

## CHAPTER V

### GENERAL CHARACTERISTICS OF THE PENSION FUND ADMINISTRATORS AND A DESCRIPTION OF THE INDUSTRY

#### A. General Characteristics

##### 1. Legal Aspects

The Pension Fund Administrators are private institutions whose exclusive aim is the management of five Pension Funds and the granting and administration of the benefits established in DL 3,500, the body of law which regulates them. This law defines the AFPs as public limited companies and they are therefore subject to the rules concerning plc contained in Law N° 18,046, as long as these do not contradict the provisions contained in the decree-law mentioned earlier. The creation of an Administrator requires the authorization of the Superintendency of AFPs.

A description of the main legal aspects referring to the Pension Funds Administrators is given below:

- a. They are institutions under the oversight of the Superintendency of Pension Fund Administrators.
- b. Each AFP is allowed to manage five Pension Funds. These are differentiated by the proportion of their resources which is invested in equities.
- c. The Administrators may not, under any circumstances, whether directly or indirectly, grant their members other pensions, services or benefits than those indicated in the law.
- d. The minimum capital necessary to form an AFP is five thousand UF, which is gradually increased in accordance with the growth in the number of members belonging to the Administrator. When a membership of 5,000 is reached, the required net worth is ten thousand UF. With 7,500 members, this rises to fifteen thousand UF and when membership reaches 10,000, the minimum required capital is twenty thousand UF.

If the Administrator falls below the minimum capital, it has a period of six months in which to make good the shortfall. Failure to do so implies the revocation of the authorization to exist and the liquidation of the company.

- e. The net worth of the Administrator is independent of that of the Pension Fund, and these institutions must keep the accounts of the Pension Fund net worth separately.
- f. The Administrator is authorized to charge its members commissions, which may be deducted from wages, withdrawals or balance, depending on the situation. These commissions must be standard for all the members of a particular Administrator and are fixed freely by the AFPs on the basis of the structure stipulated in the law.
- g. The AFPs must comply with a minimum yield rule with regard to the Pension Fund that they manage. This is measured on the basis of the average real yield on all Funds of the same type.

The AFP must hold an Obligatory Reserve equivalent to 1% of the managed Fund, financed with its own resources. This asset is invested in Pension Fund Units and constitutes a back-up for the minimum yield in addition to the Yield Fluctuation Reserve Fund.

- h. Despite its exclusive aim, the Administrators are authorized to constitute subsidiary public limited companies in the country to complement their corporate purpose, with the prior permission of the Superintendency of AFPs, provided that they offer services to individual persons or legal entities operating abroad, or that they invest abroad in Pension Fund Administrators or in foreign companies whose corporate purpose is related with social security matters. The activities that complement the corporate purpose of an Administrator as regards investments abroad refer to: management of Pension Fund portfolios, securities custody, collection of contributions, payments and deposits, management and payment of benefits, processing of information by computer, rental and sale of computer systems, training, administration of individual accounts and social security savings, promotion and sale of services and social security consultancies.

The AFPs may also, with the prior authorization of the Superintendency, set up subsidiary public limited companies in the country, whose sole aim is to manage social security resources of their own or of other Pension Fund Administrators.

The AFPs are also authorized to invest in public limited companies constituted as securities deposit companies. An Administrator may purchase up to 7% of the subscribed shares of one of these companies, either directly or indirectly.

- i. The law establishes the following as causes for dissolving a Pension Fund Administrator:

- Deficiencies in minimum capital that are not rectified within the legal time-limit.
- Deficit in the Obligatory Reserve which is not rectified within the time-limits established in DL 3,500.
- Non-compliance with the obligation to pay in the amounts needed to guarantee the minimum yield of any of the managed Funds, when the occasion arises.
- Non-compliance with the obligation to keep Pension Fund securities in custody, on more than two occasions within a six-month period.

If an AFP is dissolved for any reason, the liquidation of the company and the management of the Pension Fund become the responsibility of the Superintendency of AFPs.

The liquidation of an AFP affects only the company and not the Pension Fund concerned, whose individual accounts are transferred to the Administrators selected by their owners. Where a member fails to select a replacement AFP within the period established by current rules, the liquidator will transfer the balances from his/her individual accounts to the Administrator whose legal domicile or office is in the town where that member is working. If there are two or more AFPs which fulfil this condition, the liquidator will choose the AFP which has obtained the highest yield in the two calendar years preceding the dissolution. If no Administrator has an office in the town where the member is working, the liquidator must use the region in which the member is working in order to apply the rule described above.

