<sup>2</sup>. Consequently, it has a growth potential which has not been fully developed.
6. The growth of the insurance market is presented in Table I which shows its evolution with regard to the shares of direct premiums to GDP.
7. Compared to other countries in Latin America, such as Argentina and Venezuela, Chile has a relatively low premium/GDP ratio. However, with respect to life insurance, Latin American countries display percentages below 1%, a figure which is considerable lower than the Chilean rate for 1992.
8. The strong growth of the Chilean insurance market in the last years has been related unquestionably to the Social Security Reform of 1981. That reform authorized the privatization of the pension system, assigning to both Pension Funds Management Companies (AFPs) (See Chapter III) and insurance companies the responsibility of managing the social security resources of the new system.
9. The role of the insurance companies is channelled through two main activities. The first involves disablement and survivorship<sup>3</sup> insurance and the second entails the management of the social security resources and which come mainly from the sale of life annuity insurance<sup>4</sup>.
10. The importance of life annuities for insurance companies is observed in the insurance portfolios which they hold. To December 1992, 70% of the portfolios were made up of life annuities, 18% by traditional life insurance and 12% by insurance with AFPS (disablement and survivorship).
11. In 1992, 46 insurance companies and 2 reinsurance companies existed. Of the former, 25 were life insurance companies. In September 1993, life insurance companies had gone up to 27.

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<sup>1</sup> In the year 1978, 15% of the market was life insurance and 85% general insurance. By the end of 1992, 61% was life insurance and 39% general insurance.

<sup>2</sup> See Chapter III on Private Pension Funds.

<sup>3</sup> The law obliges each affiliate to the social security system to take, through an AFP, an insurance to cover him from the risks of disablement and death.

<sup>4</sup> At the moment of retiring, all people affiliated to an AFP have the possibility of taking, by resorting to their accumulated funds, a life annuity -- constant in UFs -- with a life insurance company.

12. There also exist institutions of organized mutual aid, constituted prior to 1987, which insure the personnel of the Armed Forces and Carabineros (uniformed police). The law forbids the setting up of new mutual aid institutions.
13. The insurance sector has a wide participation of foreign investors who, in their majority, operate in conjunction with national investors. This makes it difficult to determine the "nationality" of the insurance companies. The Superintendency of Securities and Insurance Companies does not make any classification based on the country of origin of the ownership.
14. However, by considering the stockholders of the main companies, "Compañía de Seguros de Vida Aetna Chile" and "Consortio Nacional de Seguros" could be considered to be foreign companies<sup>5</sup> and "Compañía de Seguros La Construcción" to be a national company.
15. The reinsurance companies which most of the insurance companies operate with are foreign institutions without a permanent establishment in Chile, though registered with the Superintendency of Securities and Insurance Companies for these purposes.
16. The insurance companies are, after the Pension Funds Management Companies, the most important institutional investors in the country. To December 1993, they had investments for US\$ 3.34 billion.
17. The largest companies in terms of investments are "Consortio Nacional de Seguros", "Compañía de Seguros de Vida Aetna Chile" and "Compañía de Seguros de Vida La Construcción". These three companies represent 50% of the total investment of the sector (Table II).
18. Table II shows the investments of the different insurance companies and their distribution among the various financial instruments.
19. The distribution of the investment portfolios which the insurance companies can make in Chile are regulated by prudential and fiduciary considerations established by the Superintendency of Securities and Insurance Companies. Consequently, the main volumes of investment are allotted to fixed-income instruments such as: securities issued by the Chilean State, bonds and promissory notes. Over the last two years, the shares of publicly listed private corporations have increased their participation as an investment instrument of the insurance companies.

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<sup>5</sup> Aetna International (U.S.A.) is the owner of 75% of Aetna Chile, whilst Pacific Limited has 99% percent ownership of Consortio Nacional de Seguros.

TABLE II  
Investments by Type of Instruments

-percentages-

-US thousand-

Insurance Companies	A	B	C	D	E	F	TOTAL
Aetna	43.3	6.4	0.9	9.0	20.6	19.7	470.110
Allianz Bice	49.3	26.3	11.1	0.0	9.4	3.8	12.805
Banmedica	51.2	13.7	1.9	0.8	11.6	20.7	50.194
Chilena Cons.	47.1	23.8	0.3	1.5	10.7	16.7	101.794
Cigna	49.3	14.7	15.3	2.9	4.7	13.0	29.062
Compensa	49.6	17.7	1.0	10.4	19.9	1.4	140.414
Cons.National	50.6	17.0	0.1	10.5	15.4	6.3	777.822
Construcción	33.3	17.2	1.3	9.8	19.3	19.0	347.605
Convida	39.1	5.6	18.1	0.4	13.8	22.9	22.205
Cruz Blanca	50.5	10.7	8.1	3.0	12.4	15.4	69.052
Cruz del Sur	55.9	28.1	1.1	0.0	12.4	2.5	16.730
Euroamérica	38.6	9.9	8.8	3.4	15.6	23.7	136.248
Huelen	33.8	0.0	38.2	24.6	0.0	3.5	7.477
Interamericana	32.2	12.4	0.4	3.4	21.6	29.9	146.382
Interrentas	56.3	23.0	0.8	5.9	7.0	6.8	8.170
I.S.E.	44.7	7.3	6.4	10.7	12.2	18.7	102.246
Lemans desarr.	50.8	22.8	7.3	0.6	5.7	12.8	23.887
Mut.de Carab.	28.9	0.9	1.3	0.9	0.0	67.9	55.644
Mut. Ejercito	48.0	0.1	14.2	9.6	0.0	28.1	39.017
Mutual Seguros	36.8	0.0	22.7	14.6	5.0	20.9	22.196
Previsión	45.6	22.1	5.0	0.3	22.3	4.6	41.711
Raulí	27.4	21.5	2.4	17.5	22.1	9.2	79.014
Real Chilena	51.9	0.0	35.7	0.0	3.5	8.9	3.846
Renta National	36.4	15.4	2.4	15.6	11.6	18.5	112.732
Roble	47.1	30.0	7.2	0.6	11.4	3.7	102.407
Santander	49.6	16.9	1.7	5.0	8.8	17.9	200.434
UAP	45.3	13.7	11.3	3.3	16.9	9.4	35.302

Source: Revista Asociación de Seguros, November 1993; A: State securities, B: Mortgage Loans, C: Time Deposits, D: Shares Listed Public Corporations E: Bonds and Debentures, F: Banking Bonds; Cash and Banks; Real Estate Investments; Advances to policy holders; Mortgage Contracts and others.

## II.- REGULATORY INSTITUTIONS

### II.1. THE SUPERINTENDENCY OF SECURITIES AND INSURANCE COMPANIES

20. The Superintendency of Securities and Insurance Companies (an autonomous institution, with juridical personality and assets of its own) is responsible, among other things, for the supervision of the insurance and reinsurance business. The Superintendency relates itself with the Government through the Ministry of Finance.

21. The functions of the Superintendency are the following:

- (i) Authorize the existence, approve the articles of incorporation and their amendments, and approve the termination of national insurance and reinsurance publicly traded private corporations,
- (ii) control the operations of the insurance companies and to this end it may request the data and information at whatever day it may deem convenient,
- (iii) take up the role of the sole administrator or liquidator of a company, in the cases prescribed in the law,
- (iv) maintain a register of public use where there is a copy of the models of the texts of the policies, their amendments and additional clauses that are bargained in the market, and the companies can by no reason issue an insurance unless the model is not previously registered,
- (v) verify the accurateness of the technical reserves set up by the insurance companies in keeping with the law, as well as of the balance sheets and other financial statements,
- (vi) resolve, in qualified cases, in the character of an arbitrator, the difficulties which may arise between companies, between these and their middlemen, or between these and the insurees when the affected parties by common consent should request it,
- (vii) report and publish on a yearly basis the statistics of all the operations on insurance and reinsurance carried out by the companies, the lists of insurance and reinsurance brokers and of the companies authorized to conduct business in the country,
- (viii) establish, through norms of a general character, the technical and asset requirements which the intermediaries in insurance and reinsurance must meet in order to perform as such, and
- (ix) penalize, in case of either non-compliance of the instructions issued by it in discharging its responsibilities or whenever the companies should not abide by legal provisions.

### III.- THE RENDERING OF LIFE INSURANCE SERVICES BY FOREIGN PROVIDERS

#### III.1.- MARKET ACCESS

22. Life insurance services can be rendered locally by public corporations set up in Chile with the sole purpose of conducting these activities. They may also be taken directly abroad -by people or institutions who are residents in Chile<sup>6</sup>, with the exception of compulsory disablement, survivorship insurance and social security life annuities. When residents in Chile take insurance directly abroad they have a special tax treatment and the possibility of access to the formal foreign exchange market to defray the payment of these operations. The legal setting up of public insurance corporations must be carried out in accordance with the Law on Public Corporations.

23. Reinsurance effected by insurance and reinsurance institutions of contracts celebrated in Chile can be done through:

a.- Insurance companies established in Chile and with public corporations whose object is to operate in the area of reinsurance. Both are subject to the control of the Superintendency of Securities and Insurance Companies.

b.- Foreign reinsurance institutions which are registered with the Register of Foreign Reinsurance Companies which is maintained by the Superintendency of Securities and Insurance Companies<sup>7</sup>.

c.- Intermediaries or brokers who are registered in the register of insurance brokers of the Superintendency.

24. The foreign companies with a commercial presence in Chile are subject to same market access conditions as those for Chilean companies.

