

Microinsurance in Brazil

Towards a strategy for market development



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- A series of qualitative focus group discussions conducted by Mr Joao Fortuna

It also draws on the various research reports on microinsurance, by a range of experts, commissioned by Funenseg as input into the Consultative Commission process.

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Abbreviations

ANS	National Agency for Supplementary Health (Agencia Nacional de Saude Suplementar)
ATM	Automatic Teller Machine
BACEN	Banco Central do Brasil
BNDES	Brazilian Development Bank (Banco Nacional do Desenvolvimento)
CEAPE	Centre for Backing Small Businesses
CGAP	Consultative Group to Assist the Poor
CNSeg	Confederacao Nacional das Empresas de Seguros Gerais, Previdencia Privada e Vida, Saude Suplementar e Capitalizacao
CNSP	National Council of Private Insurance (Conselho Nacional De Seguros Privados)
COFINS	Tax for Social Security Financing
COPOM	Monetary Policy Committee
CPF	Social Security Number (Cadastro de Pessoa FÃsica)
CRE SOL	Cooperativa de CrÃdito SolidÃrio
CSLL	Social Contribution on Net Income
DPVAT	Danos Pessoais Causados por VeÃculos Automotores de Via Terrestre
FENACOR	Federacao Nacional dos Corretores de Seguros Privados, de Capitalizacao, de Previdencia Privada e das Empresas Corretoras de Seguros
FenaPrevi	Federacao Nacional de Previdencia Privada e Vida
FenaSaude	National Federation of Supplementary Health Plans
FGDs	Focus group discussions
FGV	Getulio Vargas Foundation (Fundacao Getulio Vargas)
Funenseg	National School of Insurance (Escola Nacional de Seguros)
GDP	Gross Domestic Product
GT SUSEP	SUSEP Working Group (Grupo Trabalho) on Microinsurance
HMO	Health Maintenance Organisation
IAIS	International Association of Insurance Supervisors
IBGE	Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatistica)
IETS	Instituto de Estudos do Trabalho e Sociedade
IOF	Financial Transactions Tax

IRPF	Individual Income Tax
IRPJ	Corporate Income tax
JWGMI	IAIS-Microinsurance Network Joint Working Group on Microinsurance
MDA	Ministry of Agrarian Development (Ministerio do Desenvolvimento Agrario)
MDS	Ministry of Social Development (Ministerio do Desenvolvimento Social e Combate a Fome)
MFI	Microfinance Institution
MPS	Ministry of Social Security
NGO	non-governmental organisation
OSCIPs	Civil Society Organisations for Public Interest
PASI	Plano de Amparo Social Imediato
PGBL	Plano Gerador de Benefícios Livres
PIS/PASEP	Social Integration Program/Civil Servants Savings Program Contribution
PNAD	National Household Survey (Pesquisa Nacional por Amostra de Domicílios)
POF	Family Budget Survey
POS	Point of Sale device
PPP	Purchasing Power Parity
PROAGRO	Rural Activity Guarantee Program
PRONAF	National Agriculture Strengthening Program for Family Farmers
PSP	Subsidy Program for Rural Insurance Premium
RET-Ms	Proposed Special Taxation Regime for Microinsurance Operations
SCMEPPs	Societies for Credit for Microentrepreneurs and Small Enterprises
SELIC interest rate	Special System for Settlement and Custom
SICCOB	Sistema das Cooperativas de Crédito do Brasil
SICREDI	Sistema de Crédito Cooperativo
SPC	Secretariat of Complementary Pensions
SPE	Ministry of Finance Secretariat of Economic Policy
SUSEP	Superintendence of Private Insurance (Superintendência de Seguros Privados)
VGBL	Vida Gerador de Benefícios Livres

Executive summary

This report was commissioned by Funenseg and CNSeg, the Brazilian insurance school and insurance industry association respectively, as an independent assessment of the microinsurance market in Brazil, the drivers of its development and how this development has been shaped by regulation. It proposes a strategy for the further development of the microinsurance market, with specific focus on regulatory strategy and design.

A number of dedicated focus group discussions held in Rio de Janeiro, Sao Paulo and Fortaleza (for which a separate report is available) were conducted as part of the research, as well as an analysis of available IBGE socio-economic and financial services usage data subcontracted to Rio de Janeiro-based firm IETS. The Brazilian private insurance supervisor, SUSEP, kindly made their database available for dedicated analysis that identified trends in product lines especially relevant to microinsurance.

Key findings

The **market analysis** yielded the following key insights:

Between 23 and 33 million microinsurance clients: The Brazilian insurance market (including informal funeral assistance, but excluding health insurance) in 2009 covered between 40m and 50m people (roughly between 30% and 37% of adults). Of these between 23 and 33 million would represent the existing microinsurance client base¹.

In excess of 40 million clients without any insurance: The target market for microinsurance is largely persons earning below three minimum salaries (the minimum salary in 2009 was R\$ 465) or falling in income categories C and D, i.e. 128 million people. We exclude persons falling in income category E since private insurance will for some time to come still be unaffordable for most of them. Assuming maximum potential insurance penetration of 50 – 60 % in this market, it implies a potential microinsurance market at current income distribution of 64 – 77 million. Of these in excess of 40 million people are currently entirely untouched by insurance and those who do have insurance are likely to have very limited risk coverage.

Formal microinsurance mostly provided by large commercial insurers, with informal funeral market: Microinsurance in Brazil is mostly provided by large commercial insurers who started marketing products to this market from about 2001. The exception is the large informal funeral assistance market comprising up to 20-25 million clients served by several large and many smaller funeral homes. By law, funeral assistance is not considered as insurance. Health insurance remains the largest single private insurance market in Brazil.

Mass market distribution channels facilitate active sales at lower cost: Commercial insurers utilise a number of innovative mass market distribution channels to reach the low income market. The three largest channels are (1) banks, (2) retailers (for example Casas Bahia) and (3) marketing to existing client bases of retailers, financial institutions,

¹ These figures are estimates only and are based on assumptions and estimates as set out in the main text.

mobile operators and the like through direct mail or call centres (often referred to as affinity). The latter channel was developed by large broker companies. In addition to these channels, microinsurance is also marketed via (4) networks of credit agents linked to microfinance institutions (of which Banco do Nordeste's CrediAmigo model is the best example), (5) common bond organisations such as trade unions (the successful PASI model) and cooperatives, and finally, (6) door to door sales by brokers (the smallest channel). Whereas brokers are involved in all of these channels, the bulk of the actual sales is performed by the employees of third parties, such as retailers, for whom income from insurance sales is an additional but not a primary income stream. This ability to harness non-agent and non-broker sales forces to actively sell microinsurance to new clients is a core reason for Brazil's microinsurance success.

Products: Bundled products with "benefits in life" and capitalisation sell best: The microinsurance products found in Brazil exhibit unique features, including the fact that they bundle in various "benefits in life" as well as a capitalisation component (contractual saving entitling the policy holder to participation in a lottery draw – insurers are allowed to split out the savings component and cede the lottery entitlement to their policy holders). For example, a policy will contain a core personal accident or life component, plus funeral assistance, plus a capitalisation component. Interestingly, a number of products incorporate some kind of medical component such as discounts from selected pharmacies or even discounted access to a clinic. The bundled nature in most cases incorporates "benefits in life", with an emphasis on tangible benefits (such as a discount at selected stores, a food hamper or an assistance call centre) that you get access to while you are still alive. This is driven by cultural factors – Brazilians' passion for life and aversion to the topic of death, a fact strongly revealed by all the focus groups. Products naturally also tend to relate closely to the interests of the distribution channel used, for example insurance policies sold through a white goods retailer would tend to include extended warranty and credit life components.

Premiums range from R\$2 to R\$50 per month: The microinsurance target market is served by a broad range of products offering different levels of cover. Monthly premiums range from as low as R\$2 per month up to R\$50 per month. Benefits (sums assured) range up to R\$50,000 for home owners' insurance and life insurance respectively, around R\$20,000 for personal accident and just below R\$4,000 for funeral assistance.

Clients: Well-informed target market living in a new reality, but not prioritising insurance. The focus group research points towards a well-informed lower-income market. It confirms that the upward mobility of recent years (between 2001 and 2008 more than 20 million people moved from income categories E and D into C) has bred a new-found consumerism, a sense of being financially empowered and optimistic about the future, and of strong growth in retail credit extension. At the same time, indebtedness is on the rise and the new reality is creating a spending rather than a savings culture. While the value of insurance is recognised, the market will need some convincing to actually buy insurance. They see the need for regular premium payments as a constraint and currently prefer to cope with adverse financial shocks through loans or family support. These societal trends raise a warning signal on the risk of the newly-empowered middle market losing the gains of social inclusion through inadequate

savings and risk protection. This presents a crucial public policy imperative for developing the insurance market in Brazil.

Health and personal accident risks rank top-most in the minds of the urban target audience. The focus groups present an interesting deviation from the demand-side findings, internationally, that death and health are the two biggest risks in the minds of the microinsurance target market. While health is still paramount, the fear of accidents is mentioned alongside it. Unemployment was second in the hierarchy of risks that most concern people. Though death was recognised as unavoidable and unpredictable, the focus groups participants were more concerned about having to bear the funeral expenses of a family member than the impact of their own death on their family.

Perceptions of insurance depend on having a policy or not: The perceptions of insurance differ markedly between persons who have a policy and persons who do not. Those without insurance were suspicious about it, based largely on word of mouth regarding bad claims experiences of people whom they know. More concerning, though, was the prevailing opinion amongst those without insurance, and even those persons who had cheaper forms of insurance, that insurance was “very expensive”. The majority of focus group participants imagined the cost of insurance to be in the ratio of 1 (monthly premium) to 100 (compensation). When asked how much they thought a life insurance policy to the value of R\$30 000 would cost, the general reply was “between R\$150 and R\$180 per month”. Those with insurance, on the other hand, were remarkably aware of the real costs of insurance and believe the benefits to be worthwhile. Funeral plans were regarded as especially good value.

Low client value. While the introduction of microinsurance or mass market products has led to increasing coverage, the value delivered to clients has been decreasing. An analysis of SUSEP data from 2001 to 2008 for 5 product lines particularly relevant to microinsurance² (group life, group personal accident, credit life, extended warranties and multi-peril) reveal a dramatic increase in total premium, a sign of the dramatic growth in microinsurance over the period. Total premium for group personal accident, for example, increased from just more than R\$200 million in 2001 to just short of R\$2 billion in 2008. The increase in credit life was even more pronounced, increasing to almost R\$2.5 billion. Yet, over the same period, the claims ratios for these product lines dropped, sometimes dramatically. The claims ratio for multi-peril went from 62% in 2001 to 22% in 2008. For group personal accident the claims ratio dropped from 30% to 16%. For credit life the ratio was 25% in 2008 and for extended warranty 13%. These claims ratios are low by international standards, the only exception being group life with a claims ratio of 51%. Low claims ratios signify low value to clients, a situation that will ultimately threaten the sustainability of the market. In the case of extended warranty and multi-peril, the low claims ratios are also matched by very high sales expense – 50% and 52% of direct premium respectively. These figures are high by international standards.

The most important **impacts of regulation** on the development of the microinsurance market:

² SUSEP does not gather data for microinsurance products as a separate category. The analysis therefore focused on those product lines that include a large proportion of policies that could be categorized as microinsurance.

Financial inclusion policies have delivered a ubiquitous cash-friendly payment system and strong growth in microcredit: The emphasis of the Brazilian government on social inclusion and financial inclusion has yielded a number of regulatory changes that have benefited the growth of microinsurance. Paramount amongst these is the introduction of banking correspondents. The more than 130 000 banking correspondents that have been established since the introduction of the regulation has created a ubiquitous cash-friendly payment system that reaches even the most remote of Brazil's more than 5000 municipalities. This provides an accessible and relatively cheap avenue for premium collection. At the same time the central bank's requirement that 2% of banks' demand deposits be dedicated to microfinance operations have contributed to the growth of credit for low income clients, spurring the growth in credit life insurance.

Interplay of labour regime and broker legislation has shaped mass distribution models: Brazilian legislation does not provide for an agent category. Brokerage may only be paid to a broker and in those cases where a broker is not involved, the law provides that an amount equal to the "usual commission" must be paid to Funenseg towards the development of insurance education. Moreover, constitutional and other provisions protecting labour rights impute an employment relationship where persons earn a specific percentage of their income from commission from a single source.

The joint impact of the broker regime and labour legislation has shaped the mass distribution models seen in the Brazilian microinsurance market. Utilising the provision for an "estipulante" (representative) to source insurance proposals for insurers, the industry has contracted retailers and other third parties with large distribution footprints and extensive sales forces to sell insurance on their behalf. This places the employees of the estipulante at arm's length from the insurance company, preventing any direct employment relationship between the insurer and those who sell the insurance. The estipulante is paid a performance-based fee for its sales and administrative support, which can be passed on to the sales persons on an incentive basis. Insurance thus "piggy-backs" on the sales force of retailers or other third parties. In addition to the involvement of an estipulante, these distribution channels will also involve a broker. The result has been longer and more expensive distribution channels. Funeral homes, who *de facto* also sell life insurance, have capitalised on not being subject to these regulations by using very short and lower cost distribution channels.

Regulation has facilitated the use of new distribution channels: The Brazilian Insurance Code delegates the power to regulate detailed aspects of insurance provision to the CNSP (National Private Insurance Council) and SUSEP (Private Insurance Superintendent). This allows these institutions to adjust regulation in response to market developments. Over the past eight years they have used this flexibility to introduce various regulations that have enabled the introduction of new distribution channels and new products. Of particular note is Circular 267/2004 that expanded the distribution channels for popular group life insurance as well as the circulars that provide certainty on the role and position of the estipulante.

Increasing costs of compliance and relatively high capital and solvency requirements discourage small insurers: Since 2003 SUSEP has set out to modernise Brazilian insurance regulation, creating a more sophisticated regulatory framework. Whereas these improvements have advanced the stability of the sector, they have also increased the

regulatory burden and entry barriers for insurers. Added to this are relatively high minimum capital requirements, consisting of a fixed portion (R\$1.2 million) and a variable portion determined according to the regions in which the insurer operates. The variable portions for the two most lucrative regions in the country, Sao Paulo and Rio de Janeiro, are R\$8.8 million and R\$2.8 million respectively. In addition to the capital requirements, insurers must also maintain minimum solvency margins ranging from zero to R\$4.1 million, depending on type of activity. Being an insurer in Brazil therefore requires significant capital, a fact that has discouraged the entry of smaller players. It is often these smaller players who, through innovative products and distribution methods, catalyse the most dramatic changes in the microinsurance market. At the same time higher compliance costs and capital costs are passed on to clients, affecting the affordability of microinsurance products and limiting the reach of the market down the income spectrum.

Heavy tax burden: Insurance business is subject to five separate taxes, including a tax on financial transactions that varies between life (0.38% of premium), health (2.38%) and non-life (7.38%) business. To assess the impact of these taxes on microinsurance providers and clients respectively, we modelled the tax impact for the five product lines under which most microinsurance is likely to be written (see above). We used direct premium (excluding re-insurance premiums) for each product line as reflected in the SUSEP database as the baseline for these calculations. The provisional analysis showed that the total tax burden for large companies (with lower administrative expenses than smaller companies) as a percentage of before-tax profit varies between 46% for group personal accident to 91% for multi-peril. However, when the share of direct premium taken in tax is compared with the share taken by clients in claims, the figures become more glaring: group life and credit life fare best with tax burden amounting to 28% and 76% of claims respectively. However, for the other product lines the tax revenue is either equal or much higher than the client portion: 100% for multi-peril, 180% for group personal accident and 203% for extended warranty. Tax thus has a very large impact on the viability and profitability of microinsurance product lines.

Availability of capitalisation for microinsurance distribution. The fact that capitalisation is allowed (an historical provision in Brazil that few other countries have) has proven a strong stimulus for microinsurance uptake. Insurers are permitted by law to buy a series of capitalisation “titles”, strip out the savings component and cede the entitlement to the draw to their policyholders. The lure of a lottery win has proven critical for the success of many microinsurance schemes. Although there are concerns that the capitalisation element may undermine policyholder value, there is limited evidence that this is the case since the savings element is stripped out.

Health insurance regulation restricts scope for health microinsurance. The Brazilian constitution enshrines the right to universal healthcare and the state spends massively on public health care. The supplementary (private) health plan market is thus characterised by strict regulatory conditions including the inability to exclude prior conditions or to price on an individual risk basis. In addition, private health plans must offer certain prescribed minimum benefits. These conditions make health insurance expensive. However, there is no option for a “second tier” of micro health plans with lower benefits but also lower premiums that at least provide some protection. Although low-income households identified health costs as the biggest risk facing them, health

microinsurance (with the exception of dental plans, some of which are quite inexpensive) will remain outside the reach of most in the low-income market. Due to these dynamics, some non-health insurers have started to offer limited health-type benefits (such as hospital cash benefits, pharmacy or clinic discounts) as part of policies aimed at the lower-income market. There seems to be a high demand for such benefits, implying that it could be a driver of the direction that the microinsurance market will take.

Regulation of banking correspondents: Even if they were registered as brokers, banking correspondents are currently not permitted to sell insurance.

Microinsurance Bill: During 2008 a Microinsurance Bill was introduced in the Brazilian Congress to address some of these regulatory issues. The CNSP appointed a Microinsurance Consultative Commission who recommended various changes to the bill that were duly incorporated. The bill proposes far-reaching changes to the microinsurance market. The most important are:

- The creation of specialised microinsurance firms who will sell microinsurance only. Alternatively, existing insurers can create separate microinsurance divisions to capitalise on the benefits provided by the new dispensation.
- The creation of a new category of microinsurance brokers with lower entry requirements.
- The recognition of a new category of intermediary known as microinsurance correspondents. They may collect premiums and promote acts required for the marketing and administration of microinsurance.
- The creation of a special taxation regime for microinsurance operations that would limit the tax on financial transactions to no more than 1% and permit the payment of a combined tax equivalent to 1% of monthly income earned from microinsurance operations. This will entail a dramatic reduction in current tax burden on microinsurance.

The Bill initially also covered funeral assistance, but that provision has since been removed.