- j. The Administrators are obliged by law to take appropriate action to collect contributions, both mandatory and voluntary, which are owed to members of the System, as also any readjustments and interest.
- k. The AFPs as a body must administer and finance the Regional Medical Commissions and the Central Medical Commission, excluding the expenses arising from the hiring of medical personnel, which corresponds to the Superintendency of AFPs. The function of these Commissions is to assess the degree of disability in members of the Pension System who request this to be done.

## 2. The Main Activities of the Administrators

The main activities carried out by the Pension Fund Administrators in order to fulfil their single purpose, may be summarized as follows:

- a. *Administration of Individual Accounts:* One of the key tasks of the AFPs is the administration of their members' individual accounts

(capitalization, voluntary savings, and compensation savings), in which they have to register the social security contributions of the workers, both mandatory and voluntary. The documentation generated as a consequence of the administration of the individual accounts is held in a social security file, used for the custody of members' documentation.

There are two collection procedures; the first of these is based on paper documents and payments by cheque, while the second involves payment by Internet of social security contributions, agreed deposits, voluntary savings deposits and compensation contributions. In the former case, the collection of the contributions may be made in the AFPs' own offices or in sub-contracted institutions. For the collection of social security contributions the AFPs may sign contracts with banks, Family Allowance Compensation Funds (Cajas de Compensación de Asignación Familiar, CCAFs), or other institutions expressly authorized by the Superintendency of AFPs.

The system of social security payment by Internet involves the employer or self-employed worker in sending two simultaneous electronic transfers to a website: the first corresponds to the payment spreadsheet (which is transmitted immediately to the receiving AFP) and the second is the payment order addressed to the bank in which the payer has an direct debit arrangement on his/her current account. PreviRed, a company belonging to the Pension Fund Administrators was set up to implement this system. PreviRed is an Internet portal, by which contributions payments are received for various social security institutions, such as: AFPs, ISAPREs, CCAFs, employees' benefit societies (Mutuales de Seguridad), the INP and FONASA.

In relation with the management of the individual accounts, the AFPs must also carry out a series of other activities: they are under an obligation to take the necessary steps to collect mandatory and voluntary contributions owed to their members by employers, and must carry out all the tasks involved in operating the individual accounts, such as crediting contributions and clarifying misplaced payments.

Meanwhile, administrators with a net worth of twenty thousand UF or more may offer their services to other AFPs in terms of collecting contributions and depositing them in the respective individual accounts, according to the instructions given by these latter institutions.

- b. *Investment of Social Security Funds:* The Administrators have to decide how to invest their members' resources and then implement such

decisions by investing in financial instruments available for public offering, authorized in DL 3,500 or by the Central Bank of Chile or the Superintendency of AFPs.

The Administrators must comply with the provisions contained in current rules which are designed to protect yield and security in the investment of workers' Funds. These have to do, for example, with only acquiring securities which are specifically authorized by the law, complying with the limits for instruments and issuers established in DL 3,500, complying with the regulations concerned with conflicts of interest involving such investments, maintaining the Yield Fluctuation Reserve and the Obligatory Reserve belonging to the Administrator, which guarantee the mandatory minimum yield, etc.

- c. *Granting and Administering Benefits:* The AFPs must grant their members the pensions established in the law as soon as they fulfil the requirements that entitle them to receive them.

In order to do so, the AFPs have to take out a Disability and Survivorship policy with an Insurance Company and may carry out the procedure for obtaining the Recognition Bond and its complement on behalf of their members.

- d. *Services and Information:* In order to provide a good service and attract members, the Administrators keep a national network of branches; at present the number of branches in the industry amounts to 258 agencies, of which 15% are in the Metropolitan Region. The AFPs also have specially trained agents for jobs involving direct contact with members, who are dedicated to providing information on-site and to solving their social security problems.

The AFPs also send written information to their members, some of which is mandatory, such as the four-monthly statement, or distribute it via their branch network or the Internet.

- e. *External Activities:* Finally, it is worth mentioning the consultancies and investments in social security matters that some Administrators are carrying out abroad, within the legal framework that allows them to set up subsidiaries in the country in order to provide services or to invest abroad.