#### III.1.A. GENERAL PROVISIONS

25. The legislation on Insurance Companies (DFL No. 251 of 1931 and its subsequent amendments)<sup>8</sup>, establishes the following:

26. **Capital:** The minimum capital required for an insurance company is of 45,000 UF's (approximately US\$ 1,000,000) and for a reinsurance company it is of 60,000 UF's (approximately US\$ 1,300,300).

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<sup>6</sup> There is a prohibition in the sense that no foreign companies can offer or supply insurance services in Chile, either directly or through middlemen without establishing a commercial presence.

<sup>7</sup> These institutions must comply with the requisites with respect to assets and other requirements which are related to their legal status and solvency.

<sup>8</sup> The main amendments were made in 1980 and in 1987.

27. **Limit of indebtedness:** The maximum limit of indebtedness can not be higher than 5 times the net equity of the insurance companies and 15 times that of the reinsurance companies. Should there be a situation of overindebtedness, it is necessary to proceed to immediately regularize the company in the manner prescribed by the law.
28. **Technical Reserves:** According to procedures, tables, rates of interest and other aspects set by the Superintendency, life insurance companies must set up the following reserves:
- (i) **On-going Risk Reserve:** to meet liabilities of a company derived from the premiums of short-term insurance contracts (less than or equal to one year),
  - (ii) **Mathematical reserve:** to meet liabilities of an insurance company with its insurees for premiums of long-term contracts (more than one year), and
  - (iii) **Additional reserve** to that of on-going risk: to meet liabilities for risks, the occurrence of which is not well known, highly fluctuating or cyclical and which must be provided for to ensure the normal operation of the activity.
29. **Investment Standards:** The technical reserves and the necessary assets to maintain the debt ratios as defined in the law must be backed up by, among others, (i) certificates issued by the State or the Central Bank, (ii) time deposits or certificates representing funds bought or letters of credit issued by banks and financial institutions, (iii) bonds, promissory notes and debentures issued by public or private corporations, (iv) investments in real estate corporations shares, securities and risk capital, with a first class rating, and (v) shares in listed public corporations, with a first class rating and with a presence of 10% or more of their stock in the Stock exchange. Insurance Companies are not allowed by law to invest in shares of AFPs, mutual funds, private health insurance institutions, insurance companies, or in those companies whose purpose is to render benefits of a social nature to their shareholders, in urban non-residential real estate located in Chile.
30. The law clearly specifies limits of investment per issuer and by type of instrument.
31. **Tariffs, Premiums and Commissions:** The premiums and commissions will be set or agreed upon freely between the insurers and the insurees, expressly stating this fact in the corresponding policy.
32. **Risk Rating:** Insurance companies must hire the services of at least two different and independent risk rating institutions --registered with the Superintendency of Securities and Insurance Companies-- so that they in a continued manner rate the liabilities they have with their insurees. The categories are: A, for low risk companies, D, for those of a higher risk and E if they are lacking in information enough to rate them.

### III.1.B OTHER REQUIREMENTS

33. To do business in the insurance and reinsurance activity it is necessary to have the

authorization of the Superintendency of Securities and Insurance Companies<sup>9</sup>.

34. Since they are publicly listed private corporations and must be organized as such, insurance companies must secure a public deed, a resolution from the Superintendency to operate, an inscription in the Register of Commerce, and the publication in the Official Gazette of the certificate issued by the Superintendency.

### III.2.- NATIONAL TREATMENT

35. The provisions which regulate the insurance and reinsurance activity are applied in a non-discriminatory manner to national and foreign suppliers who want to undertake such activity, with the exception of the tax treatment for given transactions in life insurance made abroad by residents in Chile.

36. The activity of the insurance companies are classified as "services rendered", and, consequently, they are subject to the Value Added Tax (IVA -- VAT) and the premiums of the insurance policies are taxed by a rate of 18%, with the exception of life insurance, readjustable life insurance and the premiums or payments for reinsurance contracts.

37. If they are insurance taken abroad, by residents of Chile, a tax of 22% is levied on the premium.

38. Insurance and reinsurance companies are subject to the First Category Tax, which at present is 15%.

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NOTE: Code for Chile (56)  
Code for Santiago (2)

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<sup>9</sup> The Superintendency of Securities and Insurance Companies only rejects an authorization when the requirements needed to set up a corporation are not met.

#### IV.- FUTURE BUSINESS OPPORTUNITIES

39. It is possible to expect that as the economy keeps growing, the insurance business, as well as other financial services, will expand increasingly more.
40. Additionally, there is a proposed bill of law in the Congress to modify the Law on Insurance Companies, and which is a part of the new legal framework for the capital market.
41. Among the expected reforms specifically for insurance are the following:
  - The possibility of new instruments for investment so that the companies may attain a more adequate portfolio diversification (through, for instance, the purchase of first rate foreign certificates).
  - Greater expediency so that the insurance companies have access to efficacious instruments for risk coverage, as could be derived instruments (futures, forwards, options, etc.).
  - Amendments aiming at a more efficient operation of the process of intermediation and sales of insurance.
42. Additionally, it is expected that higher minimum assets requirements to participate in the insurance and reinsurance business will be provided for in the law.
43. Given the close relationship between life insurance and the AFPs, many of the future business transactions are related to the development of that sector (See Chapter III).

#### III.5 OTHER REQUIREMENTS

33. To do business in the insurance and reinsurance activity it is necessary to have the

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NOTE: Code for Chile (56)  
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## CHAPTER V

### PRIVATE HEALTH INSURANCE AND HEALTH SERVICES

#### I.- GENERAL INFORMATION

##### I.1 Nature and Scope of the System

1. The current health system in Chile began to develop in 1981 with the enactment of a Decree Law which allowed for the operation of private health insurance institutions. Nowadays two systems coexist within the frame of the Chilean health structure. A general one, run by the Government and which is managed by the Fondo Nacional de Salud (National Health Fund -- FONASA), to which affiliation is automatic by acquiring certain characteristics. The second system, privately managed by the Private Health Institutions (ISAPRES), establishes a special regime within the frame of a health contract patterned after private health insurance. Additionally, about one million people are covered by a special social security health system for the Armed Forces.

2. The setting up and operation of the Private Health Insurance Institutions is controlled by the Superintendence of Private Health Insurance Institutions. Likewise, there are legal provisions which establish the way and conditions for the transfer from the National Health Fund (FONASA) to the Superintendence of ISAPRES of the documents and information which make an adequate supervision of contracts, tariffs, programs and corresponding guarantees for the Private Health Insurance Institutions.

3. Finally, a decree from the Ministry of Labor and Social Security regulates a subsidy system for labor disablement which is common to the regimes of FONASA as well as those of the ISAPRES. In both cases, pecuniary benefits are stipulated as a compensation for causes of labor disablement which are specified in that Decree.

##### I.2 The National Health Fund (FONASA) and the Public Health Services

4. The National Health System (FONASA) has two main programs: a freely elected provider system which works in a similar way as the ISAPRES and it can be used to pay for health services either at state-owned hospitals or private clinics. The other system uses only state-owned hospitals and polyclinics. FONASA covers about two and a half million people under the first system. At the same time, the National Public Health Service (SNS) runs all the public hospitals, conducts national vaccination programmes as well as maternal-infant programmes and finances the health care of the indigent and poorest segments of the population. Both, FONASA and the National Public Health Service, are under the Ministry of Health. Currently, the Ministry of Health directly employs more than 66,000 health workers, including doctors, nurses and administrative personnel.

5. All people who are affiliated to any social security system either as a salaried or a self-employed worker of the private or public sector, or as a voluntary contributor or beneficiary of a

pension or subsidy due to labor disablement or unemployment belong to the general regime of FONASA, enacted by Law No. 18,469 and its By-law. Whenever an individual falls within one of the categories, automatically becomes affiliated to this regime. Likewise, individuals automatically re-enter the system whenever a contract between an affiliate and an ISAPRE is terminated. Any person belonging to this system is entitled to all the benefits and services which the medical institutions belonging to the National Health System provide.

6. In terms of health infrastructure as well as in the provision of many medical services, the public sector was still the principal supplier during 1992 according to various indicators. The National Health Service runs a total of 183 hospitals and 2.228 out-patient clinics and medical centers all over the country and provides most of the hospital beds in the country (See Graphic 1). Public Health Services are the sole providers of medical attention in the rural areas. The System supplied a total of 19.116.851 medical consultations during 1991 (1.4 per inhabitant) up from 13.896.444 (1.1 per inhabitant) in 1987. (Table I).