Recommendations

To continue and accelerate the growth of the microinsurance market in Brazil, the following recommendations are made:

Public policy objectives: The market analysis reveals at least three public policy imperatives for supporting the growth of private microinsurance:

- *Large uncovered risks for poor households.* Our estimate of 23-33m microinsurance clients does not mean that all the core risk mitigation needs of these clients are covered. Some of them may only have purchased an extended warranty on an appliance, a funeral policy for the funeral expenses of a family member, or credit life covering the outstanding loan amount. However, if these households are hit by major risks, notably health risks or the death or disability of a breadwinner, leading to the cessation of household income or

unmanageable increases in household expenditure, they are uncovered and likely to become the responsibility of the state if they cannot meet their needs in any other manner.

- *Income risk produced by the new reality.* The significant growth of credit but not savings in income categories C, D and E creates large areas of vulnerability among the recently upwardly mobile. In the absence of formal employment with its formal pension provision or savings, the upwardly mobile households are heading for dependency on the state when they retire or lose their income stream. This presents a risk to the state as the safety net of last resort. But more important, the gains of social inclusion are at stake.
- *Low value to clients.* Low claims ratios mean low value to clients. This situation is exacerbated by the fact that this market generally consists of first-time insurance users unfamiliar with the best or selective usage of insurance to mitigate household risks and safeguard incomes and wealth. Insurance products that deliver low value to clients raise consumer protection issues and place a question mark over the sustainability of these schemes.

Why regulate? If the Brazilian insurance market has managed to reach between 23 and 33 million people in the low income market over the past 8 years, why should it now be necessary to make any specific regulatory provision for microinsurance? Three main reasons are suggested:

- *High costs limit outreach and client value:* The distribution costs for microinsurance-relevant product lines are higher and the claims ratios lower than would be expected from a large sophisticated insurance sector like that of Brazil and certainly compared to other emerging markets. This means that higher than necessary costs are caused by either the market structure (including competitive forces) or the insurance regulatory compliance burden or other costs imposed by legislation. These costs could be lowered by regulatory intervention while the competitive dynamics can similarly be improved by regulation.
- *Sub-optimal distribution system:* In the mass distribution models used for microinsurance in Brazil the client (insured) has its primary relationship not with the insurer, but with the retailer or other third party and the primary content of that relationship does not relate to insurance, but to the business of the third party, whether that is retail, microcredit or banking. The market analysis shows that insurance products sold through these channels often serve the risk mitigation interests of the distributor more than they meet the risk mitigation needs of the client. Moreover, the sales persons used to sell the policies do not necessarily contribute to the development of a general insurance culture amongst the client base. For the growth of a mature insurance market, it is essential to balance the interests of the insurer, third party distributor (and its employees) and the client. Experience shows that regulatory intervention is required to achieve this.
- *Utilising microinsurance as a social protection tool:* Growing private risk mitigation by all households reduces the social protection obligations of the state. There is thus a sound rationale for the state to provide fiscal incentives for the growth of microinsurance. For such incentives, for example tax concessions,

to hit the intended target market will require a clear delineation of qualifying products as well as measures to prevent abuse and/or regulatory arbitrage.

Recognise that difference insurance sub-sectors require different incentives: Different sub-sectors of the Brazilian insurance market will respond to different regulatory incentives simply because they serve different markets, are at different levels of development and sophistication and have different levels of resources. Thus, whereas changes to distribution regulation, for example the creation of the microinsurance broker, are likely to be of similar interest to the entire sector, other changes such as reduced capital requirements as well as reductions in the compliance burden are likely to have a differential impact between different categories of companies. We recommend that at least **three different sub-sectors** are recognised in the regulatory approach:

- i. large capital-intensive and sophisticated insurance firms (often linked to banking groups in Brazil) with their primary markets in traditional insurance categories, who could be incentivised by reducing the costs of selling microinsurance and reducing taxes;
- ii. smaller formally registered insurers who specialize in the microinsurance market or would be interested in entering the market. In addition to sales cost and tax reductions, they would also respond to reductions in the general compliance burden, including minimum capital and solvency requirements; and
- iii. funeral assistance providers who are currently out of the regulatory regime, yet competing with registered providers of similar services. Although funeral assistance providers have a strong incentive to stay out of the regulatory regime, they may find the proposed Microinsurance Tax Regime very attractive.

Define microinsurance as broadly as possible: Current products bought by the microinsurance market cut across life and non-life categories with a significant range of premium and benefit levels. At the same time there is a great need for long-term savings products (similar to VGBL) to be offered as part of the microinsurance regime. Current insurance legislation as well as the proposed Microinsurance Bill allow for separate categories of microinsurance products to be defined by regulation. To facilitate maximum expansion in access to insurance products and realisation of the public policy objectives, we recommend that the microinsurance product categories be defined to include as broad a range of products as possible. In particular we recommend:

- *At least two categories for risk:* firstly, a microinsurance product category with systematically lower risk that would permit a lower compliance burden. Secondly, higher risk products that would include contractual savings products.
- *Actuarial modelling to set the benefit limits for product categories:* The exact levels of the benefit limits for the different product categories should be set based on actuarial modelling to determine the risk implications for different benefit levels for insurers, with different insurer size scenarios. It is important that a balance be found between limiting the risk and therefore the benefit levels allowed for a particular product category, while not making the limit too low to meet the current and potential requirements of the market. Should the

benefit be lower than the products the market wants to offer or the level of cover the target market wants, it will simply not achieve take-up.

- *Bundled products:* In defining microinsurance product categories, particular attention must be paid to bundled products. These products dominate the low-income market and will continue to be the mainstay of microinsurance in Brazil.
- *Dealing with regulatory arbitrage.* The risk of a broad definition of microinsurance is that some insurers might attempt to market traditional insurance products (that should not qualify as microinsurance and are not really targeted at insurance inclusion or lower-income customers) as microinsurance to take advantage of regulatory concessions. For example, instead of selling one life policy with a high benefit level to one high income client, the insurer could sell multiple microinsurance life policies to that client up to the higher level of cover required by the client.

Limit dedicated microinsurers to lower risk products: For the long-term strength of the industry it would be necessary not to tailor the compliance requirements for dedicated microinsurers to the profile of existing insurers. The requirements should be designed to encourage new entry. Such new entrants could be small operators wishing to experiment with new technology or product combinations. A specific option to consider would be that dedicated microinsurers qualifying for lower capital requirements are limited to lower risk microinsurance products, while larger insurers who already meet SUSEP's standard capital and solvency requirements are allowed to offer products falling within the higher risk microinsurance product categories.

Stabilise and strengthen microinsurance intermediation through a law of Congress: Whilst most of the issues raised above can be dealt with through subordinate legislation, that is not the case for the intermediation challenges. The strategic objective must be to facilitate continued sales of microinsurance products by the sales forces of third parties (noting that the primary income of these sales people are not derived from selling insurance) while at the same time strengthening the position of insurers to promote greater insurance awareness, an improved insurance culture and sales of a larger variety of insurance products through these channels. Resolving this situation will require, at the very least, an amendment to the current broker regime to enable a new category of brokers to be established. This requires a law of Congress. The proposed Microinsurance Bill provides a good way forward.

Unlocking banking correspondents to sell insurance: Banking correspondents are potentially the single largest distribution channel for microinsurance in Brazil. Banking correspondents are currently not allowed by banking regulation to sell insurance. Neither are they allowed by insurance regulation to intermediate insurance unless they are registered as brokers. Unlocking this distribution channel requires two regulatory changes: firstly, banking correspondents must be allowed (as banking correspondents and not as normal enterprises) to intermediate insurance. Such a change will allow various groupings of banking correspondents to be contracted by an insurer to intermediate insurance. To effect this change will require a decision from the Central Bank. Secondly, the staff members of banking correspondents must be allowed to sell insurance – a change that will be facilitated if the Microinsurance Bill is passed and they

can be classified as microinsurance brokers. With these two changes, a vast distribution channel for microinsurance in Brazil will be unlocked.

The microinsurance tax regime: The introduction of a special tax regime for microinsurance will have a dramatic impact on access to insurance in Brazil. When the fiscal impact of such a regime (assuming the scope of microinsurance recommended above) is scoped, a number of factors must be taken into account: (1) revenue sacrificed on current microinsurance products; (2) revenue to be gained through new product sales resulting from the introduction of the regime; and (3) potential increases in government expenditure if the regime is not introduced, resulting in inadequate risk coverage for low-income households.

1. Introduction

1.1. Study background & methodology

Brazil has achieved remarkable economic and social progress in recent years following its more turbulent economic history. This is also witnessed in the insurance industry, where there has been a marked rise in penetration and in activity in the middle to lower end of the market. Internationally, insurance products targeted at the lower end of the market are referred to as microinsurance.

In Brazil, microinsurance represents in the first instance a new market opportunity of potentially vast scale. International experience is showing that, through innovation and with the right enabling environment, the low-income market can be served in a viable and profitable way. However, it is more than just the business opportunity that matters for Brazil. Microinsurance can also be a potent social protection tool. In times of crisis, it is more often than not the poor who are most at risk and least able to protect themselves. Calamities such as the sudden death of a family member, illness, injury or loss of income or property can increase the vulnerability of poor people and perpetuate poverty by causing costly interruptions to the difficult process of asset formation. Very often, families that have clawed their way up out of dire poverty is thrown straight back into poverty when they are hit by risk events. In the absence of direct government provision, such risks may be mitigated through savings, informal support networks and community risk pooling mechanisms. Such strategies are however often not adequate and may break down at the time when support is needed most.

International experience has shown that insurance can play an important role in risk mitigation for those with low incomes. Whereas the individual may not be in a position to accumulate sufficient savings to cover losses when they occur, he or she may be able to pay premiums relating to the risk, should the product be designed and distributed to be affordable and appropriate to the needs of the poor. The provision of market-based risk protection to the low-income market can thus play a vital role in Brazil's social inclusion drive. A key policy objective for microinsurance development in Brazil must be to safeguard the advances in income and wealth of millions of households that have recently emerged from poverty through government's social inclusion and economic growth policies.

Objectives of this study. This study was commissioned by Funenseg and CNSeg, on behalf of the insurance industry in Brazil, as an independent assessment of the microinsurance market, the drivers of its development and the interaction with regulation. It will propose a strategy for the development of the market that will have implications for regulatory strategy and design. At the same time, it aims to provide an information base to inform industry strategy and dialogue between different players in the insurance value chain and between the insurance industry and regulators.

Methodology. The analysis contained in this report is based on:

- Insights gained during a two-week consultation process in Brazil in September 2009, during which we visited Rio de Janeiro, Fortaleza, Brasilia and Sao Paulo.
- An analysis of available IBGE socio-economic and financial services usage data subcontracted for this study and conducted by Rio de Janeiro-based firm IETS.

- Demand-side insights from a series of 15 focus group discussions conducted by Mr Joao Fortuna in Rio de Janeiro, Sao Paulo, Fortaleza and a semi-rural location in Ceará among lower-income people to better understand their risk experience, coping strategies, awareness and perceptions of insurance. (*A full focus group report authored by Mr Fortuna is available as a separate document.*)
- An assessment of available desktop research, including the research commissioned by Funenseg to feed into the CNSP Consultative Commission process and the reports prepared by the SUSEP Working Group on Microinsurance.
- An analysis of insurance industry data as contained in the SUSEP database.
- An analysis of the current regulatory framework (drawing, amongst others, on the second SUSEP Working Group on Microinsurance report that analyses the legislative barriers to microinsurance) and of international examples and learning on the regulation of microinsurance.

Structure. The report considers the scope for, opportunities and challenges to microinsurance expansion in Brazil as the basis for strategic recommendations. The review covers the relevant socio-economic and financial sector context, as well as the demand-side, supply-side and regulatory dimensions of the market. The sections are set out as follows:

- **Section 2** describes the macro-economic, social inclusion and financial sector context;
- **Section 3** considers the current insurance market in terms of the different players in the value chain, the distribution channels employed, the products of relevance to microinsurance and the current usage of insurance in Brazil;
- **Section 4** unpacks the demand-side insights gained from a series of focus group discussions among the low-income market in Brazil;
- **Section 5** summarises the salient market features and distils what we consider to be the drivers of microinsurance development in Brazil;
- **Section 6** sets out the regulatory framework for microinsurance; and
- **Section 7** suggests a strategy for the development of the microinsurance market in Brazil. This includes suggested public policy objectives, an assessment of the potential target market and the most likely distribution channels to reach them, as well as the main issues that have to be considered in the regulation of this market.

1.2. Definitions and analytical framework

Conceptual definition. The first SUSEP Working Group partial report considers the definition of microinsurance in detail. After considering the target market and its features, it concludes that a conceptual definition of microinsurance is called for rather than one relating specifically to the income of the target market. Accordingly, the Consultative Commission on Microinsurance in Brazil has adopted the following definition of microinsurance in Brazil:

"Financial protection provided by authorised insurers to low-income population against specific risks in exchange for the payment of premiums that are proportional to the probability of those risks occurring and to the costs of said risks, in accordance with relevant legislation and generally accepted insurance principles".

Insurance accessible to the low-income market. This definition is in line with that used by the IAIS (2007) in its paper titled “Issues in the regulation of and supervision of microinsurance”, where microinsurance is defined as “insurance that is accessed by [or accessible to³] the low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the IAIS Insurance Core Principles). Importantly, this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums” (IAIS, 2007).

This definition of microinsurance builds on three concepts “insurance”, “accessible to/accessed by” and “low-income population”:

Insurance: Microinsurance forms part of the broader insurance market, distinguished by its particular low-income market segment focus. This market often needs distinctive methods of distribution and distinctly structured products. While definitions vary, insurance generally denotes a contract whereby an insurer, in return for a premium, undertakes to provide specified benefits⁴. Insurance is distinguished from, for example, social welfare in that it is funded by premiums relating to the risk, and benefits are paid out of a pool of funds that is managed on insurance and risk principles⁵ (IAIS, 2007). In an insurance product risk is transferred from the policyholders to the insurer and the insurer guarantees the insurance benefit if the premiums are paid. Benefits may include one or more sums of money that may be fixed or that indemnify a specific expense or loss.. Claims may be paid out in the form of a lumpsum, as services or other benefits, or as an annuity.

Accessible to: Microinsurance products need to be accessible to the low-income population. Financial inclusion is the position where consumers, particularly low-income consumers, can **access**, and **use** on a sustainable basis, financial services that are appropriate to their needs:

- *Access factors.* Factors that impact on access include affordability, physical proximity, regulation, or eligibility requirements imposed by the insurer. Any one or a combination of these factors may push up cost or make it difficult or impossible for some potential customers to buy an insurance policy.
- *Usage factors.* In addition to these access barriers there may also be usage factors that discourage people from taking up the product even if they have access. These include the availability of informal alternatives, fear of ‘officialdom’ and paperwork required by insurers, distrust in the formal sector, etc.

Both access and usage factors are important determinants of developing an insurance market and will be considered in this report.

Appropriate products. It is important to note that financial inclusion is also defined in terms of *appropriate* products. It is, therefore, not merely about extending any product to the poor, but products that present value to them and that they are able to use. In the case of microinsurance this means that consideration should not only be given to the sales side but also to the claims side, as that is where the value of the product is delivered.

³ Authors’ own insertion.

⁴ Note that, sometimes, these benefits need not be a pay-out, but can take the form of a defence made on your behalf by the insurer.

⁵ Whereas social security is directly funded from government’s annual budget.

The low-income population: The low-income nature of microinsurance has important implications for microinsurance products, as “low-income” also means “low premium” and may require special products, delivery channels and business models in order to provide such products in a cost-effective manner. Low premiums in turn imply low margins, which require high levels of efficiency in both market delivery and regulation⁶. The following should be taken into account:

- *Relative and absolute poverty.* Microinsurance is not necessarily restricted to those below the national or some international poverty line. Such poverty lines are typically defined to isolate the most vulnerable segments of society and trigger government intervention as final resort. There may be many other low-income households that are not below the poverty line but still earn a low income, are vulnerable and are not served by the formal financial sector.
- *Minimum wage as moving target.* Similarly, as argued by the SUSEP Working Group, multiples of the minimum salary can give an indication of the target population, but cannot serve as an absolute cut-off for the target market, as the minimum salary is a public policy tool, adjusted annually to grow above inflation. A strict definition of income caps for microinsurance is usually only required when subsidies are provided and government wants to restrict subsidies to a very specific segment of society. As the rest of this document will argue, one should however be careful to be too restrictive in the definition of the target market.
- *Market expansion rather than exclusive poverty focus.* From a strategic market development point of view, facilitating market provision, i.e. expanding the current reach of the insurance market, is an important goal alongside the broader goal of social protection of the poorest and most vulnerable. Market facilitation requires an understanding of how markets evolve. While the extension into low-income markets can be accelerated or pushed into specific low-income client pockets, the momentum/trajectory of market development is likely to follow earnings potential. The market will prioritise the most profitable (“near”) markets over less profitable ones. Getting insurers to move to the next market segment that is not currently served is taking them one step closer to an all-inclusive market. Given that most of the unserved market in developing countries will be of a “low-income” nature, expansion will serve the low-income market even if it gradually evolves from the middle-income to the poor. This will be considered in more detail in the Strategy discussion (Section 7).

⁶ Despite this special focus, microinsurance remains an integrated part of the insurance market and should be managed accordingly.

2. Market context

The context within which the microinsurance market operates is vital to understanding the current and future drivers of development. Here we highlight the macro and socio-economic context, including the trends around social inclusion, and the financial sector context.

2.1. Macro and socio-economic

A large, diverse and mostly urban population. Brazil had a population of around 192m people in 2008⁷. This makes it the country with the 5th largest population in the world (World Bank, 2008a). The Brazilian population is highly urbanised compared to many other developing countries, with 85% of all Brazilians living in urban areas. 61% of households live in the relatively more wealthy South and South-East regions. Given its size, Brazil is very diverse, a “continent in one country” with very different climatic regions and sectors, and it is unlikely that a one-size-fits-all strategy will work in any sector. To add to the diversity, the population is an amalgamation of various settler and immigrant communities, the indigenous population and the slave trade over the centuries, all bound together by the single language they speak.