In March 2002, the participation of Chilean AFP subsidiaries in Pension Fund management companies abroad was as follows:

Table N° V.1  
**INVESTMENT OF AFP SUBSIDIARIES ABROAD**  
 (March 2002)

AFP	Country	Share
AFP Provida	Colombia: AFPC Porvenir S.A.	20.0%
	Ecuador: AFP Génesis S.A.	100.0%
	El Salvador: AFP Crecer S.A.	19.0%
	México: AFORE Bancomer S.A.	7.5%
	Perú: AFP Horizonte S.A.	15.9%
AFP Santa María	Perú: Aetna Pensiones Perú S.A. (AFP Integra S.A.)	66.0%

### 3. Rules for Forming an AFP

The creation of a new AFP has to be authorized by the Superintendency of Pension Fund Administrators. According to the provisions given in article 130 of Law N° 18,046 concerning Public Limited Companies, and in the Organic Law of the Superintendency of AFPs, contained in DFL N° 101 (1980) issued by the Ministry of Work and Social Security, the procedure for constituting a new Administrator includes sending the Superintendency a prospectus describing the key aspects of the new company and the way in which it will perform its activities. This must be approved or rejected by the Superintendency of AFPs.

According to the instruction document issued by the Superintendency of the area, which contains the procedure for setting up an AFP, the specific details that must be included in the prospectus consist of a letter of presentation, a feasibility study and the draft of the bylaws.

The feasibility study has to contain data such as:

- a. A definition of the business and its aims
- b. Identification of the owners and the capital contributions structure
- c. A strategic analysis of the business
- d. An economic evaluation of the project
- e. A schedule of activities

Once the prospectus is presented, this is analysed by the Superintendency of AFPs which, by virtue of the powers established in article 130 of Law N° 18,046 and article 3 of DFL N° 101 (1980), assesses the advisability of setting up the AFP. It may reject the application without giving any reason.

If the Superintendency sees no drawbacks to the prospectus and considers that setting up the AFP is indeed advisable, it grants the provisional authorization certificate which allows the organizers to carry out all the procedures involved in obtaining authorization for the company to exist and the administrative activities aimed at preparing its constitution and future functioning. It becomes a legal entity for these purposes as from the date when the certificate is given.

Once the request for authorization of existence has been presented, with an authorized copy of the public document containing the bylaws attached, which must include the certificate referred to above, the Superintendent of AFPs has to check that the company's capital is as stated. Once this is proven, he issues a resolution authorizing the existence of the company and approving its bylaws.

## **B. A Description of the Industry**

### **1. Development**

The Individual Capitalization System began in 1981 with twelve Pension Fund Administrators: Alameda, Concordia, Cuprum, El Libertador, Habitat, Invierta, Magister, Planvital, Provida, San Cristóbal, Santa María and Summa.

The number of Administrators remained unchanged until 1985, the year in which AFPs Alameda and San Cristóbal merged, resulting in the formation of AFP Unión.

In the years 1983 and 1987 two legal reforms were introduced, modifying DL 3,500, and these to a certain extent brought about a lowering of the legal barriers which had discouraged AFPs from entering the industry. In 1983 the amount that Administrators were required to hold as an Obligatory Reserve was reduced to 1%, whereas before this legal modification it corresponded to 5% of the Pension Fund under management. In 1987 the minimum net worth requirement for constituting an AFP was reduced from 20 thousand to 5 thousand UF.

The changes in the number of AFPs since that time have occurred in the following way:

- a. In the years 1986, 1988 and 1990 respectively, AFPs Protección, Futuro and Bannuestra entered the industry; however the last of the three was dissolved in 1991 for failing to comply with the minimum net worth requirement.

- b. In 1992 six new Administrators went into operation: Banguardia, Bansander, Fomenta, Laboral, Previpan and Qualitas.
- c. During 1993 AFPs Aporta, Genera and Norprevisión went into operation, the last of these later changing its corporate name to Valora. The merger of AFPs Invierta and Planvital also took place that year.
- d. In 1994 AFP Armoniza was set up, and AFP Laboral liquidated due to non-compliance with the minimum net worth requirement.
- e. Meanwhile in 1995 AFP Provida merged with AFP El Libertador, AFP Santa María with AFP Banguardia and AFP Valora with AFP Qualitas and AFP Previpan. In addition, AFP Genera was liquidated that same year when the company was declared bankrupt.
- f. In March 1996 AFP Planvital merged with AFP Concordia, the latter being absorbed into the former; in November of the same year two further mergers took place: AFP Magister and AFP Futuro, - the latter ceasing to exist - and AFP Valora with AFP Armoniza, calling the new company AFP Qualitas.
- g. In the month of June 1998 AFP Provida took over AFP Unión; in August AFPs Summa and Bansander merged; in the month of September AFP Magister took over AFP Qualitas and in October AFPs Aporta and Fomenta merged.
- h. In January 1999 AFP Provida took over AFP Protección.
- i. Finally, in the month of January 2001, AFP Aporta Fomenta merged with AFP Magister, the last-named being the legal continuer.