Year	Medical consultations	Per inhabitant
1987	13.896.444	1.1
1991	19.116.851	1.4

TABLE I

SERVICES RENDERED BY FONASA AND THE ISAPRE SYSTEM (in units)

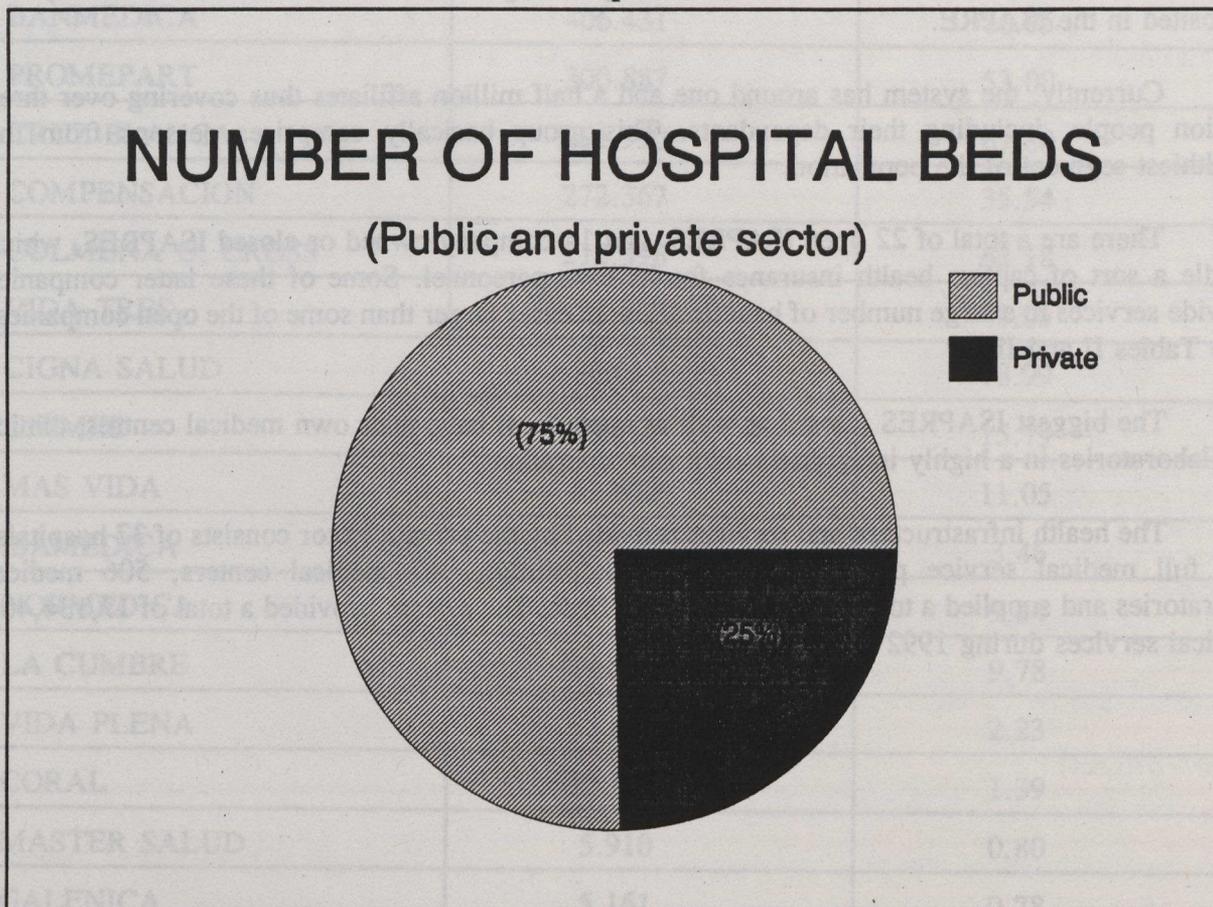
SERVICES	FONASA*	ISAPRE**
Medical Consultations	4603234	9813865
Diagnostic Exams	4918135	9170122
Clinical Lab	3971825	7186013
Imaginology	804291	1682454
Pathological Anatomy	142019	301655
Clinical&Therapeutical support	2816733	4673952
Nuclear Medicine	12236	31023
Physiotherapy&Rehabilitation	1724295	3048169
Blood transfusions	4075	24537
Psychiatrist	140689	190818
Endocrinology	558	1631
Neurology	31257	55002
Ophthalmology	354356	509743
Dermatology	11432	86451
Cardiology	245234	382959
Gastroenterology	33280	86952
Urology	148792	40906
Obstetrics	36400	211600
Surgery	108699	256808
Neurosurgery	1064	3390
Ophthalmology	9053	12543
Hear, nose and throat	4406	20863
Head and neck	967	2404
Plastic surgery	1895	5798
Tegumenta	8302	34948
Cardiovascular	2732	5418
Thorax	372	949
Abdominal	16662	35202
Proctology	1354	4939
Urology	7096	21179
Breast surgery	1834	3934
Gynecology	7543	19338
Obstetrics	25029	25122
Caesarean operation	13613	40675
Traumatology&Orthopedics	6797	20106
Other Services	10434	3140958
Bed days in hospital	678343	892562

\*Data for 1991. Source: INE

\*\*Data for 1992. Source: Boletín Estadístico Trimestral del Sistema ISAPRE (January-September 1993)  
SUPERINTENDENCIA DE INSTITUCIONES DE SALUD PREVISIONAL ISSN 0716-906X

The number of hospital beds is fairly evenly distributed in the various Regions of the country. Average density was 421 inhabitants per bed in 1992, up from 395 in 1989. The best relative situations were found in the XIth and XIIth Regions in the South while the Santiago Metropolitan area has the worse relative condition in the country, with 499 inhabitants per bed.

Graph 1



Source: Ministry of Health

7. Out of a total of 15.062 registered medical doctors for the year 1992, the Service directly employed 6.563 of them, either on a full or part time basis. The National Health Service also employs directly 1,125 odontologists, 2,883 professional nurses, 1,763 midwives and several thousand people as medical technicians, auxiliaries, paramedical and administrative personnel<sup>1</sup>.

<sup>1</sup> Source: Ministry of Health

### I.3 Private Health Services

8. On the other hand, every Chilean earning more than the minimum wage is entitled to join the private health scheme of their choice, normally through a 7% deduction from their salary and deposited in the ISAPRE.
9. Currently, the system has around one and a half million affiliates thus covering over three million people, including their dependants. This group basically comprises persons from the wealthiest segment of the population.
10. There are a total of 22 open ISAPRES and 14 company-owned or closed ISAPRES, which handle a sort of captive health insurance for its own personnel. Some of these latter companies provide services to a large number of beneficiaries, in cases larger than some of the open companies. (See Tables II and III)
11. The biggest ISAPRES (closed as well as open ones) have their own medical centres, clinics and laboratories in a highly integrated health care operation.
12. The health infrastructure and services provided by the private sector consists of 37 hospitals, 164 full medical service private clinics, 387 polyclinics, 467 medical centers, 506 medical laboratories and supplied a total of 10,600 hospital beds. The system provided a total of 17,134,402 medical services during 1992 (See Table I).

TABLE II

OPEN ISAPRES*	1992 BENEFICIARIES**	1992 SALES (US\$MN)
CONSALUD	633.327	125.00
BANMEDICA	406.431	86.95
PROMEPART	300.887	53.00
CRUZ BLANCA	291.930	67.80
COMPENSACION	272.367	35.54
COLMENA G. CROSS	212.398	62.18
VIDA TRES	103.002	48.05
CIGNA SALUD	86.013	18.99
UNIMED	70.757	15.79
MAS VIDA	51.622	11.05
ISAMEDICA	48.840	3.46
NORMEDICA	45.831	9.44
LA CUMBRE	16.577	9.78
VIDA PLENA	13.082	2.23
CORAL	12.864	1.39
MASTER SALUD	5.910	0.80
GALENICA	5.161	0.78
UMBRAL	2.735	0.41
GENESIS	2.439	0.70
ISMED	2.328	0.32
OPTIMA SALUD(started 09/92)	1.625	0.07

\* companies open to the general public.

\*\* total paying affiliates plus their dependants.

Source: Superintendency of ISAPRES

TABLE III

CLOSED ISAPRES*	1992 BENEFICIARIES**	SALES(US\$MN)
CHUQUICAMATA	38.623	10.53
EL TENIENTE	34.829	21.70
BANCO ESTADO	33.225	15.09
ISTEL	25.311	10.51
FERROSALUD	15.284	1.70
ISPEN	13.696	7.50
SAN LORENZO	12.782	3.61
CRUZ DEL NORTE	10.329	3.90
RIO BLANCO	7.592	5.44
CRISOL	6.152	1.39
ISCAR	5.478	0.67
ISAGAS	2.500	0.65
SHELL CHILE	2.460	0.90
INST-SALUD	2.066	0.19

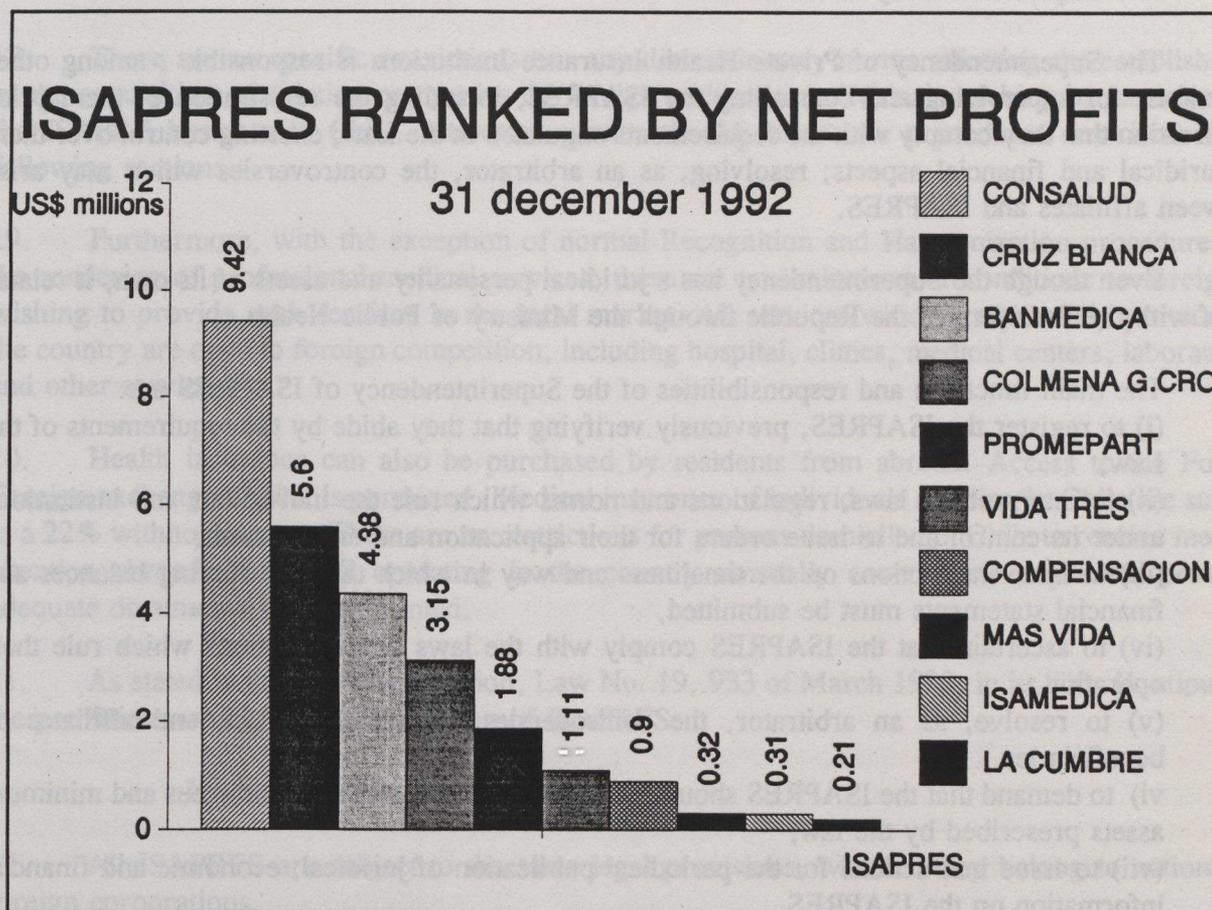
\*only for members and employees of the parent company