Recent economic success following reforms in the 1990s. After a turbulent economic history, Brazil in 1994 embarked on the Real Plan to reform and stabilise the economy. It incorporated an orthodox macroeconomic policy approach embracing, amongst others, fiscal discipline, a floating exchange rate since the late 1990s and inflation targeting. Since then, Brazil has seen dramatic economic improvements and today it is classified as an upper-middle-income country. A number of macroeconomic indicators illustrate this (World Bank, 2009b & c):

- GDP (PPP adjusted) reached US\$1,977bn in 2008, making Brazil the 9th largest economy in the world (8th largest without adjusting for PPP).
- GDP per capita (PPP adjusted)⁸ was estimated at US\$ 10,296 in 2008, ranking Brazil 64th out of 178 countries. This is more or less unaltered from its position a decade ago (Nationmaster, 2009)⁹.
- Real GDP growth was 5.4% (4.2% per capita) from 2006 to 2007, before reducing slightly to 5.1% in 2008. From 2003 to 2008 growth averaged 4.1%. In line with the global economic crisis, negative growth of 1.8% was experienced in the first quarter of 2009 (BACEN, 2009). Brazil has however already emerged from the recession, one of the first countries to do so. Growth resumed after the economy shrank for only two quarters (Economist, 2009)¹⁰.
- Consumer inflation was 5.9% in 2008, having reduced steadily from 12.5% in 2002 (BACEN, 2009). This is a significant feat given its erstwhile hyperinflationary levels

⁷ <http://siteresources.worldbank.org/DATASTATISTICS/Resources/POP.pdf>

⁸ As measured in the World Bank World Development Indicators database for 2008.

⁹ Though Brazil ranked 58th in 1998, this was out of only 169 countries. Its position remains within the top-35% of all countries.

¹⁰ It is important to caution that there may be some second order impacts of the recession that will come through in the next few years so. However, this does not take away from the fact that Brazil did convert to positive growth after only 2 negative quarters, one of the few countries to recover so soon.

(inflation averaged 763% per year between 1990 and 1995, at stages reaching as high as 2,500%¹¹). The economy is characterised by very high real interest rates, though interest rates have fallen by 5% during the global economic crisis of 2008/9. The SELIC¹² rate, set by the COPOM (monetary policy committee), reduced from 13.75% in January 2009 to its current target rate of 8.75% (BACEN, 2009b).

- Next to China, Brazil is currently the developing country with the highest foreign direct investment, totalling more than USD45bn in 2008 (Economist, 2009).

Structure of the economy moving towards tertiary sector, but agriculture remains important.
The composition of the Brazilian economy in terms of share of GDP is:

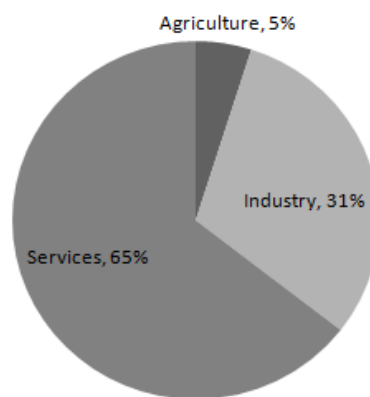


Figure 1. Structure of the Brazilian economy, 2007

Source: World Bank (2008), *Brazil at a glance*

The tertiary sector (services) accounts for 64.5% of GDP, with agriculture only contributing 4.9%¹³, down from 10% a decade earlier. Nevertheless, agribusiness more broadly remains an important bedrock of the economy, contributing about 38% to export earnings (Brazzilmag, 2008). Brazil is the world's largest exporter of frozen chicken, beef, sugar, coffee and orange juice and also one of the largest exporters of soya and of paper pulp from its commercial plantations¹⁴.

Employment-generating growth drives upward mobility. Not only has the Brazilian economy grown significantly over recent years, but this growth experience has also been employment-generating. At around 8%, unemployment is lower than in the USA. The structure of the population by economic activity looks as follows:

¹¹ Economist, 2009.

¹² Special System for Settlement and Custody.

¹³ For comparative purposes: agriculture contributes 3.6% to GDP in Mexico, 4.1% in Chile, 10.5% in Colombia and 8.4% in Argentina. Brazil's tertiary and services sectors have a much larger share in the economy than in other large emerging economies such as India and China, where agriculture contributes respectively 26.1% and 18.1% to GDP (World Bank, 2009 – various "Country at a glance" factsheets).

¹⁴ http://www.economist.com/specialreports/displaystory.cfm?story_id=14829525

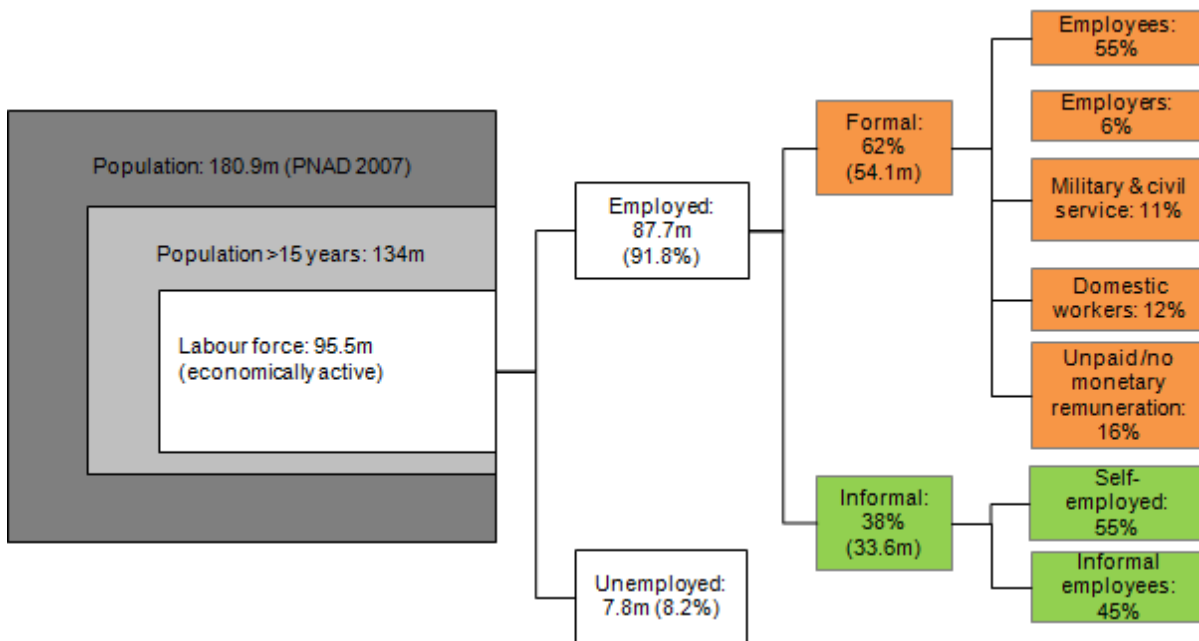


Figure 2. The Brazilian labour market.

Source: authors' representation based on PNAD 2007 data as analysed by IETS

Relatively low informality reduces distribution challenges. In other, poorer developing countries, the large share of the informal market challenges microinsurance development. In India, for example, 86% of all workers are estimated to work in the “unorganised” sector (Raveendran et al, 2006). In a small, least developed country like Zambia, only 12% of the workers are formally employed (Zambian Central Bureau of Statistics, 2006). Not only are the incomes of those in the informal sector less certain than of those in the formal sector, but they are also more difficult to reach, presenting distribution challenges. Whereas formal sector employees can be reached via their unions and employers, the informal sector is more fragmented. In Brazil, informality is lower, but at 38% it remains substantial (compared to e.g. the 27.5% informal employment in Mexico as measured by Cardero & Espinosa, 2009; Argentina, with 20% informal employment; and Chile, where 24.4% of those employed are in the informal sector according to the ILO).

But not as formal as it appears at first glance. Furthermore, at closer inspection, it is apparent that, though 62% of the labour force is “formally employed”, not all of them are in effect formal if considered from an insurance distribution point of view. That is, not all of them can be reached via employee groups. If domestic workers¹⁵ and unremunerated employees are taken out of the formal equation, the share of formal employment in the total employed market reduces to just 44%, placing 56% of the population in the market that does not form part of formal employee groups and therefore cannot readily be targeted for insurance via their employers. Galiza (2009) estimates there to be 30m union members. This represents only 34% of the employed market, suggesting that 66% of employees would be in the unorganised sector.

¹⁵ Note, however, that not all domestic workers will be “informal”, as government actively encourages the registration of domestic workers and extending benefits such as pension plans to them.

An on-grid population. Brazil has achieved near-universal access to electricity. According to the 2007 PNAD (IBGE, 2008 – as analysed by IETS), 98% of all Brazilians have electricity in their homes and receive regular utility accounts. The account rather than prepaid nature is an important aspect of the Brazilian situation. It means that the provider has a lot more detail to profile customers, is effectively providing services on credit which is repaid in arrears and the clients are already used to these kinds of on-going payments. The figure is 100% in urban areas and 90% in rural areas. Part of the reason for the recent success in increasing penetration is government's Programa Luz para Todos (Light for All Programme). It was created in 2003 with the goal to provide free installation of electricity in the homes of 10 million rural inhabitants by 2008, prioritising those on the Bolsa Familia Programme. By 2008, 9.5m people had been reached (Galiza, 2009b). Furthermore, 91% of Brazilians have running water in their homes. This implies that almost all households are "on grid" and receive regular utility bills – an immense advantage in terms of marketing of insurance products, as it provides a ready touch point to otherwise difficult to reach customers (i.e. those not employed in the formal sector). Furthermore, the 85% urbanisation rate reduces the distribution challenges to reach the rural poor that often undermine microinsurance viability in other developing countries.

Low absolute poverty. There has been a large increase in income at the bottom of the pyramid recently. There are two ways of considering poverty in Brazil: firstly, considering those below the Brazilian poverty line¹⁶ as well as Brazil's performance relative to the international poverty lines defined by the World Bank, namely \$1.25/day (PPP adjusted) or \$2/day¹⁷. Using the national poverty line, we find that 23% of the population are classified as poor. Absolute poverty is much lower when using the international poverty lines: only 5% of Brazilians live on less than \$1.25 per day and 15% below \$2/day. This is low compared to some other large developing countries, but high compared to selected Latin American peers. The table below compares the prevalence of poverty in Brazil with a select set of countries using the poverty lines defined by the World Bank.

¹⁶ Calculated as the aggregate of the population under the various state-level poverty lines. Poverty lines in Brazil are defined by state and according to urban, metropolitan or rural status, i.e. there is no official single national poverty line.

¹⁷ The former is the average of the 15 poorest countries in the world's national poverty lines, making it a measure of absolute or hunger-poverty. The latter is the median of all developing country poverty lines.

	Population (%) living on <\$1.25/day	Population (%) living on <\$2/day
Brazil	5.2	15.3
<i>vs. BRIC and South Africa:</i>		
China (rural)	26.1	63.8
China (urban)	1.7	13.6
India (rural)	43.8	85.6
India (urban)	36.2	72.6
Russia	0.2	2.67
South Africa	26.2	47.3
<i>vs. selected other Latin American countries:</i>		
Argentina (urban)	2.8	9.9
Chile	0.2	4.0
Colombia	16.0	31.6
Mexico	0.65	7.1

Table 1. Absolute poverty measures in Brazil and a cross-section of countries.¹⁸

Source: World Bank, Povcalnet

But a large low-income market. Another, more feasible way to look at the microinsurance target population is by considering income or socio-economic classes rather than absolute poverty levels. These are more relevant from a market perspective. Two measures are commonly used in Brazil: 1) multiples of minimum wage and 2) classes constructed from socio-economic variables. The most straight-forward measure is the minimum wage and its multiples. It asks what proportion of the population earns a monthly income below the minimum wage, with the three minimum wages per family level (currently R\$1395 or US\$ 775 per month¹⁹) widely regarded as the cut-off for the low-income market. The CNSP Consultative Commission adopted an even broader definition at three minimum wages *per capita* per month. In 2007, 85% of the Brazilian population (around 163m) qualified as low-income according to this measure:

¹⁸ This information is based on the most recent survey data for each country and the survey dates therefore differ across countries. All data has been adjusted for Purchasing Power Parity.

¹⁹ The 2009 level of the minimum salary is R\$465 (Galiza, 2009b), up from R\$260 in 2004. Therefore three minimum wages per capita income amounts to R\$1395 per month – too high to be an “absolute poverty” measure, but currently more or less in line with the population that falls below the income tax threshold (which is just below R\$17,000 per year - Simoes, 2009 email communication).

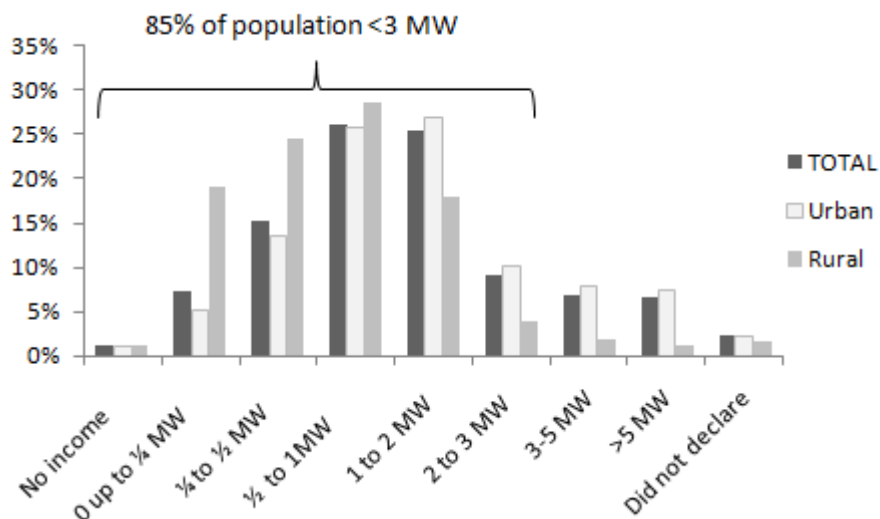


Figure 3. Breakdown of the Brazilian population by minimum wage multiples.

Source: Beltrao et al (2009), based on IBGE PNAD 2007 data

As noted by the SUSEP Microinsurance Working Group (Fourth Partial Report, 2009), the minimum salary is a public policy tool that is increased each year in real terms (i.e. above inflation). It is therefore not necessarily an objective measure of poverty.

Another commonly used measure, which is not based on income, but rather on a range of socio-economic variables such as asset ownership and education, is the A-E socio-economic classes. This is the classification used by the IBGE in its household surveys.

Socio-economic class	% of population
AB	14.97
C	53.2
D	13.51
E	18.32

Table 2. Breakdown of the Brazilian population by socio-economic classes, July 2009

Source: FGV (2009), based on the IBGE PME dataset

85% of the population or 128m individuals resort in classes C, D and E (FGV, 2009). This breakdown therefore closely corresponds with the minimum wage measure. In the rest of the document, this market will be referred to as the microinsurance target market, as set out in Section 7. Note, however, that class C is quite broad. The lower part typically comprises microinsurance target clients, while the richer end of the category may not actually classify as “low-income”.

Large-scale poverty reduction. Whichever way it is considered, Brazil has seen significant poverty reduction over recent years. This is in line with the broader emphasis on social inclusion in policy to be discussed below. Between 2003 and 2008, 27m people moved into classes A, B and C and 24m moved out of poverty (classes D and E). The largest growth has been in class C. The relative size of the different classes has evolved as follows over time:

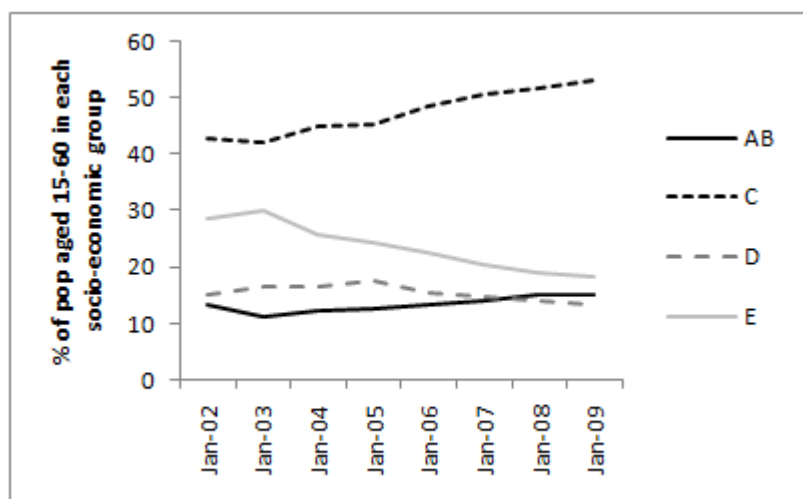


Figure 4. Evolution of the socio economic classes in Brazil: 2002 – 2009

Source: FGV (2009), based on the IBGE PME dataset

The rise of the “moneyed mobile middle”. The growth in especially class C, but also classes A and B, has been remarkable. This is no small feat and illustrates Brazil’s commitment to upward mobility and social inclusion. It is estimated that about 40% of this increase is due to Bolsa Familia (see the Box below), 10% derives from state pensions and 50% is from labour income (FGV, 2008 – personal communication). Together with the growth experience, the size of the economy, the big population and the level of employment discussed above, social inclusion has produced a “moneyed mobile middle” – a class of upwardly mobile, aspiring poor who collectively have considerable spending power.

Purchasing power. Earlier research synthesised by FenaPrevi (in Zanzini, 2009) indicates that the C, D and E classes have more than a third of the country’s purchasing power. Class C dedicates more than 30% and classes D and E around 20% of their purchasing power to consumption. At the time, this was still significantly lower than Mexico, Chile, Colombia, Argentina and Costa Rica. However, more recent figures suggest that families with a monthly income of up to R\$4,000²⁰ consumed R\$814bn in 2007, representing 58% of Brazil’s spending power. This is predicted to rise to more than R\$1,300 bn by 2030 (FGV and Ernst & Young, 2007 quoted in Zanzini, 2009). Research presented at the Microseguros Workshop (JLV, 2009) indicates that class C are able to spend 38% of their disposable income on non-essential items. This is in sharp contrast to the poor in many other emerging markets where the main goal is still survival. This presents a significant opportunity for microinsurance.

The purchasing power at the lower end of the market complements the large base of the economy and the growth experience to create a large domestic demand²¹ in Brazil. It is this demand that has (at least partly) buoyed Brazil through the current global economic crisis.

Box 1. The Bolsa Familia program unpacked

A large part of the recent social inclusion and upward mobility can be attributed to Brazil’s growth experience and entrepreneurial attitude, but also to the state’s social welfare emphasis and a

²⁰ This would still fall within the 3 minimum wages per capita market. A household earning R\$4,000 per month and comprising 3 individuals would be earning three minimum wages per capita per month.