At present there are seven Pension Fund Administrators competing in this industry: Cuprum, Habitat, Magister, Planvital, Provida, Santa María and Summa Bansander.

## 2. Market Share and Concentration

In March 2002, the AFP with the greatest market share in the industry had 42.37% of all the contributors in the System and 31.74% of all the resources under management. At that same date, 78.23% of the contributors to the System belonged to the three largest AFPs, which in turn held 70.4% of the social security resources.

Table N° V.2  
**MARKET SHARE: BY NUMBER OF CONTRIBUTORS (1)**

AFP	Numbers of contributors (2)	% of market	% Accumulated
Provida	1,490,096	42.37	42.37
Habitat	801,537	22.79	65.16
Santa María	459,611	13.07	78.23
Cuprum	317,724	9.04	87.27
Summa Bansander	282,781	8.04	95.31
Planvital	95,597	2.72	98.03
Magister	69,108	1.97	100.00
TOTAL	3,516,454	100.00	

(1) Data as of March 2002.

(2) Corresponds to the number of active members who contributed in March 2002 for wages accrued in previous months.

Table N° V.3  
**MARKET SHARE: BY PENSION FUND**  
 (Millions of dollars of March 2002)

AFP	Pension Fund Assets	% of Market	% Accumulated
Provida	11,651.29	31.74	31.74
Habitat	8,362.25	22.78	54.52
Cuprum	5,827.14	15.88	70.40
Santa María	4,734.73	12.90	83.30
Summa Bansander	4,080.26	11.12	94.42
Magister	1,028.82	2.80	97.22
Planvital	1,018.89	2.78	100.00
TOTAL	36,703.38	100.00	

As may be observed in the tables above, there is a higher concentration in the System as far as the number of contributors per AFP is concerned, than in the Pension Fund itself.

If one takes a measure of concentration such as the Herfindahl index <sup>49</sup> and the index of Domination<sup>50</sup>, calculated as a percentage of the Fund,

<sup>49</sup> The Herfindahl index is defined as  $\sum S_i^2$  where  $S_i$  is equivalent to the share measured as a function of the size of the Fund of each of the Administrators. The maximum value is reached in the case of a monopoly, where it equals 100. If there were  $n$  Funds of equal size, its value would be  $(100/n)$ ; in the case of the AFPs it corresponds to 14.3 (considering the 7 AFPs at present in existence).

<sup>50</sup> The index of Domination is defined as  $\sum (Q_i^2/H)^2$ , where  $H$  is the Herfindahl index and  $Q_i$  corresponds to the share of the Pension Fund with respect to the total. This index is a measure of concentration, which differs from the Herfindahl index in that it does not increase with mergers of companies which are small compared to the size of the rest, but does in the case of mergers between relatively large companies.

it is possible to see that from the beginnings of the AFP System until the mid-nineties a de-concentration of the Pension Funds occurred, which meant an increase in the level of competition in the industry. As from 1986 a clear downward trend may be seen in the concentration index; meanwhile, the increase in the number of AFPs which took place in the years 1992 and 1993 produced a de-concentration effect on the Pension Funds. However, this trend went into reverse as from the year 1996, with an increase in concentration occurring as a result of a large number of AFP mergers and take-overs. In the last three years the concentration index has remained relatively stable, at a level similar to that which existed in the early years of the System's operation.