\*\* paying affiliates plus their dependants

Source: Superintendency of ISAPRES

13. The ten open ISAPRES showing the highest net profits during 1992 appear in Graph 2.

GRAPH 2



SOURCE: SUPERINTENDENCIA DE ISAPRES

14. The special and contractual regime established for the ISAPRES is contained in Law No. 18,933 of 1991. In that law not only a comptrolling agency is created, the Superintendency of ISAPRES, but also a series of amendments are introduced to the original system of rights and obligations between the affiliates and the ISAPRES and which originated from Decree Law No. 3,537 of 1981. The new law establishes that contracts must indicate, among others, the services and other benefits agreed upon. Though most services and benefits can be obtained from the outset, there are, however, some for which different waiting periods are stipulated. The contracts should also include, precise and explicit indication of exclusions, modes and ways in which the services vary as a result of changes in income of affiliates, as well as amendments deriving from the incorporation or withdrawal of legal beneficiaries in the family group. Contracts are of an indefinite duration, but the ISAPRE can terminate it only in cases of non-compliance of obligations. The affiliate, in turn, can terminate them with due notice of thirty days in advance, before a year has elapsed or during one of its extensions.

## II. THE REGULATORY INSTITUTIONS

### II.1 Superintendency of ISAPRES

15. The Superintendency of Private Health Insurance Institutions is responsible , among other functions, for supervising and controlling the ISAPRES, including the registration of them prior verification that they comply with the requirements stipulated in the Law; exerting control over them in juridical and financial aspects; resolving, as an arbitrator, the controversies which may arise between affiliates and ISAPRES.

16. Even though the Superintendency has a juridical personality and assets of its own, it relates itself with the President of the Republic through the Ministry of Public Health.

17. The main functions and responsibilities of the Superintendency of ISAPRES are:

(i) to register the ISAPRES, previously verifying that they abide by the requirements of the Law,

(ii) to interpret the laws, regulations and norms which rule the individuals and institutions under its control and to issue orders for their application and enforcement,

(iii) to issue instructions on the timeliness and way in which their accounting balances and financial statements must be submitted,

(iv) to ascertain that the ISAPRES comply with the laws and regulations which rule their operation,

(v) to resolve, as an arbitrator, the controversies between ISAPRES and affiliates or beneficiaries,

(vi) to demand that the ISAPRES should constitute and maintain the guarantees and minimum assets prescribed by the law,

(vii) to issue instructions for the periodical publication of juridical, economic and financial information on the ISAPRES,

(viii) to issue instructions which contribute to a greater clarity and transparency in what is stipulated in the contracts, so that their interpretation and the control of their application is easier,

(ix) to issue instructions to ensure that ISAPRES update the information required by law, and

(x) impose the penalties which the law prescribes.

### **III. THE RENDERING OF HEALTH SERVICES BY FOREIGN SUPPLIERS**

#### **III.1 Market Access**

18. There are no specific restrictions nor any discriminatory norms affecting the establishment or the acquisition of existing companies by foreign entities or individuals wishing to participate in the ISAPRE business in Chile. Interested parties should follow the procedures described in the following sections.

19. Furthermore, with the exception of normal Recognition and Harmonization procedures for the rendering of professional medical services, there are no limitations or conditions to foreigners wishing to provide such services in the local market. All services which are privately provided in the country are open to foreign competition, including hospital, clinics, medical centers, laboratories and other services.

20. Health insurance can also be purchased by residents from abroad. Access to the Formal Foreign exchange market is permitted. Medical insurance of individuals residing in Chile are subject to a 22% withholding tax. There are no restrictions for persons domiciled in Chile to receive medical attention abroad. ISAPRES operating in the country normally cover those expenses, provided adequate documentation is presented.

21. As stated in the preceding section, Law No. 19,933 of March 1990, in its Title II, stipulates the provisions which rule the operation of ISAPRES.

#### **III.1.A General Provisions**

22. All ISAPRES are subject to the same legal provisions, whether they belong to national or foreign corporations.

#### **III.1.B. Objectives of the ISAPRES**

23. The objective of these institutions is to provide health services and benefits financed by the resources generated by the legal contributions for health or by higher contribution agreed upon with their affiliates. It is understood that these institutions substitute the health services and benefits provided by the National Health Service (SNS) and the National Health Fund (FONASA).

#### **III.1.C. Procedures to set up ISAPRES.**

24. ISAPRES are to be constituted as juridical persons and register with the Superintendency of Isapres. These institutions will have as their sole objective the provision of health services and benefits, either directly or through the financing of the same and the activities which are kindred or complementary to that purpose.

25. No individual person can assume the nature of a health institution, operate as such and draw health contributions without being registered with the Superintendency.

26. The interested entity must apply for the register from the Superintendency by supplying all relevant information to ensure compliance with the requirements stipulated by law. The Superintendency must resolve on the application within a time limit not exceeding 60 days and is entitled to reject the application if all requirements are not met or if the information needed is not attached.

27. An actually paid capital equivalent to 2,000 UFs (about US\$ 55,000) is required. Likewise, the institutions must maintain a minimum equity equivalent to 2,000 UFs (about US\$ 55,000) which will be made up of the paid capital, the reserve funds, the results of the financial period and those accumulated from previous periods.

### III.1.D Other non-discriminatory requirements

28. **On the Guarantees:** The institutions must set up and maintain a guarantee equivalent to one month of the contributions received from their affiliates with the Superintendency in the manner and general and uniform conditions determined by the Superintendency, this guarantee cannot be seized in any way as a result of legal actions. The guarantee must be set up in cash or in given instruments with a maturity not exceeding ninety days as prescribed in the Decree No. 3,500 of 1980.

29. **On the contributions and services:** The contributions as well as the manner, procedures and conditions in which the services and benefits are provided are freely agreed upon with the affiliates and the private health institution through a contract which must be notified to the Superintendency and to the institution responsible for the direct payment of the contributions (social security institution or employer, in the case of salaried workers) before the tenth day of the month following the month on which the contract is drawn up and undersigned.

### III.2. NATIONAL TREATMENT

30. Foreign medical service providers are granted full national treatment with the only exemption of the tax regime applicable to foreign investors in the health sector as well as to foreign professionals and health insurance premiums obtained from abroad. (See Chapter I on tax treatment to foreign companies and individuals).

### IV. FUTURE BUSINESS OPPORTUNITIES

31. Most public opinion polls conducted in Chile in the past few years coincide that health care is among the top priority problems facing the country during this decade. Long years of neglect coupled with fiscal austerity plus a policy of "minimal Government" have left the country with State run hospitals which are falling apart and very poor quality medical services to the population. In many of the public hospitals there is not even linen for the beds, not to mention the absence of the most basic medical supplies. Patients must wait months for major surgery. Hospital personnel is

unhappy about their earnings; in fact, the sector is one of the few registering a national strike during 1993.

32. Meanwhile, access to private sector health insurance and privately provided medical services is available mainly to the richest third of the population. Although ISAPRES have substantially reduced their administrative costs and lowered the price for their plans, there are still large segments of the population (specially the aged and the poorer) unable to get on to this system. This is opening important opportunities for new business in various areas.

33. One, to devise new schemes, sufficiently low priced, capable of attracting more people from the medium and low income range.

34. Two, given that per capita income is rising fast, more people are willing to pay for a private health insurance that renders much better services than FONASA. This is creating a growing potential market from which ISAPRES could tap new customers in the future.

35. Third, the ISAPRE approach is becoming very attractive to a number of other countries in the Latin American region. Local experts in ISAPRE organization and management are often invited to other countries to explain how the system works. Meanwhile, many ISAPRES are interested in starting new ventures in other countries.

36. Health care was a central issue in the recent presidential elections and a well known economist has been nominated as the new Health Minister. People from the medical community are anticipating a number of institutional and budgetary changes in the system. Most likely, a sort of concession scheme allowing the private sector to run public hospitals will be implemented. In fact, it was just announced that the State owned Hospital El Salvador Cancer Center in Santiago will be jointly operated with the private sector. This will attract more paying customers which, in turn, would permit keeping the operating rooms running all day instead of half a day as they do now. Doctors and other professional personnel will be able to work full time at hospitals instead of sharing their time with private clinics and medical centers in order to increase their earnings.