²¹ For example: for the past two years Brazil has been the world’s largest-growing car market (Economist, 2009)

willingness to try new things. The Bolsa Familia Program is the umbrella under which various social assistance programs have consolidated,

History. Up to the 1980s, the norm in Brazil was to provide social assistance through the distribution of basic food packets in deprived areas. Concerns about corruption and a lack of logistical control however prompted a debate on the goals and structure of social protection. Cardoso's government (from 1995) was the first to roll out large-scale social programmes through various ministries, some implemented in partnership with NGOs, and all under the umbrella of one social protection network. Introduced in 2003, the Bolsa Familia Programme unified several of these programmes and expanded them into a single national conditional cash transfer programme. It draws its mandate from Law 10836 of January 2004, deriving from Provisional Amendment 132 of October 2003 (Galiza, 2009). Today 11m households (about 45m individuals) receive cash transfers totalling R\$11.4 billion per year:

	Families covered (million)	Budget (R\$ bn)
2003	3.6	3.2
2004	6.6	5.6
2005	8.7	6.8
2006	11.1	7.5
2007	11.1	8.8
2008	11.1	10.5
2009	11.1	11.4

Table 3. Bolsa Familia coverage and budget

Source: MDS (2009)

Structure. Bolsa Familia targets households earning up to half a minimum wage per capita, or a total monthly household income of no more than 3 minimum wages (MDS, 2009). Benefits are broken down as follows (MDS, 2009):

- A basic benefit of R\$68 per month to families with a monthly per capita income of up to R\$70, regardless of the number of children or adolescents in the household.
- A variable benefit of R\$22 for families with a monthly income of up to R\$140. This benefit is paid per child up to 15 years of age up to a maximum of three children per household.
- A variable youth benefit of R\$33 is paid to families with an income of up to R\$68.5 where there are adolescents aged 15-17 in the household that attend school, up to a maximum of two benefits per family.

The benefits paid will therefore vary according to family size and age of children, with a maximum amount of R\$200 per family per month. The average benefit paid is R\$51.6 per family per month.

Conditions. Minimum required school attendance is 85% for children from 6 to 15 years, reducing to 75% for those between 16 and 17 years. In addition, an immunisation schedule needs to be followed for children up to 7 years of age and their nutritional status must be monitored. Likewise, the nutritional status of pregnant or breastfeeding women is tracked and there is prenatal and postnatal monitoring (MDS, 2009).

Wide distribution network. Bolsa Familia is disbursed through the Caixa Economica Federal distribution network, including its 20,000 lottery outlets and 4,000 branches. In fact, Bolsa Familia was one of the motivating factors for the formalisation of the banking correspondent channel in regulation by BACEN. Recipients are issued a Bolsa Familia card used to withdraw the grant. Currently, the card does not allow the recipient any transaction or savings functionality – the full benefit must be withdrawn in a single transaction.

Single database. Operating costs represent only 5% of the programme budget, despite the fact that means testing needs to be conducted and education and health conditions need to be monitored (MDS, 2009). The success lies largely in the fact that a single registry, called CadUnico, is used where

each individual on the system is assigned a unique Social Identification Number. CadUnico collects information on all families with per capita income of less than half the minimum wage or a monthly family income of up to 3 minimum wages. It currently covers 17.5m families, 11m of whom are on Bolsa Familia (MDS, 2009). The database contains information on the characteristics of the house, the family composition, the identities of each family member, the qualifications of each family member and their position in the labour market, as well as the main family expenses. The data are collected and tracked at municipal level and then centralised in the unified database. Benefits can be blocked, suspended or cancelled by municipalities through a central web-based management system (Galiza, 2009b).

Administrative reach. Government has effective administrative reach through the municipalities and state-owned financial institutions for the implementation of Bolsa Familia. The unified database effectively documents and monitors the poor (Galiza, 2009b).

Banking inclusion program. MDS (the Ministry of Social Development) regards its next challenge as incorporating the Bolsa Familia recipients into the financial system in an effort to promote citizenship/social inclusion at large and also as an “exit tool” out of the Bolsa program by helping beneficiaries build up assets (Dias, 2009). To do so, it plans to convert the disbursement system to one based on basic/simplified current bank accounts²², where the Bolsa Familia account becomes a savings and transaction account for its users (MDS, 2009 – consultation). More than 2 million beneficiaries already have a bank account (Dias, 2009). The Bolsa Familia account will be a Caixa Economica Federal account with a debit card. Customers can choose whether it should be a Mastercard or Visa account. The immediate goal is to open 4m accounts by the end of 2010. MDS is however confident that this goal will be exceeded and that 6m new accounts will be opened over the next year. After that, the rest of the Bolsa recipients will be targeted, as well as the rest of the families on the CadUnico database but not covered by Bolsa (Dias, 2009).

As the conditions for the basic current account hold that one person may only have one basic account, it will imply that those recipients who already have an account would have to close that account in favour of the Caixa account, should they want to receive their Bolsa Familia grant into a bank account.

The banking inclusion project was piloted with 45,000 families in one city in 2008 and rendered more than 97% uptake (MDS, 2009). Most recipients however still tended to withdraw the cash in one go; it is likely that this culture will only gradually change and that dedicated financial education will be required. In this regard, MDS is involved in the coordinated process towards a National Strategy on Financial Education with entities like BACEN and SUSEP (MDS, 2009 – consultation). It plans a mass marketing campaign to create consumer awareness (Dias, 2009).

Phase II: financial inclusion more broadly. The plan is that the basic bank account should then provide the platform for other financial services (such as microcredit and insurance) as a next phase to the financial inclusion program. The plan is to provide funeral, personal accident or residential cover from below R\$2 per person per month. While this is a laudable goal, careful research will be needed to ensure that it is indeed attainable and will achieve the necessary scale to make insurance provision viable.

The Brazilian government annually invests great resources into the Bolsa Familia Program. It has managed outreach on an unprecedented scale, making it a frequently quoted success story internationally. The big challenge now is graduating people out of the programme as well as making the program the basis of financial inclusion by adding transaction functionality.

Decreasing inequality. All of these factors also contribute to decreasing inequality. Traditionally, Brazil has been one of the countries with the highest Gini coefficient (a measure of inequality) in the world. Along with poverty reduction, income inequality has however decreased in Brazil. The 2009 United Nations Human Development Report (HDR)

²² Created by BACEN in 2004, these accounts offer free transactions up to certain limits.

estimates the Gini coefficient for Brazil to be 0.55 (UNDP, 2009), down from 0.61 as measured in the 2003 HDR (UNDP, 2003). This represents a significant change in an index value. Between 2001 and 2007, the income distribution as measured by IBGE's PNAD dataset changed as follows:

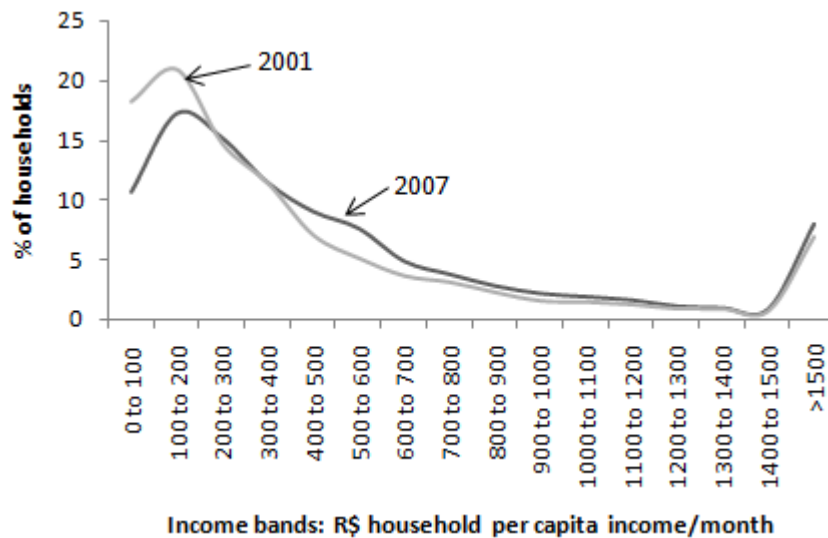


Figure 5. Brazilian household income distribution: 2001 versus 2007²³

Source: IBGE, PNAD 2001 & PNAD 2007 (graph drawn up from data analysis by IETS)

As is apparent from the diagram, the hump of the bell curve, indicating the percentage of people in the lowest income brackets, moved down between 2001 and 2007. Also, more people now fall in the R\$400-800 (roughly 1 to 2 minimum wages in 2007 terms) categories – noting that the income brackets have not been adjusted for inflation.

But high functional illiteracy. The one “fly in the ointment” where the rather rosy picture sketched above is concerned is Brazil’s education system. Despite spending 5%²⁴ of GDP on education, annually, education remains one of Brazil’s main challenges. 21% of the adult population is functionally illiterate²⁵, reaching 45% in rural areas:

²³ Note that the income brackets have not been deflated for 2007 versus 2001 and therefore the 2007 income will be inflated relative to 2001. However, inflation will not change the relative income distribution (the shape of the curves).

²⁴ This is slightly more than selected other Latin American countries. According to Unesco (2007) Chile, Argentina and Mexico respectively spend 3.4%, 4.51% and 4.83% of GDP on education.

²⁵ Functional illiteracy can be defined as a level of literacy insufficient to meet the requirements of everyday life. Therefore a functionally illiterate person may be able to read and write and would have had some schooling, but at an inadequate level. See, for example, <http://dictionary.reference.com/browse/functional+illiteracy>.

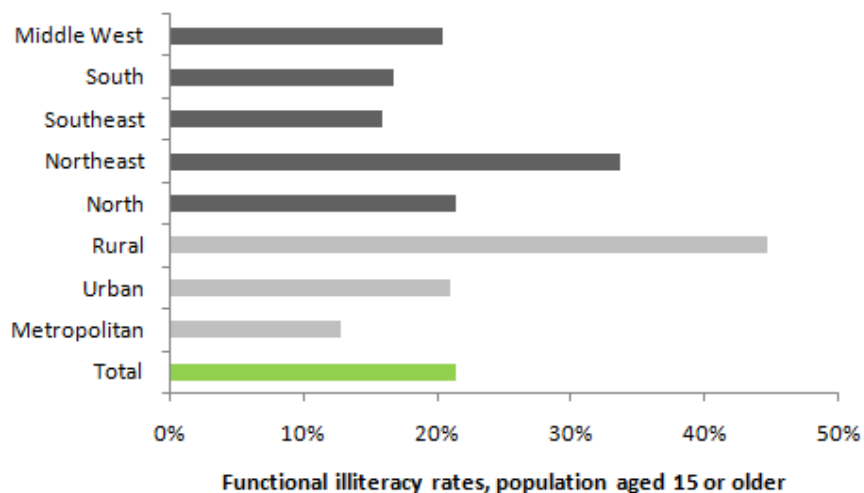


Figure 6. Functional illiteracy rates in Brazil

Source: IETS (2009), based on IBGE PNAD 2007 dataset

Brazil's pupils routinely score among the lowest in the OECD's international comparative tests (Economist, 2009). 9% of the population above 25 years of age have completed tertiary education, with the mean number of years of education for those 25 years or older standing at 6.9 (8.2 metropolitan and only 3.5 rural). 11.4% of pupils in the 1st to 4th grades are over the expected age, rising to 14% for those from the 5th to the 8th grades and 27% for high school students. 31% of all those aged 18-24 are still in school (IETS, 2009, based on PNAD 2007).

The challenges in education spill over to other parts of society, including the financial sector, where it poses challenges to consumer education and, hence, take-up and can increase consumer vulnerability to abuse.

In conclusion: During the past decade Brazil has made huge strides in reducing inequality and increasing the disposable income of the poorest parts of its population. Yet, despite the good economic and poverty reduction performance, the low-income market remains large. In many ways, this presents an opportunity for, rather than an obstacle to, the Brazilian insurance market.

2.2. Financial sector context

The financial sector context is important from a microinsurance development point of view for two reasons: firstly, the financial sector footprint and infrastructure provide the payment system backbone for microinsurance transactions. Relevant, appropriate and affordable microinsurance products are of no use to the target audience if they do not have access to the means to pay premiums and receive claims. Secondly, it provides an important distribution channel for the sale of insurance products and a ready client base to whom insurance can be cross-sold. Bancassurance often presents an important first order opportunity for growing the insurance customer base and there is much innovation in marketing and delivering mass products through the banking sector. Furthermore, credit provides a powerful tool for microinsurance distribution, as will be discussed below.

Sophisticated financial sector. Brazil has the largest and most sophisticated financial system in Latin America. Its retail banking system is a hybrid of state-controlled and private banks that compete directly. There are two large federal state-owned banks and a number of large private banks, many of them with insurance subsidiaries. Following a November 2008 merger, Itau Unibanco is now the largest bank in Brazil (and among the 15 biggest banks in the world) with combined assets at the time that the merger was announced of R\$575 bn (US\$ 261.4 bn²⁶) (Bloomberg, 2008). State-controlled Banco do Brasil is the second largest bank. In total, state banks account for almost 38% of credit extension (Economist, 2009).

In 2007 Brazilian banks had in excess of 18,500 branches, 153,000 ATMs and about 2.5m POS devices. This implies that there were almost 9,800 people per branch, 1,181 people per ATM and only 73 people for every POS device²⁷. In 2008, the ATM network grew further to 158,628 and the POS network expanded by more than 30% to 3,244,170 terminals (BACEN, 2009e). This represents very high penetration by Latin-American standards for ATMs and POS devices, more so than for branches, and also compares favourably with developed countries. For example:

	Number of people per:		
	Branch	ATM	POS device
Brazil	9 800	1 181	73
Chile	10 649	4 161	589
Bolivia	65 539	20 833	n/a
Colombia	11 441	10 416	n/a
Venezuela	22675	6024	n/a
Mexico	n/a	n/a	657
Germany	n/a	1529	142
Japan	n/a	924	102
UK	n/a	1002	96

Table 4. Financial system infrastructure: Brazil versus selected other countries, 2007

Source: BACEN (2007), statistical update to report "The Brazilian Retail Payment System"; BACEN (2008) "Brazilian Payment System, September 2008"; Demircuc-Kunt & Beck (2007); Guandamillas (2008)

Usage of banking services on the increase. In its comprehensive study on access to finance in Brazil, the World Bank (2005) quoted the number of people with bank accounts at 60m or around 30% of the population, based on BACEN estimates. The World Bank also conducted a non-representative survey of 2,000 urban adults in 2002, which found **43%** of adults in the sample to have a bank account. The mean income of the sample was 3.5 times the minimum wage and the median income was 1.8 times the minimum wage, making this a good indication of access among the microinsurance target market. IBGE's household expenditure survey (POF), the latest of which was conducted in 2002/3, shows 37% of *households* to have a bank account²⁸.

²⁶ As comparison: this asset base would make it the sixth-largest bank in the USA (<http://www.istockanalyst.com/article/viewarticle/articleid/2765604>)

²⁷ If using the population estimate for 2007 of 180.9m according to IBGE's PNAD 2007 survey.

²⁸ The survey tested only expenditure. 37% of households indicated that bank tariffs are one of their expenditure lines. It therefore does not throw any light on how many people have bank accounts or what type of account it is.

Banking penetration is likely to have increased significantly since then. According to the 2008 statistical update to the Banco Central do Brasil's report on the Brazilian payment system, there were 125.7 million deposit accounts in Brazil in 2008²⁹. No data is available on the average number of accounts per account-holder, but if a ratio of between 2 and 3 is assumed³⁰, it would mean that there are between 42m and 63m bank account holders in Brazil (between 31% and 47% of the population over 15 years of age). The upper bound 63m would seem to be more realistic, while still relatively low compared to the World Bank estimates quoted above.

Extensive network of correspondents extends access. Brazil is a pioneer, internationally, in the use of non-bank banking correspondents to extend the reach of the banking sector. A variety of non-bank correspondents — local merchants, post offices and lottery outlets — distribute a range of financial services on behalf of banks registered with Banco Central do Brasil. The urban household survey conducted by the World Bank (2005) revealed that 47% of respondents use payment outlets as their main financial institution.

History of correspondents. The main rationale from government's point of view for creating banking correspondents was to expand the then Bolsa Escola programme (now included in Bolsa Familia) to municipalities where there was no bank branch. It therefore relaxed regulations to allow Caixa Economica Federal to use its network of lottery outlets to pay benefits. Many shop networks in the Northeast then took advantage of these regulations to integrate their services electronically with the banks. In this way, pharmacies and shops developed into banking service points (Gonzalez et al, 2009). Banks welcomed the opportunity to move customers out of their branches for bill payments, as bank branches are very expensive to operate in Brazil³¹. Customers, in turn, prefer to do their transactions through correspondents due to the easy access and reliable, informal atmosphere (Datapopular survey quoted in Gonzalez et al, 2009).

Current correspondent market features. Today, around 130,000 banking correspondents ensure the availability of banking services in each of the more than 5,000 municipalities in the country (Gonzalez et al, 2009; BACEN, 2009c). Correspondents are equipped with card-swipe and barcode-reading point of sale (POS) terminals. In December 1999, there were 1,679 out of 5,564 municipalities without access to financial services. Within three years this had reduced to zero (BACEN, 2009). 1,380 municipalities have fewer than 5,000 inhabitants, making this all the more remarkable. CGAP (2008) notes that 2,200 municipalities were not yet covered by cell phone reception at the time; this makes the banking sector footprint larger than that of mobile phones — a feature that sets Brazil apart from many other developing countries. Correspondents are able to efficiently and cheaply process cash payments. This implies that insurance is not of necessity limited to those with a bank account who can pay by debit order.

²⁹ These include all different kinds of accounts: savings, current, individual and business.

³⁰ This ratio varies amongst countries. In Pakistan, the average number of accounts per person is between 2 and 3. For Indonesia, the ratio is between 2.5 and 3 accounts per person (Bester, et al 2008c)

³¹ These reasons are listed by the World Bank (2005) and include: the fact that banks are required by law to implement various expensive security measures, specific requirements for transporting cash to and from branches, as well as capital requirements adjusted per branch. The most important cost driver, however, is labour costs and restrictions. The Bankers' Union Agreement imposes a maximum workday of six hours, five days a week for all bank employees other than management. Extra hours attract overtime. Furthermore, labour costs are generally high and social contributions and taxes allegedly amount to more than 80% of salaries (World Bank, 2005).