Table N° V.4  
CONCENTRATION INDEX OF THE INDUSTRY

Years	Herfindahl Index (As % of the Fund)	Index of Domination (As % of the Fund)
1981	21.6	40.7
1982	19.4	38.8
1983	18.0	36.5
1984	17.1	34.3
1985	17.9	31.4
1986	18.2	31.4
1987	17.8	30.1
1988	17.2	29.8
1989	16.7	29.5
1990	15.8	28.1
1991	14.7	24.4
1992	13.6	22.6
1993	13.0	22.5
1994	12.5	21.2
1995	13.1	20.2
1996	13.4	20.0
1997	13.9	20.5
1998	16.9	23.5
1999	20.8	32.5
2000	20.7	32.3
2001	20.9	32.2
March 2002	20.8	32.0

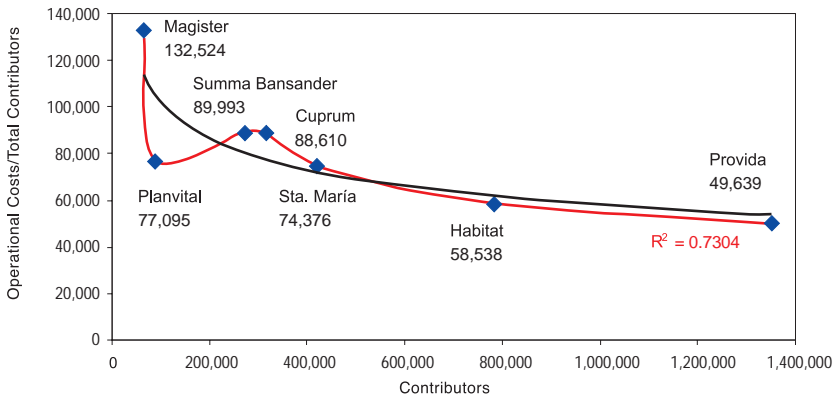
### 3. Presence of Economies of Scale

The level of concentration of the Pension Funds is related to a considerable extent with the economies of scale existing in the industry. The social security administration industry presents significant economies of scale, and this favours the concentration of the sector.

In order to determine the existence of economies of scale in the management of Pension Funds, a calculation was made for the year 2001 of the operating costs per contributor incurred by each AFP in the industry. In the following graph it is possible to see that the average costs of the smallest Administrator are three times greater than those of the AFP with the largest number of contributors, whilst in general terms there is a negative relationship between the number of contributors and the average operating costs.

From the above it may be deduced that in the Industry of Pension Fund Administrators, concentration in contributors favours lower production costs, given the presence of economies of scale.

Figure N° V.1  
OPERATING COSTS PER TOTAL CONTRIBUTORS



### 4. Development of Transfers between AFPs

One of the bases of the Individual Capitalization System is that members have freedom to choose their own AFP. In order to regulate the exercise of this choice, procedures have been established by which workers can

transfer the balance in their individual accounts between Administrators, and these have had a significant influence on the development of transfers. These transfers play an extremely important role as a sign of competition between the AFPs, but they are expensive for the System and may also be damaging for members, if they are carried out without due information.

It is possible to identify the following stages with regard to the development of the regulations concerning transfers between Pension Fund Administrators:

- a. The period from May 1981 to February 1982 was marked by the setting up of the new Pension System with the resulting lack of knowledge on the part of the workers and very little regulation in the matter of transfers. This was reflected in a great movement of members.
- b. Later, between March and October 1982, the first regulation was in force, imposing a basic cycle of transfers with a duration of three months. The social security book had to be handed in as a pre-requisite for requesting the transfer.
- c. Between November 1982 and November 1987 a change in current regulations extended the cycle of transfers from three to four months and made it obligatory for the worker to go to an AFP office in order to formalize the transfer request. This regulation remained in force for five years, during which time the number of transfers rose from 134,720 per year in 1984 to 181,048 in 1987. This meant an annual growth rate of 10.35%. The average number of transfers during this period was 169,792 per year.
- d. As from December 1987 the regulation requiring the worker to go personally to an AFP office to request the transfer was eliminated. In the period 1988-1997 the average number of transfers was 834,227 per year. The growth in the number of transfers during this period was dramatic, rising from 306,819 transfers per year in 1988 to 1,462,681 in 1997. This implied an average annual growth of 19%, almost double that observed in the period described in letter c. above.
- e. The response of the Administrators to more flexible transfer regulations was to increase the size of their sales forces and consequently their marketing costs. During 1983 the marketing costs of the System per active member (including the wages of the sales force and actual marketing costs) were 7,772 pesos per year per

member<sup>51</sup>; these costs fell over the years, reaching a low of 3,981 pesos in 1987. However, in 1988, coinciding with the elimination of the requirement to carry out the transfer personally in an AFP office, the expenses rose to 5,245 pesos per active member. Between 1988 and 1997 the marketing costs increased at a real annual rate of 15.4%, till in 1997 they came to 18,984 pesos per member. This increase was mainly a result of the increase in expenditure on wages for the sales force. As regards the share of marketing costs in the operating costs<sup>52</sup>, in 1988 these were 22.8%, increasing to 50.7% in 1997.