## V. BUSINESS CONTACTS

### **SUPERINTENDENCY OF ISAPRES**

Superintendent: Mr. Héctor Sanchez

Address: Mac Iver 541, Santiago

Tel: 632-5407

Fax: 632-5552

### **MINISTRY OF HEALTH**

Minister: Mr. Carlos Massad (as of March 10th, 1994)

### **FONASA: State Health Insurance Fund**

Director: Mr. Rafael Solis

Address: Monjitas 665 Santiago

Tel: 639-5923

Fax: 639-9725

### **ISAPRE BANMEDICA**

President: Mr. Carlos Kubik

Address: Apoquindo 2942, Las Condes, Santiago

Tel.: 231-0015

Fax: 246-0692

### **ISAPRE CONSALUD**

President: Mr. Manuel Urmeneta

Address: Marchant Pereira 10, Providencia, Santiago

Tel: 233-1919

Fax: 233-3260

### **ISAPRE CRUZ BLANCA**

President: Mr. Fabio Valdés

Address: Bandera 236, piso 2°, Santiago

Tel: 696-9272

Fax: 698-9254

### **CLINICA ALEMANA (private hospital)**

President: Mr. Marcelo Magofke

Address: Vitacura 5951, Vitacura, Santiago

Tel: 210-1221

Fax: 2124380

**HOSPITAL CLINICO LA CATOLICA (private hospital)**

President: Mr. Edgardo Fuenzalida

Address: Marcoleta 367

Tel:633-2051

Fax:638-4497

**CLINICA LAS CONDES (private hospital)**

President: Mr. Alfredo Schonherr

Address: La Fontecilla 441, Las Condes, Santiago

Tel:211-1002

## CHAPTER VI

### CONSULTING AND ENGINEERING FOR INFRASTRUCTURE DEVELOPMENT

#### I. INTRODUCTION

1. At present, a gap exists between the dynamism reached by the national economy and the availability of physical infrastructure, in particular in the transport sector. The level of development attained by Chile and the expected rates of growth over the next years will generate an increasing demand for infrastructure which will widen that gap.
2. In order to ensure an adequate development of infrastructure, a system of public concessions in public works was established in Chile through DS No. 194 of 1984.
3. The policy of concessions is aimed at:
  - (i) adding flexibility to the offer of infrastructure, mainly in terms of roads,
  - (ii) increasing the availability of resources for investment in infrastructure without having to resort to State financing, and
  - (iii) taking advantage of the efficiency of private management in these activities.

#### II. GENERAL BACKGROUND INFORMATION ON BASIC INFRASTRUCTURE IN THE COUNTRY

4. The infrastructure of public use in Chile can be divided into three great areas:
  - (a) public utilities: electricity, gas, communications<sup>1</sup> and sanitary services (comprising the production and distribution of water as well as the collection and disposal of sewage water)
  - (b) irrigation infrastructure
  - (c) transport infrastructure: railroad, ports, airports and roads (urban and interurban).

##### II.1 Public Utilities

5. The coverage of the **electric sector** in the urban areas is of 98%, in the rural areas it is of 62% and for the country as whole it is of 91%.
6. The generation of electricity: thermal and hydroelectric in the country is shown in Table I.

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<sup>1</sup> The subsector telecommunications is developed in Chapter I of this same work.

**TABLE I**  
**Generation of electric energy**  
 -millions of kwh-

Year	Thermal	Hydraulic	Total
1988	5.446	11.451	16.897
1989	8.123	9.604	17.727
1990	9.321	9.000	19.321
1991	6.734	13.074	19.808
1992	5.389	16.779	22.167

Source: Instituto Nacional de Estadísticas (INE)

7. The thermoelectric stations in the Norte Grande and three hydroelectric stations in the Central Integrated System (CIS) in Aconcagua, Curillínque and Pangué are either under construction or to be constructed, all of which will be in operation by 1998. Such availability will ensure a normal supply of energy until the year 2000.

8. Additionally, within the frame of the Bilateral Agreement undersigned with Argentina in 1991, 2 pipeline construction projects are under study, which will enable the country to use **natural gas** as a source of energy. To that effect, NOVACORP (a Canadian company) in association with Chilgener, Copec and Gasco formed a consortium called "GasAndes" which proposes to use NOVA's pipeline in Argentina to bring gas to Santiago Metropolitan Region.

9. In 1990, the **coverage of potable water and of sewage services** reached an urban level of 99% and 82%, respectively. However, the country needs an increase in this sector to meet future demands.

10. 97% of sanitary services are provided by 13 Regional State-owned companies of which EMOS (Empresa Metropolitana de Obras Sanitarias) is the largest as it services the Metropolitan Region. In the period 1993-2002, Santiago Municipal water works company EMOS is planning to invest between US\$ 500 million and US\$ 1 billion. Elevated typhoid and hepatitis rates necessitate that treatment of waste water be priority number one. Nevertheless, only one quarter of EMOS's attention will be directed to this problem. The other three quarters will be assigned at upgrading potable water capacity; expanded system of aqueducts in Santiago; and installation of systems for industrial waste control. While EMOS is the largest corporation of this type in Chile, it is only one of 13 publicly owned municipal works organizations. All 13 report to CORFO<sup>2</sup>. Canadian companies interested in waste water treatment, water purification, aqueduct construction and industrial waste control should register with EMOS for the Metropolitan Region and with CORFO for Regional projects. Contacts are mentioned under business contacts page of this chapter.

<sup>2</sup> Corporación de Fomento de la Producción (Production Promotion Agency) State owned, Crown Corp. type.

## II.2 Irrigation infrastructure

11. The country has 1,200,000 hectares of irrigated land out of a total of 8,746,230 hectares<sup>3</sup>. It is expected to put another 600,000 hectares of dry land under irrigation, involving an additional investment of US\$ 400 million.

12. The works and projects are shown in Table II:

**TABLE II**

<b>Programmes under construction:</b>	
<b>Large Irrigation Schemes:</b>	
Santa Juana Reservoir (IIIrd Region)	9.855 ha
Canal Penciahue (VIIth Region)	11.157 ha
Canal Laja-Diguillin (VIIIth Region)	63.300 ha
<b>Intermediate Irrigation Schemes</b>	216.456 ha
<b>Future Projects:</b>	
Puclaro Reservoir (IVth Region)	27.700 ha
Canal Linares (VIIth Region)	143.400 ha
Canal Victoria Traiguen (IXth Region)	36.000 ha

13. Also there is a Law to foment minor irrigation, on-site civil works. Private companies can develop projects in areas where the rate of return can be fairly attractive (Copiapó Valley and Central Valley).

## II.3 Transport infrastructure

### II.3.1 Railroads

14. The railroad network is only being used at 15% of its capacity, with a low density and with high fixed costs. The railroad infrastructure badly needs repair, maintenance and modernization.

<sup>3</sup> It must be pointed out that 4,508,430 hectares are grazing lands.

15. The evolution of freight conveyed by the North-South railroad system is shown in Table III:

**TABLE III**  
**CARGO FREIGHTED BY RAILROAD NORTH-SOUTH NETWORK**  
-tons thousand-

Year	Agricultural Products	Sea&Forestry Products	Mining Products	Livestock	Foodstuff & Manufactures	Total
1986	603	1.926	9.811	39	492	12.871
1987	574	1.927	3.469	18	470	6.458
1988	578	1.787	3.080	18	450	5.913
1989	508	1.564	3.564	21	523	6.180
1990	385	1.776	2.056	13	500	4.730
1991	463	1.866	1.843	5	502	4.679

Source: Boletín Mensual Banco Central de Chile

16. As a consequence of its loss of competitiveness against road freighting, the railroad system decreased the cargo conveyed between 1986 and 1991 by two thirds.

17. However, railroad transport offers good possibilities to freight export products. The route Valparaiso-Puerto Montt is electrified as far as Temuco (877 km.) and most of the sea-ports have railroad networks which make access of cargo by train possible.

18. There is a law recently enacted (Law No. 19,170 of 1992) which creates the possibility for private investors to take over an important share of the transport of cargo and eventually of passengers. The privatization of cargo operations is part of the railroad triennial development plan which aims at modernizing the infrastructure and equipment of the company as well as improving management and its financial status. FEPASA (Ferrocarriles del Pacífico), the cargo branch of the State owned railroad company EFE (Empresa de Ferrocarriles del Estado), will sell (by October 1994) 51% of the company's shares to the private sector at an estimated nominal value of US\$ 43 million. 10 companies (7 Chilean and 3 foreign) are interested in this bid and it is expected that by October 1994 a decision will be taken with respect to the new major share holder of FEPASA.

19. The law No.19,170 does not allow the privatization of railroad passenger transportation yet. President Frei's government is studying the profitability of a US\$ 350 million-5 year investment plan allowing the installation/replacement of rails between Santiago-Chillán to reach a speed of 150 kms/h; Chillán-Temuco to reach a speed of 120 kms/h; San Rosendo- Concepción, 90 kms/h. So far, passenger transportation has not been a profitable business; EFE registers a deficit in the range of US\$ 80 million making privatization of this area less attractive to the private sector. It is expected that the Government will reach a decision on the improvement of passenger service by October 1994.

### II.3.2 Airports<sup>4</sup>

20. In this sector there are two State controlling agencies: The General Directorate of Civil Aeronautics and the Board of Civil Aeronautics. These agencies exert a strong control over the investments made in the sector.