The majority of transactions through correspondents are still bill payments (non-account based), but withdrawals are also on the rise:

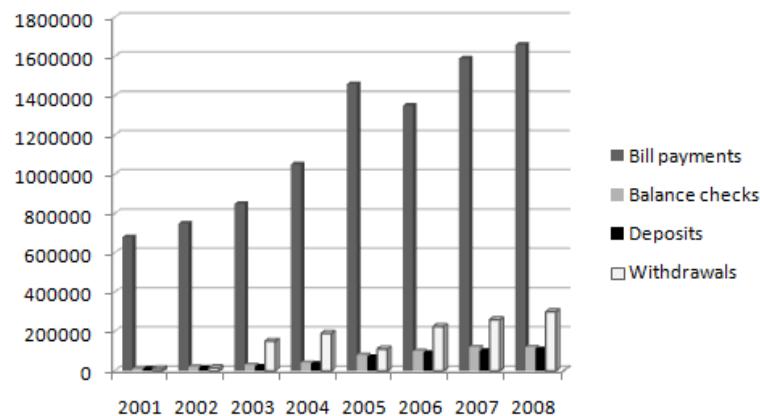


Figure 7. Correspondent transactions

Source: BACEN (2009), based on Soares & Melo Sobrinho (2008) & Deban (2009)

Size of the microfinance market depends on the definition. Internationally, microfinance is often the main channel for microinsurance development, as clients are offered insurance on the back of their loan to cover the risk of credit default due to death. In this way, compulsory insurance introduces many people in the low-income market to the concept of insurance. As part of the financial sector context, it is therefore very important to understand the scope and nature of microfinance in Brazil, the extent to which this is currently linked to microinsurance and the scope for future synergies³². Traditionally the term microfinance³³ as applied in Brazil refers only to productive microcredit, i.e. credit for microentrepreneurs. It is widely documented that this market is quite small in Brazil. The main example of microinsurance marketed through the microcredit channel is state-owned bank Banco do Nordeste's **CrediAmigo** programme. In 2008, CrediAmigo accounted for around 60% of the active portfolio of the productive microcredit market. Two thirds of CrediAmigo's clients are in the Bolsa Familia Program. CrediAmigo expects to reach the 550,000 client mark by the end of 2009 (CrediAmigo consultation, 2009).

More detail on the rather complex productive microcredit market, the various entities operating in it and data estimates on its size are contained in Appendix 1. This however does not capture the full picture of credit to the low-income market.

Fairly large low-income credit market in Brazil, broadly defined. When all popular credit is taken into account, Galiza (2009) estimates the total market to have 21m clients, of which less than 1m are oriented productive microcredit. Even this may be an underestimation, as the Ministry of Finance (consultation, 2009) estimates there to be 20m pensioners alone

³² If it delivers value to them (i.e. if they claim and receive benefits), this can demonstrate the value proposition and could lead to the voluntary future purchases of other types of insurance. This process is referred to as "market discovery" and is discussed in more detail in Bester et al (2008b). Should clients, however, not be aware that they have insurance cover, be charged exorbitant premiums due to the captive nature of the compulsory market, and not claim or receive pay-outs this will undermine trust in insurance and will discourage future insurance usage.

³³ It is debatable when credit becomes *microcredit*. The Microinsurance Information Exchange (MIX) defines it as any credit below 250% of the per capita Gross National Income (GNI) adjusted for purchasing power parity (quoted in Gonzalez et al, 2009). In Brazil this amounts to a loan amount cut-off USD 25,175 according to the PPP GNI per capita for Brazil of USD 10,070 as captured in the 2008 World Bank World Development Indicators data. According to this fairly broad definition, the number of people with microcredit can be expected to be significantly higher than the estimates quoted.

with consigned/"payroll" credit³⁴ and as the estimates quoted in Appendix 1 indicate. The microcredit statistics reported by BACEN (2009d) indicate that, since 2004, the consigned credit market has grown to a portfolio size of R\$61.9 bn in August 2009. The average value of a loan is R\$4094.12. This would suggest that the number of customers is around 15.1m. The main target for the consigned credit market is the C and D classes, making this market and the extent to which it distributes credit life and other insurance of relevance to our analysis.

Galiza (2009) and Gonzalez et al (2009) suggest the following classification of microfinance activities:

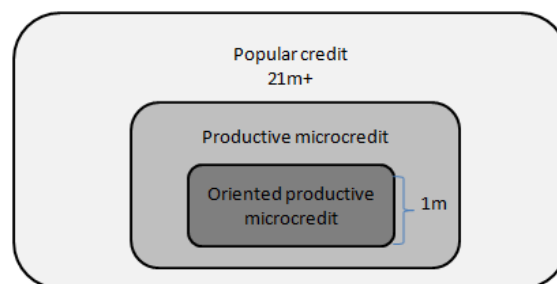


Figure 8. Typology of microfinance.

Source: authors' adaptation based on Galiza (2009) and Gonzalez et al (2009); usage numbers are from Galiza

- *Popular credit* is defined as all loans to the low-income population, whether it is for productive purposes or for consumption. It therefore includes payroll or consigned credit.
- *Productive microcredit*, as the name suggests, is credit for productive purposes, i.e. for microentrepreneurs and the self-employed to invest in their business activities, whether formal or informal.
- *Oriented productive microcredit* is a specific subset of productive microcredit that specifically targets the low-income population (this will relate to government supported programmes where the recipients are subject to a means test or assessment by the credit agent).

It is this broader market that is important from a microinsurance point of view. There is still significant room for growth: Soares & Melo Sobrinho (2008, quoted in BACEN, 2009) estimate the total market potential for microcredit to be at least 35m individuals (assuming that only half the 70m eligible individuals they identify will want credit).

Diverse credit sector. According to BACEN, there were 1,952 players in the low-income credit market (credit cooperatives and non-bank financial institutions) with a total of 2,428 branches in Brazil in 2007 (BACEN, 2008). The market is comprised of a number of institutions, as illustrated by the following diagram:

³⁴ Consigned credit or "payroll lending" is a worldwide phenomenon gaining increasing momentum as an instrument of finance for the low-income market. Though the "microfinance revolution" focused on productive microcredit, the global market, defined in this way, is estimated to have only around 140 million clients. There is however a much bigger market in personal or consumption credit – i.e. credit to individuals that does not try to control to what use the individual puts the money. It allows the low-income market to borrow for emergencies, thereby enabling consumption smoothing. As the "social collateral" of the group lending methodology is however absent, such loans often have formal employment or proof of regular income as a prerequisite, with a compulsory debit order or payroll deduction to cover the instalments.

		Market interest rates?
Not regulated or supervised by BACEN	Public funds	✗
	Civil Society Organisations for Public Interest (OSCIPs)	✓
	NGOs	✗
Regulated & supervised by BACEN	Development agencies	✓
	Societies of credit for microentrepreneurs and small enterprises (SCMEPPs)	✓
	Credit cooperatives	✓
	Banks	✓

Figure 9. Types of credit providers in Brazil.

Source: Adapted from BACEN, 2009

- **Public funds** are microcredit initiatives from states and municipalities. They exist in 14 of the 27 federal units (Gonzalez et al, 2009). No data exist on their exact reach.
- **OSCIPs** and **NGOs** refer to non-profit entities that provide microcredit³⁵. Notable OSCIPs are CEAPE (Centre for Backing Small Businesses), which has 25,000 clients, the Women’s Bank, the VivaCred Program, the Community Credit Institutions, the Sao Paulo Confia program and the Popular Bank of Santo Andre (Gonzalez et al, 2009).
- **Development agencies** are state-level public credit entities. Each state may only have one development agency, though not all states have one yet.
- **SCHMEPPs** are for-profit entities supervised by BACEN that provide exclusively microcredit (Gonzalez et al, 2009; BACEN, 2009).
- **Credit cooperatives** are cooperatives of small entrepreneurs and microbusinesses³⁶. Most credit cooperatives belong to cooperative networks. The largest networks are **SICOOB** (Sistema das Cooperativas de Crédito do Brasil), **SICREDI** (Sistema de Crédito Cooperativo) and **CRESOL** (Cooperativa de Crédito Solidário). The first two have registered their own commercial banks (BANCOOB and BANSICREDI)³⁷, whereas the latter is more focused on the rural and agricultural sector. In addition, Unicred operates a network of 400 credit cooperatives for medical doctors in 14 states (World Bank, 2005).
- Among the commercial **banks**, the most important microcredit initiative is Banco do Nordeste’s CrediAmigo (discussed above) and Banco Real Santander’s Real Microcredito programme. The latest available figures for Real Microcredito suggest that it has only around 8,000 clients (Gonzalez et al, 2009)

³⁵ Before 1999, any NGO could obtain public funds to on-lend. After the passing of Federal Law 9,790 of 1999, NGOs have to qualify as OSCIPs in order to obtain public funds. To do so, they must apply to the Ministry of Justice and enter into a “Term of Partnership” (Gonzalez et al, 2009).

³⁶ This category was created by Resolution 3.058 of 2002. In 2003, Resolution 3.106 introduced the notion of “free-admission” cooperatives (Soares & Melo Sobrinho, 2008, quoted in Gonzalez et al, 2009).

³⁷ The establishment of commercial banks by cooperatives is authorised under CMN Resolution 2193 of August 31, 1995.

Box 2. The role of credit cooperatives in the Brazilian financial sector

In Brazil, cooperatives can be formed for a number of reasons, including for agricultural purposes, by workers in various industries, or for the purpose of providing credit to members (credit cooperatives). According to the latest figures of the Cooperative Organisation (available at www.ocb.org.br), there were 7,672 cooperatives in 2007, of which 1,826 were workers' cooperatives, 1,544 were agricultural cooperatives, 1,138 were credit cooperatives and the rest a range of other types such as infrastructure, housing, educational or transport cooperatives. In total, the cooperative sector had 7.7m members, of which 2.9m belonged to credit cooperatives in 2007. Today, BACEN (2009) estimates the credit cooperative market to have more than 4m members. Cooperatives are present in 1,751 of the more than 5,500 municipalities in Brazil (OCB, 2009).

Types of credit cooperatives. There are three types of credit cooperatives in Brazil: mutual, rural and *Luzzatti*. Mutual credit cooperatives can only be formed by people who work together or belong to a professional association (i.e. by people of the same trade). There must be a minimum of 20 members. Rural credit cooperatives can be formed by rural people who work in agriculture or related activities (World Bank, 2005). *Luzzatti* are open cooperatives. This allows cooperatives to serve members without a pre-existing common bond. Since this category was created, any person from any trade may join a free-admission cooperative to get credit (Gonzalez et al, 2009). Such cooperatives have been allowed by regulation since 1993, but limited take-up (only 10 registered *Luzzatti* by 2003) led to regulatory changes in 2003 (World Bank, 2005).

Functions of credit cooperatives. While other cooperatives can act as distribution channels for loans and other financial services to their members, only credit cooperatives may mobilise deposits and offer financial services (World Bank, 2005). Credit cooperatives can offer an even broader range of services if they link up to a cooperative bank. In this way, members of SICOOB and SICREDI issue credit cards, offer internet banking, issue trade credit, extend working capital and investment loans funded by public programs such as PRONAF or lines of credit under the BNDES. Furthermore, they act as a distribution channel for insurance (World Bank, 2005).

Large credit and store card sector. Credit cards provide an important “touch point” for microinsurance. Not only is it a way of reaching clients, but it is also a way of collecting premiums and can be a channel for credit life insurance. According to BACEN Directive 1, 2006, the use of payment cards increased 29% a year on average from 1999 to 2005, and accounted for more than 45% of interbank non-cash payments. Over the same period, the corresponding value of transactions increased from some R\$41 billion to R\$190 billion. There are a number of payment cards such as credit cards, debit cards, e-money, retailer cards and charged cards. Card usage in Brazil has evolved as follows over the past few years:

Number of cards (millions)	2002	2003	2004	2005	2006	2007	2008
With credit functionality	40.8	44.0	53.5	67.5	85.2	117.7	132.1
With debit functionality	114.2	125.4	149.1	163.9	174.5	182.4	207.9
Retailer and fidelity cards	n/a	71.0	86.0	97.0	118.0	144.0	n/a
Number of deposit accounts	77.3	87.0	90.2	95.1	102.6	112.1	125.7

Table 5. Number of credit, debit and retailer cards in circulation in Brazil: 2002-2008

Source: BACEN, 2007, 2008 and 2009e

In 2008 there were 132m credit cards and 208m debit cards (just a few million fewer than the total population) in circulation (BACEN, 2008). In addition, there were 144m retailer and fidelity cards in 2007 (BACEN, 2008). A retail chain like Casas Bahia alone has 15m active payment cards (Galiza, 2009). Though the number of cards does not necessarily correspond to the number of *people* with cards as one person may have several cards, it does indicate that the market is large and growing.

Small microfinance sector implies that credit providers do not feature as underwriters of risk. International evidence shows that microinsurance take-up is often not the result of voluntary strategies by the poor to mitigate their material risks. Rather, it is the outcome of compulsion by credit providers seeking to cover their own exposure to default. Therefore microfinance institutions or other microcredit providers are often the dominant players in microinsurance³⁸. This phenomenon is however not widespread in Brazil. MFIs do not feature as insurance providers and credit life insurance is not yet as important in Brazil as in many other jurisdictions. Credit providers are therefore relevant as distribution channel for microinsurance rather than as direct providers/underwriters of insurance.

High cell phone penetration but mobile banking only now starting to take off. According to the World Bank (2005), 100m Brazilians (57% of the population at the time) had a mobile phone even though only 60m had a bank account. This number has since grown significantly. In November 2008 the market regulator Anatel reported the number of mobile phone users to have reached 147m people³⁹ – about 75% of the population. Anecdotal evidence suggests that this has now surpassed the 100% mark.

Given the high mobile penetration rate, mobile phones represent an important “touch point” for a significant proportion of the unbanked and uninsured market, should m-payments achieve large-scale take-up. In the insurance sphere, mobile platforms could be harnessed for premium payments as well as the communication of policy and claims information. There are indications that mobile banking is starting to take off in Brazil, though it is not widespread among the low-income population yet. An interesting example is the Oi Paggo mobile credit card, discussed in Box 3 below:

Box 3. Oi Paggo case study

Oi is now the largest telecommunications company in Brazil. In January 2009 it acquired Brasil Telecom, bringing its client base to 56m across the whole of Brazil, 30m of whom are mobile subscribers. Of these, 24.4m are Oi clients, and the rest are Brasil Telecom subscribers (Oi, 2009). 84% of Oi’s mobile users are prepaid (Oi, 2008).

Oi, translating to “Hi” in English, has a strong brand presence. It is using this brand to establish its innovative Oi Paggo m-credit card service. In December 2007, Oi concluded the acquisition of Paggo Administradora de Credito (Oi, 2008). Oi Paggo operates as a cardless credit card, with transactions being conducted via the mobile handset and SMS messages rather than a POS device. The merchant originates the transaction by sending a text message to Oi Paggo stating the client’s Oi number, the transaction value and the number of instalments. The purchase is authorised on the Oi Paggo system, which then sends an sms to the customer with the transaction details and a secret pin. The client confirms the purchase with the pin, after which both the client and the store/service provider receives confirmation of the transaction via SMS. The confirmation SMS includes an update of the available balance and the month’s bill to date (Rittes, 2009).

Oi Paggo debits the customer’s credit card and transfers the money to the supplier’s account (McMahon, 2008; Oi, 2009b). To register for the service, a copy of the customer’s ID, proof of income and residence must be posted, faxed or emailed to Oi Paggo. An additional person (SIM card) can be placed on one Oi account, in which case the credit limit will just be shared between the two

³⁸ . For example, in IAIS/MIN Joint Working Group on Microinsurance five-country study (see Bester et al, 2008 for the synthesis report), compulsory credit life accounted for the bulk of the microinsurance: 100% of microinsurance clients were compulsory credit life clients in Uganda, around 40% in SA, almost 50% in the Philippines, 90% in India, and almost 30% in Colombia. 21.7% of insurance in the Microinsurance Centre Global Microinsurance survey (2007) is sold through MFIs.

³⁹ <http://www.telecompaper.com/news/article.aspx?cid=650142>. Cell phone penetration however still has an urban bias. Only 39% of rural households (versus 82% metropolitan and 72% urban) had access to a cell phone in the 2007 PNAD survey (IETS, 2009).

(Oi, 2009b).

The Oi Paggo system offers retailers the advantage of not having to buy a POS terminal, just an Oi SIM. Clients pay only R\$2.99 for each month that they use the service (a bill generation fee) and do not need to be at the point of sale to conduct the transaction. Oi Paggo is available to both pre and post-paid customers, though it is primarily targeted at the prepaid market for the C and D socio-economic classes. For post-paid customers, billing is separate from the mobile phone bill (McMahon, 2008; Wireless Federation, 2009; Oi, 2009b).

To offer this service, Oi Paggo has obtained a consumer credit license. It is therefore not a licensed bank and cannot offer other banking services. Oi Paggo currently has 200,000 customers and is growing fast. Its main challenge has been creating customer awareness to overcome the preference for cash transactions as well as to be able to compete with the established credit card system (Rittes, 2009).

CrediAmigo is currently piloting a partnership with OiPaggo to provide their customers with mobile credit cards (CrediAmigo consultation, 2009). This will significantly increase the reach of OiPaggo.

Another interesting model to watch in future (launched mid-November 2009), is MasterCard's Mobile Payments Gateway, offered in conjunction with Itau Unibanco and Vivo. It allows Mastercard users to link their phone number to their debit or credit accounts, thereby enabling them to use their mobile phone as an e-wallet for sending and receiving money. It uses technology from a subsidiary of Philippines mobile network and m-banking operator Smart Communications (Bills, 2009).

Conclusion: Brazil has a very sophisticated and well resourced financial sector. Not only does the financial sector offer a ready distribution channel for microinsurance, but the widespread and cash-friendly payment system provides complete access throughout the entire country for the payment of premiums.

3. Insurance providers, products and intermediary channels

Building on the context provided in the preceding sections we now proceed to explore the main features and trends in the insurance sector. The section will explore the insurance market in seven sections:

- An introduction to the insurance context and the institutions involved;
- A review of trends in premium growth, claims and sales costs across product categories;
- A short note on the health insurance landscape;
- The involvement of the state in agricultural insurance;
- An overview of the main features of the microinsurance product landscape;
- A review of the main microinsurance models found in the analysis; and
- An analysis of current take-up of insurance.

3.1. Insurance context

A large number of insurers. The insurance sector in Brazil comprises of 160 companies, involved in one, or a combination of, either insurance, open private pension or capitalisation (offering savings bonds linked to the national lottery – a large market in Brazil as described below). Some life insurance companies may also offer open private pension products, depending on their license conditions (SUSEP, 2009 - website). A number of banks own both insurers and capitalisation companies.