At the same time the number of sales agents in the System rose at a rate of 22.9% per year between December 1988 and December 1997.

- f. In order to reduce fraudulent transfers and to enable members to transfer between Administrators with more adequate information, a requirement was introduced as from October 1997 which obliged workers to hand in photocopies of their ID Card and the latest social security statement from their AFP when signing a transfer order.

In this latest stage, the marketing costs of the AFPs have fallen substantially and steadily, from a level representing 18,984 pesos per member in 1997 to 5,005 pesos per member in December 2001. At this latter date, marketing costs represented 26.1% of the industry's total operating costs<sup>53</sup>.

As regards the number of sales agents in the industry, this also decreased steadily from 17,448 in December 1997 to 2,554 in March 2002.

From the above information it may be deduced that the number of transfers in the AFP industry is affected by variables such as the number of Administrators, the number of sales agents, the number of members and the regulations currently in force. Figure N° V.2 shows the evolution in the number of transfers, from the year 1983 to the present.

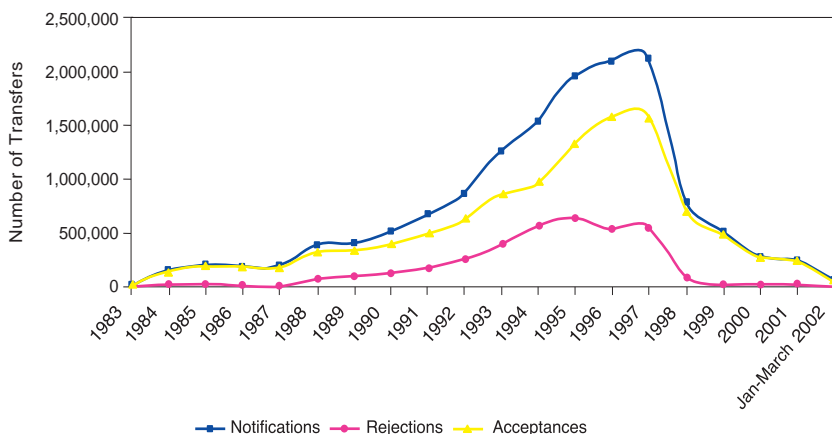
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<sup>51</sup> All monetary values given in this paragraph are expressed in pesos as of March 2002.

<sup>52</sup> The operating costs used do not include the premiums for the Disability and Survivorship Insurance.

<sup>53</sup> Not including the premium of the Disability and Survivorship Insurance.

Figure N° V.2  
DEVELOPMENT OF TRANSFERS



### C. Financial Details of the AFPs

#### 1. Balance Sheet

In March 2002 the value of the total assets of the Pension Fund Administrators was 489,333 million pesos (746 million dollars), which represents an increase of 8.3% compared with the previous financial year. The main item of the assets corresponds to the Obligatory Reserve which the Administrators are bound to hold, this being equivalent to 1% of the value of the Pension Fund that they are managing. This Reserve represents 48.6% of their total assets.

A second important item among the Administrators' assets as of March 2002 is the item "other assets". This adds up to 131,640 million pesos (200.7 million dollars), representing 26.9% of the System's total assets. 75% of the total of this item corresponds to the accounts "investments in related companies" and "lower investment value" belonging to AFP Provida. The first of these accounts includes primarily the investments in Provida International S.A., while the second corresponds to investments made by AFP Provida in the former Administrators El Libertador, Unión and Protección.

In third and fourth place, the total assets of the System are made up by the items "current assets" and "fixed assets", representing 14% and 10.5% of the industry's total assets, respectively.

With regard to the total liabilities of the Pension Fund Administrators in the periods analysed, approximately 80% of these correspond to the AFPs' equity which amounted to 392,806 million pesos (598.9 million dollars) in March 2002. With regard to the industry's level of debt, a

greater volume of current liabilities may be observed, as opposed to long-term liabilities; at that same date these represented 11.5% and 8.2% respectively of all the Administrators' liabilities.