21. In the most important airport in Chile --Comodoro Arturo Merino-- located in the capital of the country, important modernization and expansion works are reaching their completion. These works involve an investment of the order of US\$ 50 million.

### II.3.3 Ports

22. Chile, due to its geographic characteristics, depends to an important degree on maritime transport. The Chilean port system is made up of 23 ports. Twelve of them are managed by the State (Emporchi) and 11 are privately managed. The largest ones are Valparaiso, San Antonio and Talcahuano.

23. Since 1981, the operations to move the cargo into the ports are carried out by the private sector. The Frei Government decided not to privatize EMPORCHI (Empresa Portuaria de Chile) however, they are in favour of privatizing some of the port activities performed by them such as cargo terminal administration and container handling.

24. National ports, especially those in the Central Zone (Valparaiso and San Antonio) are reaching their limit of efficiency. A port is deemed to be inefficient when its piers are occupied more than 60% of the days of the year. The ports of Valparaiso and San Antonio have surpassed that limit. The index of port occupation in the U.S.A. is of 25%.

25. In the ports managed by EMPORCHI, investments of the order of US\$ 200 million are to be made over the next four years. On the other hand, the private sector will invest about US\$ 100 million in the ports of Mejillones, Lirquen and Coronel (See Table V).

### II.3.4 Road network

26. The country has an interurban road network of 80,000 kilometres. More than a million vehicles circulate on them, with 90% concentrated on the Basic Network (Panamerican Highway) of 23,000 kilometres. Of these, only 11,000 kilometres are paved.

27. The growth of the Chilean export sector, the expansion of the cities, along with the explosive increase of the rate of motorization which trade liberalization and the growth of per capita income has brought about are some of the indicators which emphasize the strong needs for improvement of the road infrastructure of the country and of the business opportunities it paves the way for.

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<sup>4</sup> In chapter I, additional information is provided on air transport.

### III. LEGAL FRAMEWORK OF CONCESSIONS IN CHILE

28. There is a wide system of concessions to develop the basic infrastructure in the country. Apart from a general law of concessions, there are several additional laws of a specific or sectoral type.

29. **The General Law of Concessions** is valid for infrastructure works of the Ministry of Public Works (MOP). These are: urban and interurban roads, irrigation, airports<sup>5</sup>. When there exist specific laws, the latter prevail over the General Law of Concessions.

30. The regime for concessions of the **sanitary services** (potable water, sewers and sewage water) is regulated by DFL No. 382 of 1988. DFL No. 70 regulates the application of tariffs. There is a Superintendency of Sanitary Services which controls the sector. Besides, there is a Law of Subsidies for low income residential users.

31. On the other hand, there is a specific law of concessions for the development of port infrastructure (law of Maritime Concessions: DFL No. 340 of 1960 and DS of Defence NO. 660 of 1988, which approved the regulations on concessions). The same holds in connection with development of railroads. Recently, Law NO. 19,170 of 1992, established the system for concessions in the sector.

32. Due to the scope of this study, the analysis will only address the General Law of Concessions. Notwithstanding this, in Section IV, the main port development projects are included.

#### III.1 The General Law of Concessions

33. The framework of the General Law of Concessions includes DFL NO. 164 of 1991 which establishes the general rules and DS No. 240 of 1991 which is concerned with regulating the execution, repair or maintenance of public fiscal works on the basis of a system of concessions.

34. It is estimated that by 1998, the private sector will finance between 30 and 40% of the infrastructure of the country, as compared to a scanty 7% of participation at present.

35. Additionally, the concession contracts must be governed by: (i) The Terms of Reference of the Bidding and their clarification, (ii) the technical and economic offer submitted by the bidder who wins the bid as approved by the MOP, and (iii) the decree granting the bid and the corresponding contract as such.

#### III.1.A Market Access

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<sup>5</sup> With respect to airport infrastructure, MOP must coordinate its actions with the Directorate of Civil Aeronautics

36. Any natural or juridical person -national or foreign - is entitled to participate in a bidding process. When it is a matter of public works in zones adjoining the frontiers, prior to the bidding, a preliminary report from the National Council of Security will be required.

37. The natural or juridical person who wins the bid must set up a corporation chartered in Chile or as an agency of a foreign corporation, the sole purpose of which will be those activities proper to the concession.

38. The winner of the bid must have more than 51% of the rights of the corporation. Any amendment to the articles of incorporation must be authorized by the MOP.

### III.1.B Specific Rules

39. In general terms, there are two possible ways of public-private association in concessions of infrastructure: the build-operate-transfer (BOT) and the build-own-operate (BOO).

40. Within the frame of the first system (BOT), the private sector receives a concession to build and operate an asset for a specific period of time and then returns it to the State. During that period, the concessionaire will have time enough enabling him to recover the capital invested and obtain a reasonable rate of return for the investors.

41. Within the frame of the second system (BOO), the private sector becomes responsible for the construction, the financing and the operation of the asset with right of risk and ownership. He is under no obligation to transfer the property to the public sector.

42. The Chilean policy for concessions only makes it possible to carry out BOT type projects. One of the most important projects which is in process through this mechanism is the Melón Tunnel in the Route North 5 (US\$ 24 million). The concessionaire corporation involved in this venture is made up by Endesa S.A. (51%), Constructora Delta S.A. (24.5%) and Agroman Chile (24,5%).

43. The bidding can be originated by private individuals or by the MOP. In the first case, the applicant submits a project to the MOP and if this Ministry deems it convenient, the applicant is required to submit a more detailed project. When the proposal is accepted a bidding process is initiated<sup>6</sup>.

44. If the bidding process is called by the MOP, applicants are invited to participate by publishing a description of the project in the Official Gazette. Subsequently, the terms of reference of the bidding are established along with the consultations and clarifications needed in connection with it. Likewise, the guidelines are issued, both for the economic and technical offer.

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<sup>6</sup> The party which proposed the project when participating in the bid has a 10% of increase in his score. Additionally, the MOP can offer reimbursements for the total or partial costs of the study.

45. The criteria (termed "factors") which serve to establish the terms of reference of the bidding are:

- a) tariff structure,
- b) duration of the concession,
- c) subsidy from the State to the bidder or payments to the State,
- d) revenues guaranteed by the State,
- e) risks assumed by the bidder,
- f) formulas to readjust tariffs and systems for review,
- g) other additional services (tourism, self-service, publicity, etc.),
- h) expected rate of returns on the net equity of the concessionaire corporation.

46. The above factors can be fixed (determined by the MOP) or variable, depending on the specific project at issue.

47. The first selection is made on the basis of the technical offer. In the final selection, the bid which wins is the best economic offer. The assignation decree must have the authorization of the Ministry of Finance. Finally, a contract is undersigned and a protocol is drawn up.

### III.1.C The Rights of the MOP and the Rights of the Concessionaires.

48. The rights of the MOP are the following:

- (a) supervise the construction and exploitation of the infrastructure works. Impose fines and require guarantees (in money or in assets) for non-compliance;
- b) request the State to make the disbursements necessary to comply with the concession contract (for instance, land expropriations);
- (c) modify, for reasons of public interest, the character of the work and the services contracted, agreeing upon in conjunction with the concessionaire the indemnities, if they were to be necessary<sup>7</sup>;
- (d) demand a responsible performance from the concessionaire in fortuitous cases, unless the terms of reference should establish some other condition.

49. The rights of the concessionaire are:

- (a) collect a toll or tariff and other benefits expressly agreed upon;
- (b) transfer the concession<sup>8</sup>. Whoever acquires it must abide by the requisites of setting up a public corporation chartered in Chile. In order to make the transfer effective, prior authorization from the MOP is needed;
- (c) sub-contract services to carry out the works and operation of the concession. The accountability with the MOP rests with the concessionaire.

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<sup>7</sup> Indemnities require a Supreme Decree.

<sup>8</sup> The transfer can only be effected in terms of the concession in its entirety.

### III.1.D Duration of the concession

50. The duration of the concession is established in the terms of reference of the bidding process. The law establishes a maximum time limit of 50 years.

51. The Law considers the transitory suspension of a concession in times of war or internal disruption, due to partial destruction of the facility or for other causes established in the terms of reference of the bidding process. The time for which the concession has been suspended will involve an extension of the duration of the concession for an equivalent period of time.

52. The concession contract is terminated in the following cases:

- (a) end of the time limit for the duration of the concession;
- (b) serious default on the part of the concessionaire<sup>9</sup>;
- (c) Mutual consent;
- (d) Causes specifically stipulated in the contract;
- (e) Total destruction of the facility<sup>10</sup>;
- (f) Bankruptcy<sup>11</sup>.

### III.1.D Dispute Settlement

53. The legislation safeguards private interests in the face of possible conflicts not only through the protection afforded through contracts and in the existing property rights. Additionally, there exist objective and impartial formulas for arbitration.

54. When there is a conflict, it may be submitted to the Conciliating Committee made up by a professional from the MOP, a representative of the concessionaires and a third by mutual consent, which will establish a series of procedures.

55. If the Conciliating committee is to review a situation, it must be requested by both parties (MOP and the concessionaire), except in the case of termination of the concession for serious non-

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<sup>9</sup> The main serious defaults established in the regulations are : a).- unauthorized delays in the construction of the facilities; b).- repeated non-compliance with the minimum levels of service established in the terms of reference; c).- repeated charges of tariffs higher than those authorized; and d).- repeated non-compliance with the standards of maintenance of the facilities.

<sup>10</sup> It is the intention to eliminate this cause since the insurance would cover the costs of the damages and therefore the facilities could continue in operation.