The top 10 insurers (some of them from the same group), account for 52% of all industry premiums. The breakdown by market share is as follows:

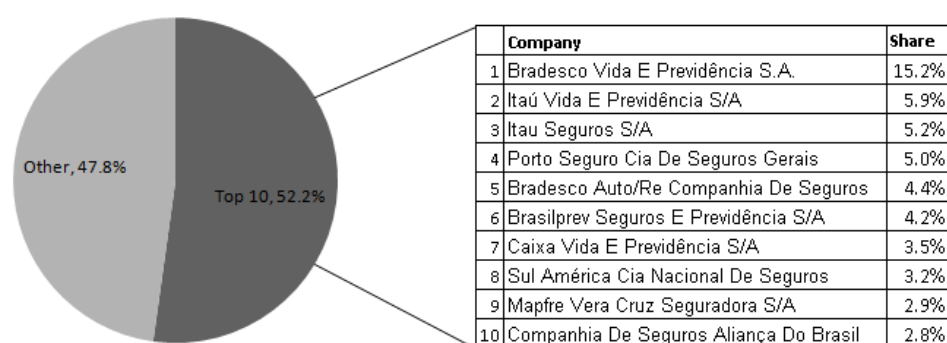


Figure 10: Breakdown of total insurance market share by premium, Jul. 2008 – Jun 2009

Source: authors' representation based on SUSEP (2009) database

A more detailed breakdown of the four largest insurance⁴⁰ providers in Brazil, namely, Bradesco, Itaú, Brazil Prev, Porto Seguro can be found in Appendix 6.

⁴⁰ Largest insurers as measured in total premiums collected year ending June 2009. Individual product contributions to insurers are measure relative to total contributions for year ending December 2008.

Four categories of underwriters in the low-income market. At a high level there seems to be at least 4 categories of insurance providers that are exploring the low-income market.

- *Bank-led groups dominant in the insurance market.* Banco Bradesco and Itaú Unibanco, the two largest private banks in Brazil, are the parent companies for several insurance companies and/or licences responsible for 32% of the gross premiums written in the Brazilian insurance market.
- *Large independent insurers exploring alternative channels.* The second category is made up of large insurers that do not have direct relationships with banks. Mapfre, the 7th largest insurer, is the most prominent example of relevance to this study given its interest in the low-income market. Given the absence of the bank relationship Mapfre is aggressively pursuing relationships with other client aggregators such as retailers in which it is said to have the dominant market position. Much of Mapfre's activity in the low-income market has come about in the last 5 years.
- *Smaller players following different models.* While the scope of this analysis did not allow for an exhaustive scan of all the players in the market we did come across a small number of smaller players that are exploring the low-income market using different approaches and models. SINAF is one of these players, focusing on door-to-door sales of funeral policies. Another is QBE, which specialises in affinity distribution. It is likely that there are more players like these looking for niche products and channels in order to compete with the larger players.
- *Informal funeral parlours and cemeteries.* In addition to the above-mentioned formal players the funeral parlours and cemeteries make up the final categories of informal providers. This market evolved in the gaps created by regulatory changes in 2004 and have since grown to a significant market which estimates place at as many as 20-25m lives covered. This category is discussed further below

Dominance of corporate brokers in the affinity market. In addition to these categories corporate brokers AON and Marsh seem to play a dominant role in the affinity business channel selling insurance through utility companies, telephone networks, call centres, etc. Industry interviews suggest that these brokers may control more than 90% of this market. Their dominant role relative to the insurers in this market developed due to their primary relationship with the aggregator clients and the advanced administrative systems that they have developed providing them with superior efficiencies. In several cases these brokers have also taken on an extensive administration role resulting in some insurers being relegated to an underwriting vehicle in these models. Control over access to significant client bases places them in a powerful negotiating position relative to the insurers.

Recent emergence of low-income activity. With a few exceptions (notably PASI) insurance entry into the low-income market across all these categories is a phenomenon that started in the last 10 years and mostly concentrated in the last 5 years.

Largest players specialize in life insurance and predominantly sell VGBL. An interesting phenomenon is that the largest life insurers sell predominantly VGBL. Examples are Bradesco Vida e Previdencia that largely sells Individual (71%) and group VGBL (8%). Itaú Vida who mostly sells Individual VGBL (83%) and Brasilprev Seguros E previdencia who solely sells individual VGBL.

A handful of key microinsurance players. Current industry data does not allow us to identify all the insurers that may provide microinsurance or to accurately quantify the extent to which such products are provided. There are, however, an increasing number of players that place emphasis on the low-income/mass market. These players provide mostly personal accident as well as life insurance (including funeral cover), extended warranties, credit life and some property insurance to the low-income market, mostly through bundled products. Capitalisation is an important add-on to most if not all products.

Realisation of untapped opportunities. Apart from the few innovators in the market, most insurers follow a more “wait and see” approach where microinsurance is concerned. This can partly be explained by the fact that the traditional corporate, employee group and high-end retail market is still relatively profitable and presents further opportunities for growth. Nevertheless, the realisation is increasingly taking root that there is a large untapped market with large opportunities for scale.

Member-owned entities play limited role in insurance sector. It is not clear what the total penetration of such organisations in the Brazilian insurance market is. In the health market, 31% of the 51.2m Brazilians who have private health insurance (medical plans and dental plans) are served by cooperatives (FenaSaude, 2009). This amounts to about 15.9m people or 8% of the population. The credit cooperative discussion showed that there are around 4m credit cooperative members. However, during our consultations, cooperatives outside of the health market did not emerge as players in the insurance market, despite such entities playing an important role in insurance provision elsewhere in the world. This is because the Insurance Act does not allow cooperatives as an institutional form to provide any insurance other than agriculture insurance, health insurance or workers’ compensation insurance. The second SUSEP Working Group report identified this institutional limitation as a barrier to microinsurance development in the current regulatory framework. Nevertheless, cooperatives are important aggregators of clients in the microinsurance target market. Some insurers already distribute insurance products through cooperative networks, but this presents an opportunity for further growth.

Broad outreach of informal insurance through funeral homes. As noted above informal insurance through funeral homes and cemeteries make up one of the key categories of institutions in the low-income market. Under Resolution 102/2004 funeral cover in-kind (defined as “assistance”) is classified as pre-payment of services and therefore does not qualify as insurance. As a consequence, funeral homes and private cemeteries offer funeral insurance outside of the insurance regulatory framework. This market has grown significantly and some estimates place this market at as much as 20-25 million lives covered. This amounts to up to 13% of the population. Though no comprehensive data exist, players estimate there to be in the order of 1,500 to 2,000 funeral homes providing funeral plans of which no more than 50 are estimated to be large homes with more than 200,000 lives on their book. The rest are all smaller, with between 10,000 and 30,000 lives each (consultations, 2009).

Limited informal provision outside of funeral sector. There is some evidence of informal underwriting in the cooperative sector. For example, some cooperatives (who are only allowed to write health, agricultural and workers’ compensation insurance by law) underwrite cargo insurance. As far as we could ascertain, this is however on a small scale and not of relevance to microinsurance. Furthermore, there are allegedly a number of health

insurance providers (cooperatives or otherwise) who still operate outside of the law. The scale of informal health insurance is, however, not documented.

3.2. Trends in premium growth, claims and sales costs across product categories

In this section we explore the main trends in premium growth, costs and claims experiences across the main product categories and lines. To provide the necessary context we review the performance of the industry as a whole as well as the contributing product categories. Building on this we then look at the performance of specific product lines relevant to the microinsurance debate (as low-income products cannot be identified separately in the data).

Across all these levels we review the experience of premium growth and claims experience as the main indicators for which data is available. Where possible we include analysis of sales costs and we also consider the full spectrum of costs at the company level (for which it is available).

3.2.1. Total industry

Total premiums in the insurance market - excluding open market private pension, medical insurance and capitalisation - have grown significantly in recent years. It reached R\$ 70.5bn (around US\$ 39bn) in the year ended June 2009; this corresponds to a yearly average growth rate of 14% between 1995 and 2008 and is higher than the nominal yearly average GDP growth rate of 12% for the same period. As a result insurance premiums grew from 1.8% of GDP in 1995 to 2.4% of GDP in 2008 (increasing to 3.3% if capitalisation, open private pension schemes and medical insurance are included). This makes Brazil the largest insurance market in Latin America (SUSEP, 2008b) and ranks it in the 17th position globally (Swiss Re, 2009). The growth trend is apparent from the following figure:

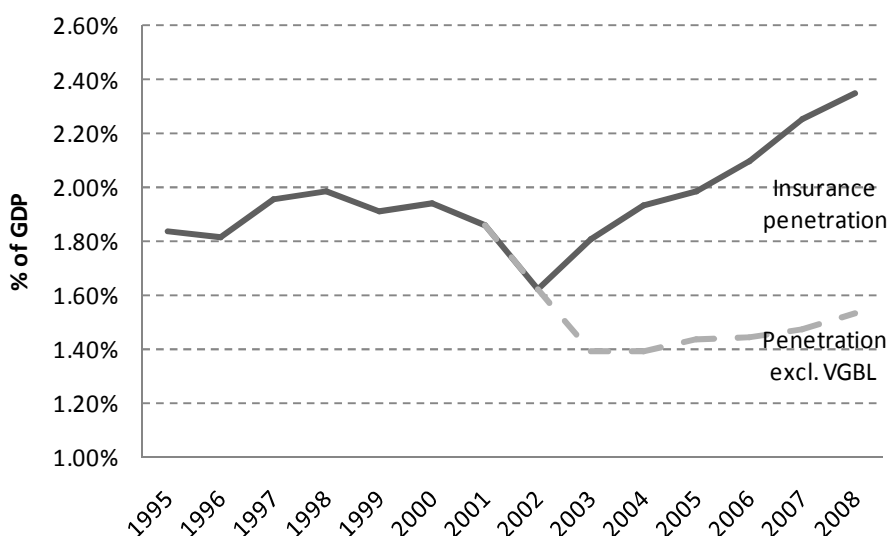


Figure 11: Insurance penetration excluding capitalisation, open private pension schemes and medical insurance

Source: Authors' representation of SUSEP (2009) database for insurance data; Nominal GDP data obtained from Central Bank of Brazil website

Structural change in premium growth since 2002 driven by the introduction of VGBL. While certain reforms (see Section 7) have provided the platform for growth, it is the introduction of VGBL that has really boosted insurance penetration growth. There was a structural break in the penetration trend around the introduction of VGBL. Before 2002, insurance premiums decreased as percentage of GDP. If the effect of VGBL is removed, insurance premiums as percentage of GDP are still lower in 2008 than in 1995. In the absence of VGBL, insurance penetration⁴¹ would only have reached around 1.5% of GDP by 2008. VGBL's total share of the insurance market stood at 35% in 2008. This comes after a yearly average growth rate of 27% between 2003 and 2008⁴².

Box 4. The rise of VGBL

Two products in the pensions sector deserve special mention for their popularity: the VGBL (Vida Gerador de Benefícios Livres – created in 2001) and its precursor the PGBL (Plano Gerador de Benefícios Livres – introduced in 1998). They are inspired by the American 401(k) plans and are long-term savings products, but unlike the 401(k) plans are created for individual employees rather than employers. The PGBL is a pension product governed by pension laws and supervised by the SPC (Secretariat of Complementary Pensions), whereas VGBL is an insurance product governed by insurance laws. Both enjoy special tax benefits, but target different types of savers⁴³:

- The **PGBL** plan is often offered through employers. Contributions are tax deductible up to 12% of the worker's earnings (note that this is the total allowable deduction, including other insurance). This tax advantage is however only available to those people in the tax net and willing to fill out a complex income-tax form. It is therefore not suited to those in the informal market. Furthermore, while enjoying an upfront tax benefit, PGBL benefits (annuity or

⁴¹ Excluding capitalisation open private pensions and medical insurance.

⁴² The VGBL product line code was only included in the SUSEP database from 2003. It should be noted however that VGBL products have been available since 2001.

⁴³ The discussion below draws strongly on an article (no author quoted) available at: <http://www.thefreelibrary.com/Going+formal:+Brazil's+widespread+'informal+economy'+left+many...-a095198734>, as well as on a consultation with Regina Simoes of SUSEP in September 2009.

lumpsum) are fully taxable upon payout.

- Contributions to **VGBL** are not tax deductible. It is therefore suitable for the needs of those in the informal sector and also for tax payers that have exhausted their tax deductions. It was intended to provide a pension savings vehicle for the informally employed. These people still file a simplified income tax return on which they claim a standard deduction. The VGBL account is comprised of after-tax money. Capital gains are taxed annually. The big difference from PGBL, however, is that the full benefit under a VGBL policy is tax free upon payout. The VGBL has a lower limit for monthly or annual contributions than other pension plans. By the end of 2006, VGBL total premiums had reached R\$ 15.3 billion (US\$ 7 billion), representing 66.7% of all life insurance premiums in that year (SUSEP, 2008b; EIU, 2007).

The main differences between PGBL and VGBL can be summarised as follows:

PGBL	VGBL
Contributions to a PGBL policy are tax deductible up to the limit allowed by law	Contributions to a VGBL policy are not tax deductible.
Investment growth of policy not taxed before payouts.	Investment income taxed at normal rates on an annual basis.
Full income tax on all benefits received from the policy.	No tax on benefits received from policy.
Governed by pension laws	Governed by insurance laws

Table 6. The differences between PGBL and VGBL plans.

The VGBL plan has proven to be a significant boon to the life insurance market in Brazil. It saw rapid uptake and now accounts for more than half of all premiums in the life and providence industry. The target market finds it especially attractive as there is no need for a fixed commitment of funds until retirement, though there are some penalties for early withdrawal. It is possible to add a term life component to the savings product. The policy holder has a choice between a lump sum or annuity payout. VGBL contributions can be as low as R\$30 per month.

Relevance of VGBL to microinsurance. Traditionally, pension products are not viewed as of direct relevance to microinsurance. Microinsurance entails simple risk products that are affordable to the low-income market. Long-term contractual savings products often introduce more risk and are more expensive, making them less suitable to the low-income market. Nevertheless, the precedent set by VGBL in Brazil served as trigger for the interest in microinsurance by the CNSP and the microinsurance-related reforms set in motion since 2003. Furthermore, indications are that VGBL is very much a product taken up by the middle to lower income market, including those in the informal sector and was specifically designed as a long-term savings vehicle for those outside of the formal sector. Special consideration therefore needs to be given to the role that a “micro-VGBL” can play in the development of the overall insurance market in Brazil.

Growth in life insurance industry biggest contributor to over-all gain. As a category, life insurance premiums contribution to total insurance premium increased from 21% in 2001 to 52% in 2008. However, when separating out VGBL contributions, life insurance premiums’ contribution to total premiums reduced from 21% in 2001, to 18% in 2008. In the remainder of the trend analysis we isolate VGBL from the rest of the life industry to indicate the differences in trends within the life category. Within the life insurance category the product lines of potential interest to microinsurance are credit life, educational, group personal accident, group and individual life and random events.

The life insurance industry (excluding VGBL) showed strong relative expansion with an average annual growth rate of 13% between 2001 and 2008. The rate of growth slowed from a 37% year-on-year in 2002⁴⁴ to 12% year-on-year in 2008 (see Figure 12 below).

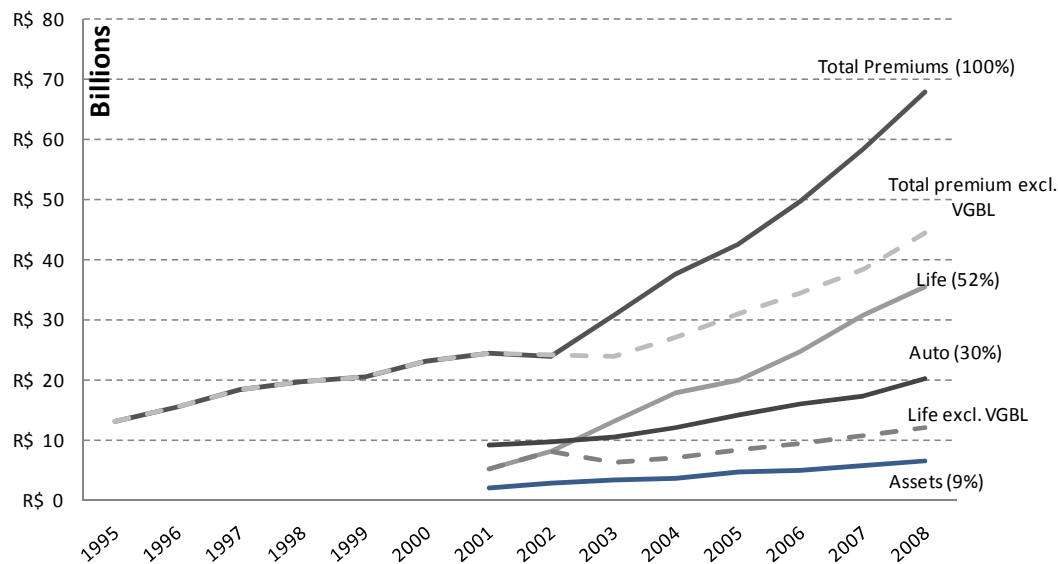


Figure 12. Growth in gross premium collection⁴⁵ – excluding private pension and capitalisation

Source: authors' representation based on SUSEP (2009) database

Assets insurance contribution to total premiums unchanged. Asset's contribution to total insurance premiums remains stable over the period 2001 to 2008, peaking above its 9% contribution in 2001 and 2008 at 11% during 2002, 2003 and 2005. In the asset insurance category, fire⁴⁶, burglary and theft, loss of profit, multi peril and extended warranties were identified of interest to microinsurance. We will discuss the trends for these products in more detail later in this section.

When the growth in premiums is calculated from Figure 12, asset insurance lines showed strong growth between 2001 and 2008 with an average yearly growth of 20%. The highest yearly growth over this period was recorded in 2002, 30%, and the lowest during 2004, 2%.

Decreased contribution of auto insurance to total insurance premiums. While increasing in absolute terms, auto insurance premiums have decreased as a percentage of total insurance premiums from 38% in 2001 to 30% in 2008. The contribution of asset insurance to total insurance premiums has remained constant. Asset insurance as a proportion of total insurance premiums was 8% 2001, peaked at 11% in 2003, 2004 and 2006 but reduced again to 8% in 2008. Within the auto insurance category the product lines of potential interest to microinsurance are private passenger, automobile, auto civil liability and DPVAT and we discuss the trends for these products in more detail later in this section.