The following table shows the consolidated Balance sheets of the AFPs up to March 2001 and March 2002, in comparative form:

Table N° V.5  
**CONSOLIDATED BALANCE SHEET OF THE AFPs**  
(In millions of pesos as of March 2002)

ASSETS				LIABILITIES					
	March 2001		March 2002			March 2001		March 2002	
Current Assets	62,155	13.8%	68,516	14.0%	Current Liabilities	57,580	12.7%	56,391	11.5%
Obligatory Reserve	215,130	47.6%	237,574	48.6%	Long-term Liabilities	36,987	8.2%	40,137	8.2%
Fixed Assets	51,426	11.4%	51,603	10.5%	Equity	357,417	79.1%	392,806	80.3%
Others Assets	123,273	27.3%	131,640	26.9%					
<b>TOTAL ASSETS</b>	<b>451,984</b>	<b>100%</b>	<b>489,333</b>	<b>100%</b>	<b>TOTAL LIABILITIES</b>	<b>451,984</b>	<b>100%</b>	<b>489,333</b>	<b>100%</b>

## 2. Results

In the period between January and December 2001, the profits for the financial year for the System as a whole amounted to 100,641.3 million pesos as of March 2002 (153.4 million dollars). The results for the same period in the year 2000 produced profits for the financial year, in pesos as of March 2002, of 133,995.4 million pesos (204.3 million dollars). These figures reflect a reduction of 25% in the net profits of the AFPs in the period of a year.

During the year 2001, the Pension Fund Administrators obtained operating income for a total of 328,739.6 million pesos, of which 86.5% corresponded to commissions charged from workers contributing to the System and pensioners receiving their money by the programmed withdrawal or temporary income options. At the same time, 6.1% of all operating income came from profits on the Obligatory Reserve held by the Administrators, 5.6% from profits obtained on the investments that the AFPs hold in companies with a complementary corporate purpose (mainly local subsidiaries of the AFPs which possess investments in foreign social security systems) and 1.8% corresponds to other operating income.

In the same year, the AFPs incurred operating expenses totalling 213,433.6 million pesos (325.4 million dollars), of which 42.3% corresponded to the cost of the insurance which covers members for risks of disability and death during their active working life. Meanwhile, 22.7% of the total operating costs correspond to the wages of administrative staff, 13.1% to the wages of the sales force, 13.7% to administrative costs and the remaining 8.2% to other expenses.

The following Table shows the development of the composition of operating income and expenses for the AFP industry as a whole, between the years 1990 and 2001. It may be observed that in the middle of the 1990s a change occurred in the composition of operating income and costs in the industry; in fact, an increase may be seen in income from AFP commissions and in the costs under the item of wages to sales personnel. At this present time, both categories are at the levels of the early 90s.

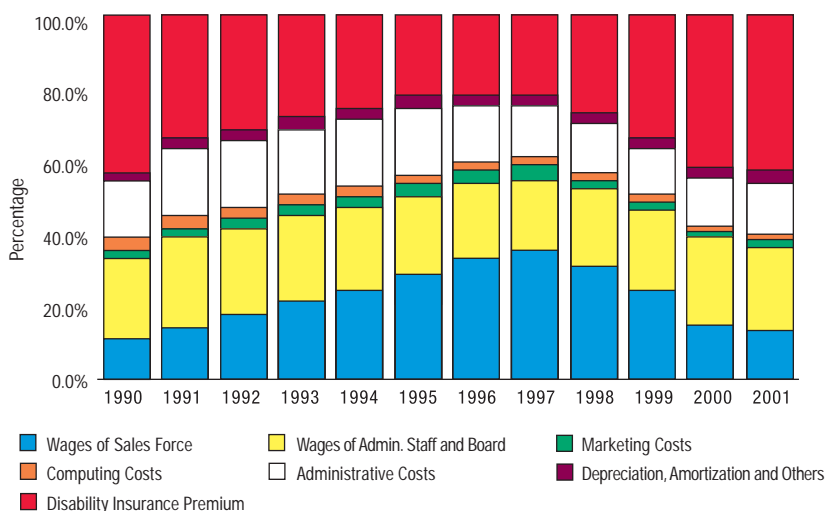
Table N° V.6  
**COMPOSITION OF AFP INCOME AND EXPENDITURE**  
 (In percentages)