<sup>11</sup> This cause was amended, since it made access to loans difficult for the concessionaires. The amendments grant the State the right to appoint and intervenor if a bankruptcy is declared. In the first Ordinary Assembly of the creditors a decision will have to be made as to whether the facility will be auctioned or it will continue in operation.

compliance or for some reason specified in the contract. The decision of the Conciliating Committee may be appealed to the Court of Appeals.

56. If the settlement of conflicts is not effected through the Conciliating Committee, the concessionaire or the MOP may file a suit with a competent Court of Law.

#### IV.FUTURE BUSINESS OPPORTUNITIES

57. The infrastructure where the need are the greatest is transport, that is, railroads, ports, airports and roads

TABLE IV

CHILE: PROJECTS SUBMITTED FOR FINANCING DURING 1994 (TRANSPORT SECTOR)			
REGION	NUMBER OF PROJECTS	TOTAL COST Ch\$ millions	TOTAL COST US\$ Thousands
I	151	37026	
II	100	27368	
III	99	17782	
IV	190	32876	
V	225	110560	65042
VI	368	47827	
VII	177	80036	
VIII	184	86571	
IX	150	61813	
X	272	13555	636
XI	241	134322	
XII	155	33353	
METROPOLITAN REGION	758	278604	608604
INTERREGIONAL	89	87740	118145
GRAND TOTAL	3159	1118037	795201

SOURCE: MIDEPLAN

58. For the year 1994, a total of 3,159 projects of infrastructure with an approximate value of US\$ 3.4 billion have been submitted to obtain the necessary financing.

TABLE V

A HIGHLIGHT OF TOP PRIORITY BOT TRANSPORT PROJECTS IN THE MINISTRY OF PUBLIC WORKS INCLUDING MAJOR PRIVATE PROJECTS IN PORT DEVELOPMENT		
DESCRIPTION	COST	BIDDING DATE
300 KM. DIVIDED HIGHWAY ON ROUTE 5 (EL MELON\SAN FERNANDO)	US\$230 MILL.	1995
DIVIDED HIGHWAY SANTIAGO\VALPARAISO (LA DORMIDA TUNNEL)	US\$80 MILL.	1994
DIVIDED HIGHWAY SANTIAGO \SAN ANTONIO	US\$50-70 MILL.	
LA DEHESA BELTWAY\SANTIAGO	US\$50 MILL.	1995
P. MONTT AIRPORT	US\$6 MILL.	1994
IQUIQUE AIRPORT	US\$4 MILL.	1994
CALDERA PORT (mechanization) (private)	US\$15 MILL.	1994
CORONEL PORT (two new berths) (private)	US\$32 MILL	1996
CORRAL PORT(port costruction) (private)	US\$15 MILL	1993
HUASCO PORT (port mechanization) (private)	US\$15 MILL	1995
LIRQUEN PORT (two new berths) (private)	US\$ 30 MILL.	1995
MEJILLONES PORT (construction) (private)	US\$20 MILL.	1994
PUNTA ARENAS PORT (commercial port) (EMPORCHI)	US\$ 18 MILL.	1996
QUINTERO PORT (construction)(private)	US\$25 MILL.	1994
SAN ANTONIO PORT (repairs from '85 earthquake) (EMPORCHI)	US\$53 MILL.	1994
SAN VICENTE PORT (two new berths) (EMPORCHI)	US\$22 MILL.	1994
VALPARAISO PORT (repairs from '85 earthquake) (EMPORCHI)	US\$41 MILL.	1994
VENTANAS PORT (expansion of port) (private)	US\$33 MILL.	1993

SOURCE: MINISTRY OF PUBLIC WORKS \* Includes some private projects in port development.

59. Table V summarizes the main projects to be undertaken over the next years under the BOT mechanism.

60. Table VI shows an extract of the information contained in the Integrated Bank of Projects (BIP) of MIDEPLAN (Planning Agency) and which have been submitted to obtain financing during 1994. The selection of the projects contained in Table VI has been prepared on the basis of projects for an amount over US\$ 5 million.

**TABLE VI**  
**MAJOR PROJECTS IN THE TRANSPORT SECTOR (BY REGION)**

(in thousands of Chilean pesos)  
 (Projects over Ch\$ 2.000.000.000\*)

REGION	BIP-CODE	NAME	COST Ch\$000	ADMINISTRATIVE ENTITY	STAGE
I	20080032-0	MAINTENANCE ROAD NETWORK(ISAR-94)	9075000	SECTORAL	EXECUTION
I	20013304-1	CROSSROAD ROUTE 11 AND 5	3128300	SECTORAL	EXECUTION
I	20046719	ROAD HUARA -COLCHANE	3820600	SECTORAL	EXECUTION
II	200510504-1	ROAD 24 CRUCERO-CHUQUICAMATA	2627000	SECTORAL	EXECUTION
II	20064366-0	ROUTE 5 LAS BOMBAS-ALTAMIRA	2055054	SECTORAL	EXECUTION
III	20015119-8	BASIC ROAD MAINTENANCE	2120800	SECTORAL	EXECUTION
III	20072008-1	ROUTE 5 LIMIT IV REGION-DOMEYKO	2857000	SECTORAL	EXECUTION
IV	20015032-8	ROAD NETWORK MAINTENANCE	2649773	SECTORAL	EXECUTION
IV	20081223-0	IMPROV.AV. DEL MAR&PACIFICO(LA SERENA)	2930000	SECTORAL	FEASABILITY
V	20003100-3	ROAD EL SALTO\VILLA DULCE	10925930	SECTORAL	EXECUTION
V	20015121-8	BASIC ROAD MAINTENANCE	2213000	SECTORAL	EXECUTION
V	20032141-2	ROUTE 5 LLAY-LLAY\HIJUELAS	4819000	SECTORAL	EXECUTION
V	20045068-0	MATAVERI AIRPORT\EASTERN ISLAND	4166533	SECTORAL	EXECUTION
V	20078200-0	ROUTE 62:QUILLOTA\LIMACHE\VILLA ALEMANA	2122000	SECTORAL	EXECUTION
V	20081023-0	RT F-800 CROSS ROAD 68 LAS TABLAS \ TUNQUEN	3015400	SECTORAL	EXECUTION
V	11200119-0	ROAD SAN ANTONIO\ALGARROBO\MIRASOL	2274766	SECTORAL	EXECUTION
V	20003100-1	ROAD SANTOS OSSA\RODELILLO\EL SALTO	10936363	SECTORAL	EXECUTION
V	20006832-0	VALPARAISO\VINA DEL MAR(4th stage)	4090529	SECTORAL	EXECUTION
V	20040137-0	ROUTE 60 LOS ANDES\CRISTO REDENTOR	2389539	SECTORAL	EXECUTION
V	20040177-0	PORT DEVELOPMENT/V REGION	15117978	SECTORAL	EXECUTION
V	20041660-0	ROUTE F-RO CROSS.ROAD 68\LO OROZCO	2077423	SECTORAL	EXECUTION
V	20044782-0	HIGHWAY PUANGUE\SAN ANTONIO	6496326	SECTORAL	EXECUTION
VI	20015124-8	BASIC ROAD MAINTENANCE	2565000	SECTORAL	EXECUTION
VI	20025879-0	ROUTE 5\RANCAGUA CROSSING	2525123	SECTORAL	EXECUTION

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VII	20015127-8	ROAD MAINTENANCE	2938000	SECTORAL	EXECUTION
VII	11200198-0	BRIDGES OVER ROUTE M-50 CAUQUENES\CHANCO\CONSTITUCION	7553734	SECTORAL	EXECUTION
VII	20028255-0	ROUTE 5 PANGUILEMO\SAN JAVIER	6455853	SECTORAL	EXECUTION
VII	20040005-0	ROUTE 5 MOLINA\PANGUILEMO	6323821	SECTORAL	EXECUTION
VII	20040006-0	ROUTE 5 SAN JAVIER\PARRAL	17647267	SECTORAL	EXECUTION
VIII	20015129-8	BASIC ROAD MAINTENANCE	4744711	SECTORAL	EXECUTION
VIII	20015645-3	URBAN WORKS CONCEPCION(Argomedeo\M. Rodriguez)	2517132	SECTORAL	EXECUTION
VIII	20051577-0	ROUTE N-55 LOS LLEUQUES\TERMAS DE CHILLAN	2221500	SECTORAL	EXECUTION
VIII	11200073-0	AIRPORT CARRIEL SUR\CONCEPCION (Improvement)	2539061	SECTORAL	EXECUTION
VIII	11200092-0	ROUTE N-50 COCHARCAS\QUIRIHUE	3748702	SECTORAL	EXECUTION
VIII	20002270-0	ROUTE P-60-RCABETE\CONTULMO	2987455	SECTORAL	EXECUTION
VIII	20005686	BYPASS CORONEL\LOTA ROAD 160	7347047	SECTORAL	EXECUTION
VIII	20009582-0	ROUTE 160 CONCEPCION\CORONEL	3679067	SECTORAL	EXECUTION
VIII	20009624-0	ROAD 150 CONCEPCION\LIRQUEN	4632716	SECTORAL	EXECUTION
VIII	20013723-0	ROUTE O-70-Q CONCEPCION\SANTA JUANA\COIHUE	2630700	SECTORAL	EXECUTION
VIII	20040008-0	ROUTE 5 SAN CARLOS\QUIRIHUE	2578503	SECTORAL	EXECUTION
VIII	20040176-0	SAN VICENTE PORT DEVELPMENT\TALCAHUANO	4621516	SECTORAL	EXECUTION
IX	200151131-8	BASIC ROAD MAINTENANCE	4001946	SECTORAL	EXECUTION
IX	20072034-0	ROUTE 182 ANGOL\COLLIPULLI	4050000	SECTORAL	EXECUTION
IX	20007631-1	ROUTE R-86 HUEQUEN \LOS SAUCES	3645000	SECTORAL	EXECUTION
IX	20007631-2	ROUTE R-88 VICTORIA\TRAIGUEN	2160000	SECTORAL	EXECUTION
IX	20007631-3	ROUTE R 86 TRAIGUEN\LOS SAUCES	2600000	SECTORAL	EXECUTION
IX	20017165-1	ROUTE S-11-R AGUA SANTA\CURACAUTIN	2201335	SECTORAL	EXECUTION
IX	20070713-0	ROUTE R-89 VICTORIA\CURACAUTIN	3258500	SECTORAL	EXECUTION
IX	20079516-0	ROAD 119-CH FREIRE\VILLARRICA	2620200	SECTORAL	EXECUTION
X	200151133-8	BASIC ROAD MAINTENANCE	4443892	SECTORAL	EXECUTION
X	20040009-1	ROUTE 5 PTO. MONTT\PT. VARAS	3036000	SECTORAL	EXECUTION
X	200766003-0	ROUTE 5 LOS LAGOS\PICHIRROPULLI	3700000	SECTORAL	EXECUTION
X	20078040-0	ROUTE 5 PUERTO NUEVO\ROL T-75	2500000	SECTORAL	PRE FEASABILITY