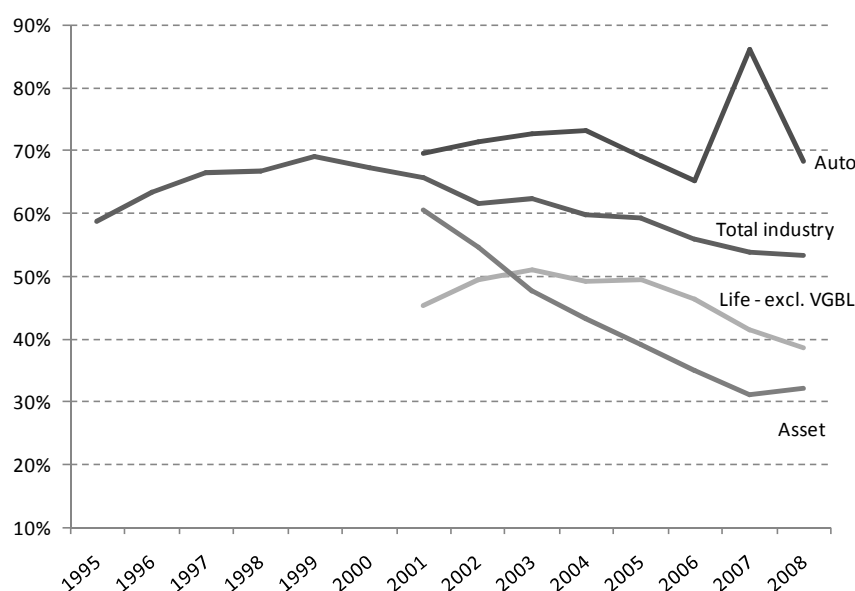
⁴⁴ See note on possible distortion in reporting within product lines in asset and life breakdown

⁴⁵ For illustrative purposes we have only included the three largest categories of insurance – life, asset and auto.

⁴⁶ Fire, even though still registered as a separate product line, has in recent years mainly been recorded under household and business insurance lines.

Claims ratios declined for overall insurance sector. Claims ratio at an industry level has declined from its highest point of 65% in 1999 to its lowest point of 53% in 2008. Asset insurance experienced the largest decline from a high of 61% in 2001 to 32% in 2008. Life claims ratio⁴⁷ has declined from a high of 51% in 2003 to a low of 39% in 2008.

No clear trend in the auto industry claims ratios. Auto insurance lines have shown both the highest claims ratios as well as the largest volatility. The auto insurance industry experienced



its highest and lowest claims ratios in 2007 (86%) and 2006 (68%) respectively.

Figure 13: Claims ratio for total industry, life, auto and asset insurance lines

Source: Source: authors' representation based on SUSEP (2009) database

Slower growth in capitalisation, open market pension than insurance lines. Capitalisation showed a slightly weaker growth rate, compared to market insurance product categories, of 9.4% between 2000 and 2008. Capitalisation recorded a 15% yearly growth rate in 2008 and a mere 2.9% yearly growth rate for 2006. Open market pensions recorded a average yearly growth of 8% between 2000 and 2008 with the highest growth rate recorded in 2007 of 9% and negative growth figures in 2004 and 2006 of -4.7% and -6.3% respectively.

Box 5. Capitalisation overview

Throughout this document, we refer to the "lottery" component added to virtually all microinsurance products in the market. This is made possible through a phenomenon called capitalisation. Capitalisation plans are a type of savings bond linked to a lottery draw – if you have a plan you are taken into account for lottery draws. In fact, all the insurers consulted singled out capitalisation as one of the single biggest driving forces in ensuring uptake in the low-income market, an indispensable marketing tool.

Capitalisation plans are the oldest insurance-related products in Brazil. The market has been present in Brazil since 1929. Premiums can range from as low as R\$3 per month to R\$30 or higher. The money earns some interest and must stay in the plan for a fixed period, with penalties for early

⁴⁷ Excluding group and individual VGBL.

withdrawal.

At the end of 2008 there were 12 registered capitalisation companies offering 60 different types of products. The main types of capitalisation according to Galiza (2009) are:

Types of capitalisation	Description
Traditional	Monthly or yearly premiums, full inflation adjustment of the purchase price returned upon maturity
Scheduled purchase	Savings certificates with a specific objective, i.e. capital formation specifically for the purchase of goods, services or travel.
Popular	Intended for customers with lower purchasing power, emphasising the lotto aspect. Greater volume of sales than the above categories. Main feature: insurer is legally allowed not to pay the client the full value of the inflation adjustment.
Incentive	Linked to a promotional event set up by an underwriter. General conditions include the free cession of the right to participate in draws to third parties.

Table 7. Types of capitalisation

Source: Galiza (2009)

Capitalisation a “benefit in life” for microinsurance. For the lottery benefit on microinsurance products, the insurance industry practice is to use the “incentive” capitalisation category. That is, an insurer buys the right to participate in draws from the capitalisation company. In effect, it buys a batch of capitalisation numbers guaranteeing one prize every month (or week, depending on the terms of the contract). Only the lottery component is then charged into the premiums, not the savings component. For the insurer, the money placed in capitalisation is a form of low-return savings rather than a direct expense. There is therefore no loss in built-up value for the policy holder. As discussed in Section 3.5, insurers view capitalisation as an important “benefit in life” for microinsurance – offering clients value during their lifetime, not just upon death. It is a core driver of uptake in the microinsurance market.

Getting people to make the right decision for the wrong reasons. There are some regulatory concerns regarding capitalisation, most notably that it does not deliver value to the client and that the savings value may be eroded by the lottery component. However, the way that it is applied in the insurance industry as described above would seem not to be to the detriment of customers. It attracts people in to the insurance market. From a more paternalistic point of view, it could be argued that it entices people to make the right decision for them (buying insurance), albeit for the wrong reason (the prize, rather than the value of the insurance). Thereafter, it is however the value of the insurance policy that should keep them in the market. One piece of anecdotal evidence explains: when we visited some CrediAmigo insurance customers in Fortaleza in their homes and asked one microentrepreneur why he has insurance he emphasised that it is due to the protection it provides. Even though he may have been lured into insurance by the capitalisation component, it is the subsequent realisation of the value of insurance that keeps him a customer.

Internationally, regulatory authorities are uncomfortable about the proposition of using an incentive to draw people into purchasing insurance. For this reason, capitalisation or a lottery component to insurance is prohibited in many countries, South Africa being one example. We however find the way it works in Brazil to be an innovative way to trigger usage and a positive driver of uptake, as long as it goes hand in hand with appropriate, value-for-money products to the target market and efforts at consumer awareness.

To provide the necessary context we shall briefly review the overall premium growth trends in the auto, asset and life insurance industries, where after we shall take a more detailed look at product lines of potential relevance to microinsurance.

3.2.2. Auto insurance industry

Consistent growth in auto insurance industry. Total insurance premium in the auto insurance lines have increased at an annual average yearly growth of 12% over the period 2001 to 2008. The highest growth figures were recorded in 2008, 2006 and 2004 at 16%. Lowest growth figures for this period can be observed in 2002, 4%.

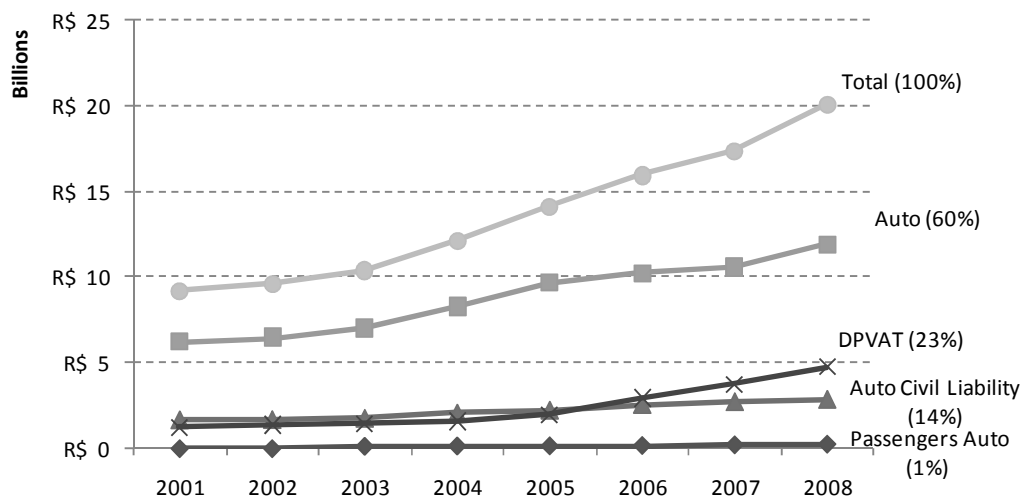


Figure 14: Growth in auto line premiums collection

Source: authors' representation based on SUSEP (2009) database

Strong growth in microinsurance relevant product lines⁴⁸. Within the auto insurance category private passenger, automobile, auto civil liability and DPVAT are the main lines. Compulsory 3rd party liability coverage, DPVAT (Danos Pessoais Causados por Veículos Automotores de Via Terrestre), grew at an average annual rate of 12% since its introduction in 2003. Auto insurance remained the largest contributor to total auto insurance industry growing at a yearly average of 8% over the same period.

Auto insurance industry relevant to Brazilian microinsurance market. Even though it is not the primary focus of this study, the role of auto motor insurance is of relevance in the Brazilian context. During focus groups discussion (see Section 4) the high cost of motor vehicle insurance came to light as a particular concern to low-income households. In addition SUSEP identified microinsurance-relevant lines as auto, DPVAT and private passenger auto liability.

3.2.3. Asset insurance industry

Five main product lines drive asset insurance performance. In 2008 the main contributors to asset insurance lines were extended warranties (24%), comprehensive business insurance (19%), operation risk insurance (16%), multiple peril (16%) and comprehensive residential insurance (15%).

⁴⁸ Auto product lines identified by SUSEP to be relevant to microinsurance is as follows: Private passenger auto, Auto, auto civil liability and DPVAT.

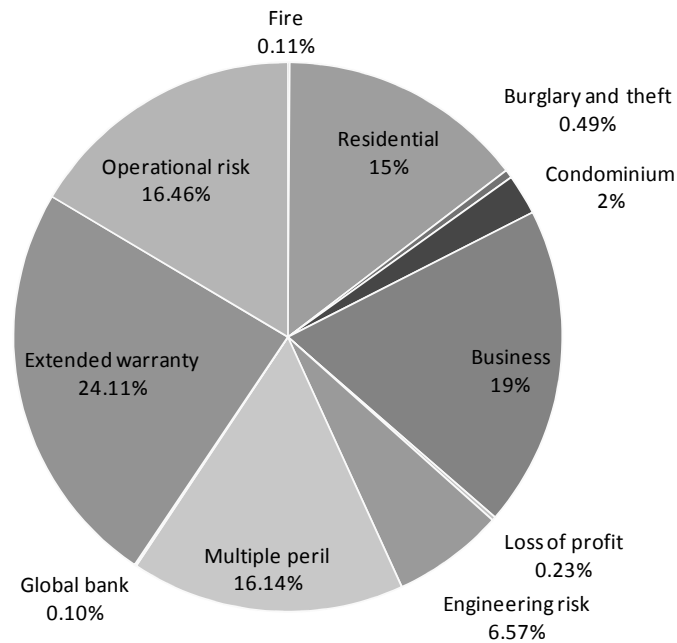


Figure 15: Individual product lines contribution to asset insurance industry (Year ending 2008)

Source: authors' representation based on SUSEP (2009) database

Microinsurance-relevant asset insurance lines⁴⁹ make up 41% of total asset insurance industry. The contribution of microinsurance-relevant product lines reached 41% in 2008 from a low in 2004 of 21%. It should be noted that it is not possible to calculate the size of microinsurance premiums written under these lines, only the growth in insurance lines under which microinsurance products are written. The premium for these product lines will, therefore, include both high-income and low-income policies.

Rapid growth in extended warranties contribution to total asset. Rapid growth in the contribution of extended warranties – a key product line in the microinsurance sector – to total asset premiums can be seen between 2006 and 2008. The yearly average growth rate of extended warranties for this period was 75% making extended warranties the largest contributor to the “total asset” insurance line.

⁴⁹ Insurance lines identified by SUSEP relevant to microinsurance – Fire, burglary and theft, loss of profit, multiple peril and extended warranty.

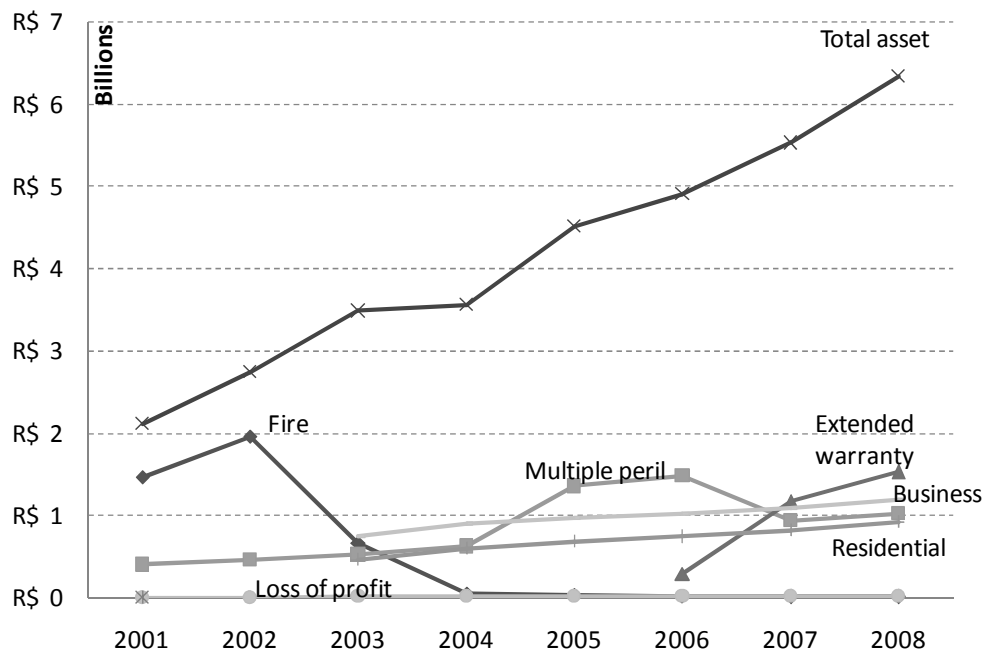


Figure 16: Key individual product lines contribution to asset insurance industry

Source: authors' representation based on SUSEP (2009) database

Consistent growth in traditional insurance product lines⁵⁰. Most traditional insurance lines have grown consistently over the period under review with comprehensive business and household insurance growing at a yearly average of 8% and 12% respectively since the introduction of the product line in 2003.

Note of caution when considering individual product lines. It should be noted that product lines are sometimes only created after the product is launched, resulting in a spike of a related product line until the new product is reported under its own category. For example, the sharp increase, and subsequent decline, in direct premiums reported under multiple peril is at least partially attributed to the rise of an extended warranty insurance, and the subsequent creation of its own individual product line. This can be seen in Figure 16 through the spike in multiple peril during 2005 and 2006 as extended warranties was introduced to the market but only reported separately from 2006.

Sharp decline in claims ratios in asset line insurance category. There has been a strong decline in the overall claims ratio in the asset insurance industry (see Figure 17 below). This can largely be attributed to trends in microinsurance-relevant product lines. Extended warranties, a fairly new product line, showed the lowest claims ratio at 13% in 2008, followed by 17% for burglary and theft, 22% for multiple peril, 31% for comprehensive residential insurance, 32% for total industry and 62% for comprehensive business insurance.

⁵⁰ Tradination product lines would include comprehensive household and business insurance. Note: auto insurance has been discussed as a separate insurance category.

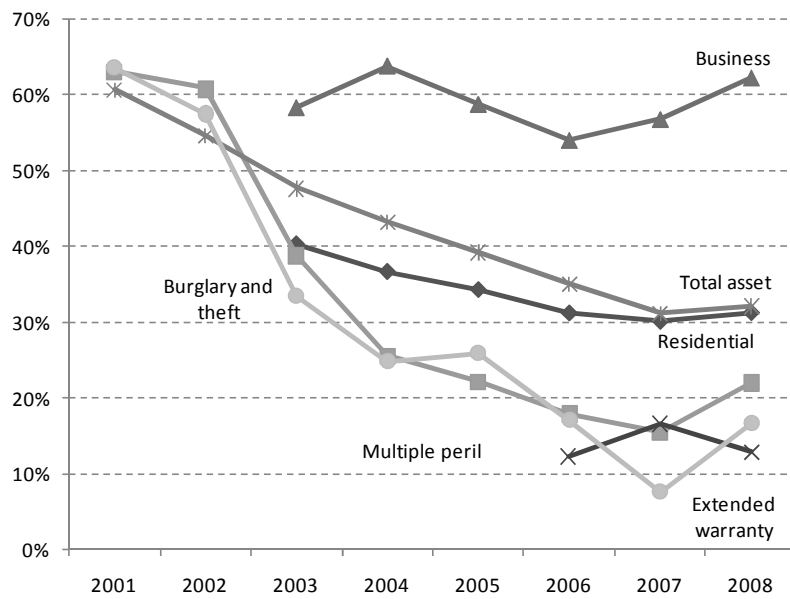


Figure 17: Claims ratio asset industry

Source: authors' representation based on SUSEP (2009) database

3.2.4. Life insurance industry

As discussed earlier, the life sector grew very strongly mostly on the back of VGBL. In this section we explore the trends in the individual product lines.

Large relative contribution of VGBL⁵¹ individual to total life insurance. Since the swift take-up of VGBL, individual life VGBL's contribution to the total life insurance industry has grown steady with a yearly average growth of 26% in direct premium collection (see Figure 18 below). Group VGBL products showed weaker initial results, but have subsequently shown strong growth from a lower base.

In 2008, VGBL contributed 62% to total life premiums collected, followed by group life (18%), credit life (7%) and group personal accident (5%).