	1991	1993	1995	1997	1999	2000	2001
Operating Income	100	100	100	100	100	100	100
Income from Commissions	84.4	87.0	90.4	93.3	84.4	75.9	86.5
Profit on Obligatory Reserve	9.7	8.8	3.7	4.5	9.3	4.6	6.1
Profit on Fund Premiums (1)	0.9	0.4	0.3	-	-	-	-
Profit(Loss) Companies with complementary corporate purpose (2)	-	-	-	-0.4	3.9	17.6	5.5
Profit (Loss) Inv. Securities Deposit Companies (2)	-	-	-	0.0	0.0	0.0	0.1
Other Operating Income	5.0	3.8	5.6	2.6	2.4	1.8	1.8
Operating Expenditure	100	100	100	100	100	100	100
Staff Wages	24.7	22.9	21.2	18.7	22.2	23.4	22.7
Sales Force Wages	14.1	21.5	28.6	35.5	24.1	14.9	13.1
Board Wages	0.4	0.4	0.3	0.3	0.4	0.4	0.4
Marketing Costs	2.3	2.9	3.4	4.2	2.0	1.4	2.0
Computing Costs	3.4	2.7	2.5	2.4	2.0	1.8	1.9
Administrative Costs	18.1	17.8	18.5	14.1	12.2	13.2	13.7
Depreciation	2.3	2.4	2.5	2.2	2.2	2.1	2.4
Amortization	0.2	0.6	0.5	0.5	0.3	0.4	0.5
Disability Insur. Premiums	33.5	28.1	21.9	21.7	33.8	41.3	42.3
Other Operating Costs	1.0	0.7	0.5	0.5	0.8	1.0	1.1

(1) In September 1996 the rules relating to the premium reserve to be held by the Administrators were repealed.

(2) Prior to the year 1997, the results in the category of investments in companies which complement the corporate purpose or in securities deposit companies were included for accounting purposes in the "Profit (Loss) on Investment in Related Companies" account, corresponding to a non-operating account in the Statement of Results.

Figure N° V.3  
COMPOSITION ON AFP OPERATING COSTS



### 3. Main Financial Indicators

Certain financial indicators representing the situation of the industry were calculated on the basis of the consolidated Financial Statements of the Pension Fund Administrators:

*Leverage:* With regard to the leverage shown by the AFPs, in March 2002 there was a debt-equity ratio of 0.25, meaning that the companies in the industry have funded themselves mainly with their own capital. With regard to the composition of the debt of the AFPs at that date, 58.4% corresponds to short-term debt and the remaining 41.6% to long-term debt. It is worth mentioning that the debt ratio of the industry in March 2001 was 0.26.

*Liquidity:* The liquidity index of the Administrators, measured as current assets over current liabilities, was 1.08 in March 2001 and 1.22 in March 2002.

*Average Monthly Cost per Contributor:* If an analysis is made of the behaviour of the operating result of the AFPs in relation to the number of contributors in the System, it may be observed that in the year 2000 the operating costs per contributor were 5,623 pesos per month, on average (in pesos of March 2002), falling to 5,376 pesos per contributor per month in the year 2001.

*Yield:* In the period included between January and December 2001, the yield on net worth<sup>54</sup> for the AFPs in the System was 33.77%. The results for 2001 compared negatively with those for the same period in the year before, where the yield reached 50.11%; this meant a decrease of 33%. However, the yield for the year 2000 was boosted unusually due to the fact that the subsidiary of AFP Santa María sold its share in the Retirement Fund Administrator Bancomer S.A. of Mexico, obtaining a profit of 48,187 million pesos. Therefore, if one deducts the result of that operation, the equity yield of the AFPs during the year 2000 would reach 38.8%, a figure slightly higher than that observed in the year 2001.

The following table shows a comparison of the net worth yield per AFP between the years 2000 and 2001.

Table N° V. 7  
**NET WORTH YIELD OF THE AFPs**  
(In percentages)

Administrators	Year 2000	Year 2001
Aporta Fomenta	3.26	--
Cuprum	57.39	60.36
Habitat	31.06	45.89
Magíster	11.40	9.83
Planvital	38.68	41.54
Provida	26.22	23.73
Santa María <sup>55</sup>	209.83	37.67
Summa Bansander	36.19	25.58
System	50.11	33.77

<sup>54</sup> This corresponds to the percentage return (profit after tax) obtained by the company on its net worth, excluding from this latter the profit or loss of the financial year in question and adding the dividends declared in the financial year.

<sup>55</sup> Includes profits from sale of AFORE Bancomer S.A. of Mexico