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X	20080167-0	ROUTE PUELO\PASO EL BOLSON	3400000	SECTORAL	EXECUTION
X	20026644-0	ROUTE U-40 OSORNO\BAHIA MANSA	2735290	SECTORAL	EXECUTION
X	20042730-0	ROUTE 5 CHACAO\ANCUD	3187883	SECTORAL	EXECUTION
XI	20073979-0	PATH R. MARIN\LAS JUNTAS	2280000	FNDR	EXECUTION
XI	20074057-0	PATH ESTERO DEL MEDIO\SENO MILLER	2975000	FNDR	EXECUTION
XI	20074177-0	PATH LAGO VERDE\LA TAPERA	2000000	FNDR	EXECUTION
XI	20074213-0	PATH PTO.CISNES\VALLE MARTA	2100000	FNDR	EXECUTION
XI	20074428-0	PATH RIO BLANCO\LAGO CARO\RIO PALOMA	2100000	FNDR	EXECUTION
XI	20074446-0	PATH LAGO CARO\RIO BLANCO\RIO IBAQUEZ	2100000	FNDR	EXECUTION
XI	20074507-0	PATH ERASMO SORPRESA\RIO MURTA\COFRE	2600000	FNDR	EXECUTION
XI	20074519-0	PATH PTO.TRANQUILO\LAGO BAYO\BAHIA EXPLORADORES	3240000	FNDR	EXECUTION
XI	20074523-0	PATH BAHIA EXPLORADORES\RIO TEMPANOS	3500000	FNDR	EXECUTION
XI	20074524-0	PATH GOLFO ELEFANTE\PTA.LEOPARDO\BAHIA ALDUNATE	3300000	FNDR	EXECUTION
XI	20074609-0	PATH RIO NADIS\RIO BRAVO	2000000	FNDR	EXECUTION
XI	20074697-0	PATH VILLA O'HIGGINS\ENTRADA MAYER	2460000	FNDR	EXECUTION
XI	20074708-0	PATH ENTRADA MAYER\RIO BRAVO	2100000	FNDR	EXECUTION
XI	20074726-0	PATH B. BAHAMONDES\PENINSULA FLORIDA	3000000	FNDR	EXECUTION
XI	20080456-0	ROUTE 7-X50 VILLA MAQUHUALES\PEDREGOSO	2500000	FNDR	EXECUTION
XI	20080457-0	CROSS ROUTE 7 AND 245 CH-V.HERMOSA\LAS HORQUETAS	2500000	FNDR	EXECUTION
XI	20080458-0	CROSS ROUTE 7\X50 (VILLA ORTEGA)	3000000	FNDR	EXECUTION
XI	20080169-0	BAY CONSTRUCTION BAHAMONDES\PESCADO\MASILLA	2250000	SECTORAL	EXECUTION
XI	20049356	ROAD PTO. YUNGAY\VILLA O'HIGGINS (II stage)	4822700	SECTORAL	EXECUTION
XII	20080170-0	ROAD ESTANCIA VICUNA\YENDEGAIA	2975000	SECTORAL	EXECUTION
XII	20012131-1	ROUTE 255-CH GOB. PHILLIPI-KIMIRE AIKE	5300000	SECTORAL	EXECUTION
METROPO LITAN REGION	20072253-0	URBAN PAVEMENT	2942806	APART	EXECUTION

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METROPO LITAN REGION	20072426-0	URBAN PAVEMENT LA PINTANA	2729920	MUNICIP	EXECUTION
METROPO LITAN REGION	20073756-0	URBAN PAVEMENT LA FLORIDA	3173520	MUNICIP	EXECUTION
METROPO LITAN REGION	20073896-0	URBAN PAVEMENT SAN BERNARDO	2201125	MUNICIP	EXECUTION
METROPO LITAN REGION	20062650-0	URBAN PAVEMENT LA FLORIDA	2630966	MUNICIP	EXECUTION
METROPO LITAN REGION	20077259-0	MAINTENANCE URBAN ROADS	5000000	APART	EXECUTION
METROPO LITAN REGION	20007697-1	ROUTE G-16 QUILICURA\LAMPA	2500000	SECTORAL	EXECUTION
METROPO LITAN REGION	20015138-8	BASIC URBAN ROAD	2272000	SECTORAL	EXECUTION
METROPO LITAN REGION	20000243	ROUTE G-68 PADRE HURTADO \LOS PANGUILES	2103865	SECTORAL	EXECUTION
METROPO LITAN REGION	20009883	ROL G-25 LAS VIZCACHAS\SAN JOSE DE MAIPO	2106338	SECTORAL	EXECUTION
METROPO LITAN REGION	20015608	AV. A.VESPUCIO QUILICURA\INDEPENDENCIA	67744248	SECTORAL	EXECUTION
METROPO LITAN REGION	20015657-0	GRAL.VELASQUEZ LO VALLEDOR\J.HIRMAS	2166992	SECTORAL	EXECUTION
METROPO LITAN REGION	20015659-1	AV. A.VESPUCIO AGUIRRE CERDA\PAJARITOS	3041000	SECTORAL	EXECUTION
METROPO LITAN REGION	20019635-0	ISABEL RIQUELME SAN IGNACIO\V.MACKENNA	2266712	SECTORAL	EXECUTION
METROPO LITAN REGION	20025299-0	CROSSROAD 5\ROUTE 57-CH	2378592	SECTORAL	EXECUTION
METROPO LITAN REGION	20041694-1	AV. A.VESPUCIO PUDAHUEL\PANAM. NORTE	2770000	SECTORAL	EXECUTION
METROPO LITAN REGION	20067623-0	URBAN ROADS	2321140	SECTORAL	EXECUTION
METROPO LITAN REGION	20068508-0	URBAN ROADS SAN BDO.	2630966	MUNICIP	EXECUTION

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METROPOLITAN REGION	20059357	SUBWAY LINE 5	47050503	EMPRE	EXECUTION
METROPOLITAN REGION	20072014-0	ROUTE 180 LOS ANGELES\RENAICO\HUEQUEN	2640000	SECTORAL	EXECUTION
INTERREGIONAL	20072014-1	ROUTE 180 COIHUE\RENAICO\HUEQUEN	3390000	SECTORAL	EXECUTION
INTERREGIONAL	11200142-0	ROAD RALUN\CALETA GONZALO	10341577	SECTORAL	EXECUTION
INTERREGIONAL	20000248-0	ROUTE 68 SANTIAGO\VALPARAISO	5054730	SECTORAL	EXECUTION
INTERREGIONAL	20002513-4	CAUQUENES\QUIRIHUE	4000000	SECTORAL	EXECUTION
INTERREGIONAL	20010645-1	REMODELING OF TOLLS	2460300	SECTORAL	EXECUTION
INTERREGIONAL	20010645-2	RENEWAL OF MACHINERY AND EQUIPMENT	5747000	SECTORAL	EXECUTION
INTERREGIONAL	20010645-3	RENEWAL OF CONSTRUCTION MACHINERY	14320000	SECTORAL	EXECUTION
INTERREGIONAL	20040002-3	ROUTE 1 TOCOPILLA\RIO LOA	2369000	SECTORAL	EXECUTION
INTERREGIONAL	20040007-0	ROUTE 5 PARRAL\SAN CARLOS	6124841	SECTORAL	EXECUTION
INTERREGIONAL	20068766-0	ROAD SIGNALS	3950000	SECTORAL	EXECUTION
INTERREGIONAL	20069326-0	CYCLEPATHS IN VARIOUS REGIONS	5600000	SECTORAL	EXECUTION
INTERREGIONAL	20071334-0	WALKER CROSSING OVER ROADS	2889500	SECTORAL	EXECUTION
INTERREGIONAL	20076993-0	RENEWAL OF TUNNEL EQUIPMENT IN VARIOUS REGIONS	2390000	SECTORAL	EXECUTION

SOURCE: MIDEPLAN: DEPARTAMENTO DE INVERSIONES. Banco Integrado de Proyectos (BIP)

(\*: around US\$ 5.000.000 at the exchange rate of December, 1993))

SECTORAL: Ministry; EMPRE: State Enterprise; MUNIC: Municipal; FNDR: National Fund for Regional Development; APART: Financed by private sector.

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