⁵¹ Full name of product category: VGBL/VAGP/VRGP/VRSA/PRI

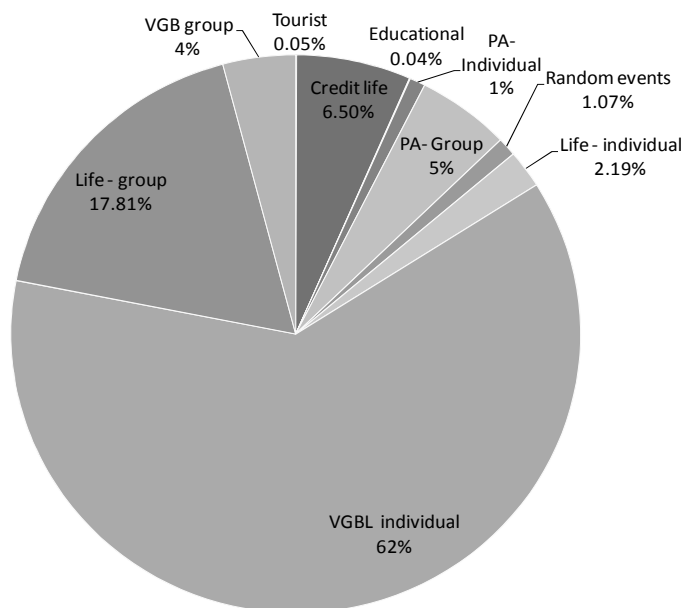


Figure 18: Individual product line contribution to life insurance industry (Year ending 2008)

Source: author's representation based on SUSEP (2009) database

Microinsurance relevant product lines⁵² contributed 37% to total life premiums. Even when excluding VGBL, the life sector showed a strong growth trend based particularly on the growth in group life, credit life and group personal accident categories. At 14% of total insurance⁵³ premiums (excl. VGBL), group life continues to be the largest contributor other than VGBL to total life premiums. However, strong growth can be seen in credit life – 46% yearly average growth since the commencement of the product line in 2003 - and group personal accident insurance, 28% average yearly growth between 2001 and 2008 (see Figure 19 below). As will be noted in Section 3.5, these product lines are important for microinsurance as, in Brazil, the dominant component of microinsurance cover is often provided in the form of personal accident insurance, and credit life insurance is an increasing segment of low-income products.

⁵² Product lines identified by SUSEP to be relevant to microinsurance products – Credit life, educational, group accident insurance, random events, individual and group life and group VGBL products.

⁵³ Excluding open market pension, capitalisation and medical insurance.

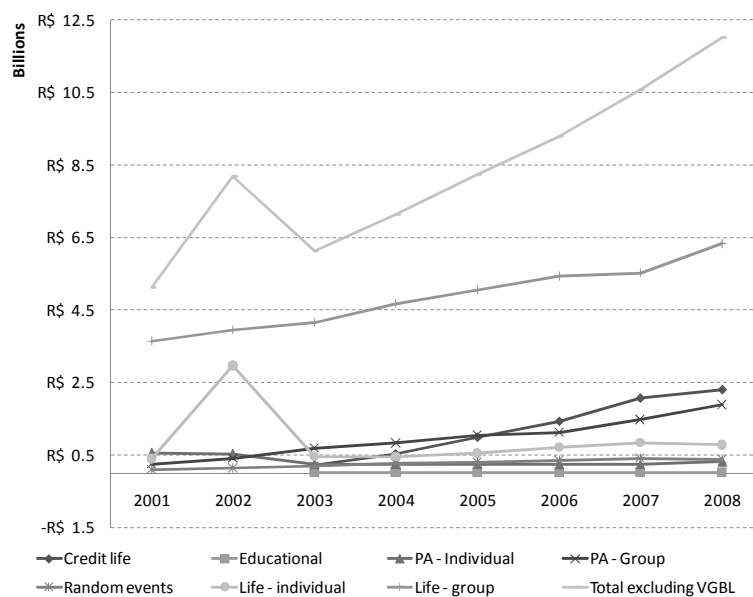


Figure 19: Individual product lines contribution to life insurance industry – excluding VGBL (year ending 2008)

Source: authors' representation based on SUSEP (2009) database

Note of caution when considering individual product lines. As mentioned under our discussion of the various asset insurance lines, product lines are sometimes only created after the product is launched, resulting in a spike of a related product line until the new product line is reported under its own category. This can be seen in the spike in individual life in 2001 and 2002, as VGBL was launched in 2001 but only reported separately from 2003.

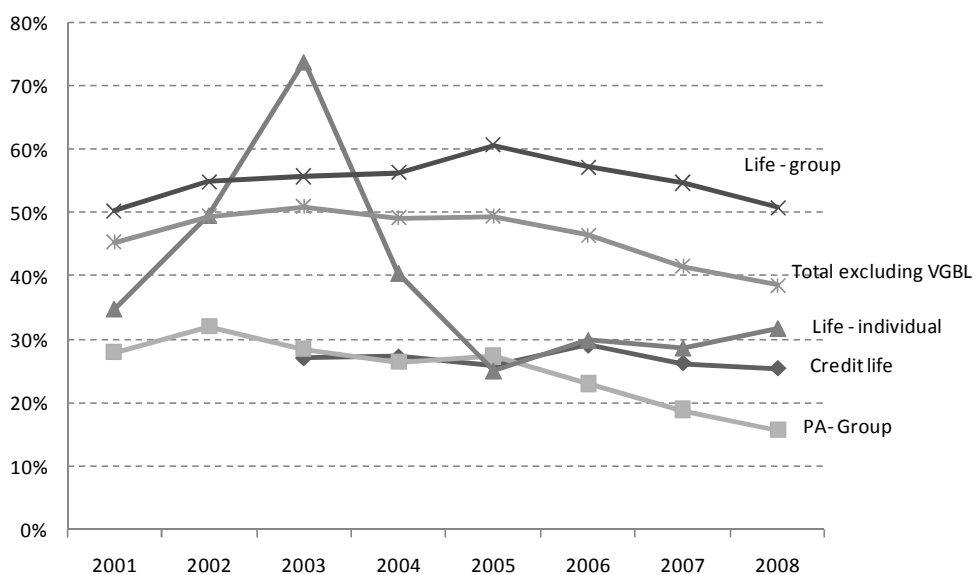


Figure 20: Claims ratio for total life industry

Source: authors' representation based on SUSEP (2009) database

Significant fall in claims ratio. The overall life insurance sector has seen a drop in claims ratio between 2001 and 2008 from a high of 51% in 2003 to a low of 39% in 2008 (see Figure 20). During 2008 the lowest claims ratio was recorded for group personal accident insurance - a typical component of various microinsurance products - at 16%, and the highest claims ratio, 75%, was recorded for education life insurance.

To get a better idea of trends across the different life and non-life product categories, we will consider the premium breakdown, taking into consideration management expenses, claims ratios and sales expenses, of select microinsurance products in more detail in the following section.

3.2.5. Exploring premium composition of the main microinsurance product lines

The breakdown of the premiums in the five most prominent microinsurance-relevant product lines (as emerge from the product analysis in Section 3.5) are shown below. They are group personal accident, credit life, group life, extended warranty and multi-peril:

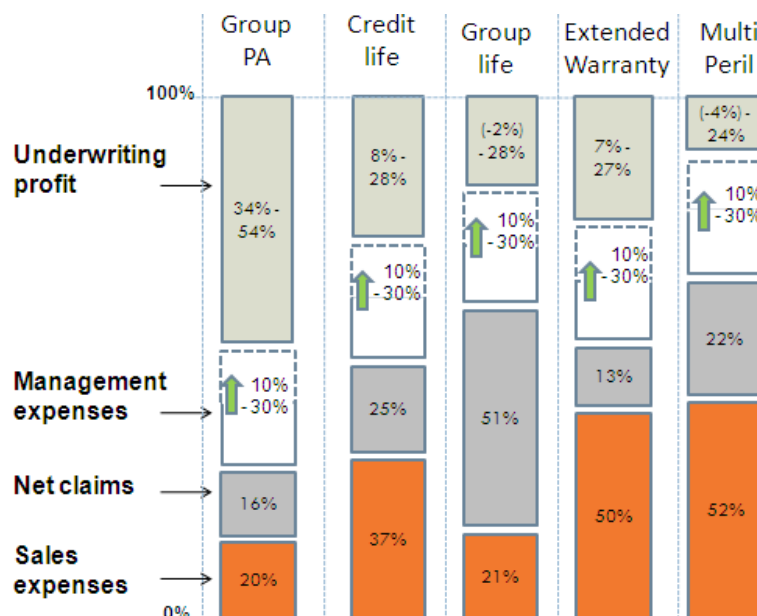


Figure 21: Net premium breakdown of microinsurance relevant product lines

Source: authors' representation based on SUSEP (2009) database

While sales expenses and net claims data are based on actual industry-wide figures from the SUSEP database, we had to estimate management expenses based on the performance of a small (but relevant⁵⁴) sample size as the management expenses were not available by product line at time of publication. It was thus necessary to proxy these expenses based on company level data. As indicated in the diagram, management expenses can range from around 10% (for larger insurers) to around 30% (for smaller insurers).

Significant variations in sales expenses by product line. When looking at Figure 21, one will notice significant variations in the sales expenses. Sales expenses vary from 20% for group personal accident to 52% for multi-peril. Further, extended warranties and credit life have

⁵⁴ Relevant as measured by size and/or involvement in the low income market.

higher sales expenses despite the fact that they are usually bundled to the sale of another good.

Low claims ratio across the board. With the exception of group life, claims do not exceed 25% of premiums. The product category with the lowest claims ratio, extended warranties, paid out only 13% of net premiums. According to the Microinsurance Network's international microinsurance performance indicators (Wipf & Garrand, 2008), organisations with a claims ratio less than 60% should review their benefits or premiums charged, as the value that is offered to clients can be questioned.

Potentially large underwriting profits. Insurance companies who manage to control management expenses, holding claims and sales expenses constant, have room to make large underwriting profits. These potential profits vary from 54% for group personal accident to 24% for multi peril.

Microinsurance products could be providing low value to clients. When taking into consideration the low claims ratio and high management and sales expenses related to the product lines as depicted above it would seem that these product lines offer low value to their clients. However, a more in-depth analysis would be required to determine the exact value proposition to the current or prospective microinsurance clients.

3.3. Health insurance environment

The scope of the current analysis does not allow us to deal with health insurance in detail. It was included as far as possible in the consideration of the emerging and potential microinsurance market as it is one of the most critical products demanded by consumers (see discussion in Section 4). In this section we provide a brief bit of context on the types of entities operating in the health insurance sector in Brazil and the complications this presents for developing health microinsurance. We deal with this separately from the rest of the insurance discussion as the health sector operates independently of the rest of the insurance sector and is covered under a different regulatory framework.

Separate regulatory framework and supervisor. The regulation of health insurance under the Health Insurance Act falls outside the jurisdiction of SUSEP. No insurer may provide health insurance unless registered as a supplementary health insurer with the ANS (see Section 6.1.3.1 for more details).

Numerous health insurance providers. It is reported that 40% of persons that drop into poverty in Brazil do so as a result of health shocks (Neri, FGV – consultation, 2008) and as Section 4 will show, it is regarded as a priority risk by the target market. Consequently, health insurance plays a particularly important role and Brazil is one of the countries where private health insurance (vs. public healthcare) is most prominent. 51.2m people (26.7% of the population) are covered by private health insurance (FenaSaude, 2009). Just more than 10m of these have dental plans.

Currently there are about 1,723 organisations providing some sort of health plan or insurance (ANS, 2009 - website). Different types of entities, many of them member-owned, operate in the health insurance market:

1. *Traditional insurers specialised in health*: This refers to dedicated health insurers or (most often) health subsidiaries of traditional insurers. They provide indemnity cover for medical expenses. Under insurance legislation, they are not allowed to own their own hospitals. They are known as supplementary health organisations, for which the industry body is *FenaSaude*. The health insurers who are members of *FenaSaude* account for 35% of the total health insurance client base. Among them, Grupo Bradesco is the largest player, accounting for 24.1% of all premiums in the *FenaSaude* group, followed by Grupo SulAmerica (20.5%) and Grupo Amil (19.7%). In total, there are 16 insurers that operate in the health insurance market, many of them with more than one health subsidiary in the group (*FenaSaude*, 2009). In 2008, they had 5.9m beneficiaries on their books.
2. *Medical cooperatives*. Such cooperatives (provided for under Law # 5.764/71) are found throughout Brazil and some of them have their own hospitals. An important example is Unimed, the physician's union. It has 90,000 freelance doctors and represents 364 cooperatives⁵⁵. In total, 13.9m people were covered by medical cooperatives in September 2008 (*FenaSaude*, 2009).
3. *Dental cooperatives*. These are non-profit cooperatives provided for under Law # 5.764/71 and providing exclusively dental plans. They had a total of 2.04m beneficiaries in 2008 (*FenaSaude*, 2009).
4. *“Odontologia de Grupo”* are HMOs (health maintenance organisations) for the dental market. They differ from dental cooperatives in that they are not member-owned. In 2008, they covered 6.2m beneficiaries.
5. *Self-management entities* (“*Medicina de Grupo*”). Also known internationally as HMOs, these entities provide health plans mainly to employees. According to Ocke-Reis (2005), this category can also be termed pre-paid medicine groups and are predominant in the market. They manage health plans and deliver medical services and the leading companies, whose owners are often medical practitioners, have their own hospitals. In September 2008, the *Medicina de Grupo* market had 16.4 million beneficiaries (*FenaSaude*, 2009).
6. *Philanthropic societies* refer to non-profit hospitals that provide private healthcare plans and have obtained their licenses from the National Council for Social Assistance (CNAS). It can also include groups formed by municipalities or utility companies. It is one of the smaller health insurance provider categories, with 1.6m beneficiaries in 2008 (*FenaSaude*, 2009).
7. *Autogestão* (“self-insurance”): These are companies or entities providing either group dental plans or group health plans to their employees. Corporate health plans are generally non-profit organisations and do not trade their plans. Instead, they set up their own provider relationships and run the health plans through their human resources departments or employee associations. They also often have outpatient clinics and run preventative programmes (Ocke-Reis, 2005). These entities are distinguished from groups 2 and 3 in that they are not cooperatives. They covered 5.4m beneficiaries in 2008 (*FenaSaude*, 2009).

The shares of the different types of health insurance market in the total market (by number of beneficiaries) can be represented as follows:

⁵⁵ What is interesting about these cooperatives is that they are formed by the doctors, not the patients. The members of the cooperatives are therefore not necessarily the beneficiaries of the insurance. The lower income categories tend to be served by the philanthropic entities and medical groups.

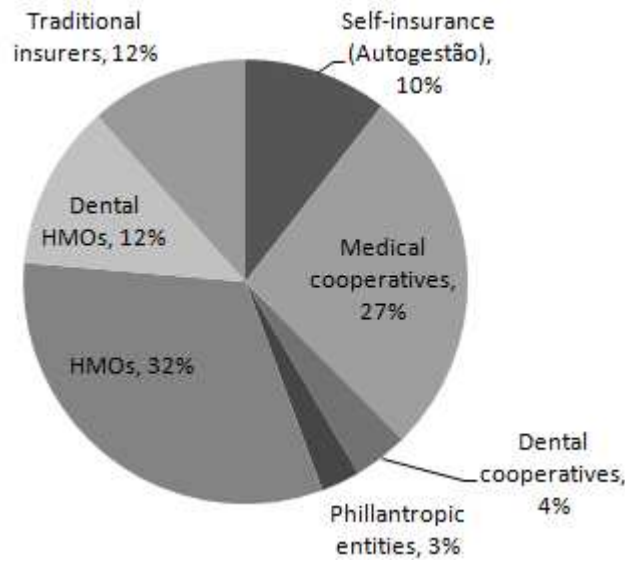


Figure 22. Share of different types of providers in the health insurance market

Source: based on data compiled by FenaSaude (2009)

3.4. State provision of agricultural insurance

Agricultural insurance is another specialised area of insurance that was considered in this analysis but for which a detailed analysis was not possible within the scope. The main finding is that the state is playing a dominant role in this market and does so with large subsidy. It seems unlikely that a significant commercial market could exist amongst small farmers in the near future even if government provision would be withdrawn. Further research may, however, be able to identify specific pockets of opportunities that could be explored.

As discussed, agricultural contributes around 5% to Brazil's GDP. According to IBGE there are 4.4 million family farm establishments in Brazil representing 84.4% of all farm establishments. The implication is that there are 5.2 million farms in total (IBGE, 2006). There are therefore a large number of small or "family" farmers (farms using mostly family labour) that could form a potential client base for microinsurance. This is a sector with intensive government involvement.

PROAGRO as vehicle of state support to farmers. The agricultural or rural sector is very important from a public policy perspective and government places special emphasis on rural insurance. Under Article 19 of the Insurance Code (Law-Decree 73/66), rural insurance is exempt from any federal taxes or charges. Traditional government agricultural insurance schemes include the Rural Activity Guarantee Program (PROAGRO) created through Law 5.969 of 1973 and implemented in 1975. Its purpose is to exempt rural producers from the financial burden arising from natural phenomena, pests and diseases. It is therefore a type of government guarantee program rather than insurance *per se*, as it is not managed according to insurance principles. It is targeted at credit eligible producers and includes the provision of technical assistance.

PROAGRO-MAIS created for the "microinsurance" market. The trend towards greater government involvement in rural insurance in Brazil effectively started 2003 (Ozaki, 2008) with the passing of Law 10.823 (to be discussed below). In 2004, the Central Bank of Brazil

(BACEN) and the Ministry of Agrarian Development (MDA) designed and implemented a Farm Family Life Insurance product called PROAGRO-MAIS (PROAGRO-Plus). It is managed by BACEN and is aimed specifically at family farmers who are part of the mandatory enrolment agricultural funding programme of the National Agriculture Strengthening Program for Family Farmers (PRONAF), an important government initiative for agricultural development that includes subsidised credit provision. To qualify for PRONAF, farmers must own land of up to 4 “fiscal modules” (this equates to approximately 3 hectares, but varies from state to state due to different climatic and soil conditions). They must work with family labour and no more than two outside employees and must have income of lower than around R\$80,000 per year.

About a third of family farmers covered. According to our consultation with MDA and BACEN, the program currently covers around 750,000 family farmers out of 2.5m eligible farmers in total. PROAGRO-MAIS was created to fill a gap that the market would not provide, at a time at which the agricultural sector was rapidly expanding. It is once again rather a tax-financed form of government guarantee than insurance according to the strict definition of the term. It charges a single, small premium across all farmers regardless of their area’s particular risk profile. The premium is determined according to what government deems to be farmers’ capacity to pay, not according to risk principles. In addition to the crop cover, farmers can add cover for the maintenance of the family of up to R\$2,500 per farmer per year (to sustain them when the crop has failed, i.e. not just to cover the crop itself).

A large subsidy commitment. As of mid-2009, government had spent a cumulative total of R\$16.6bn (around US\$9.2bn) on the PROAGRO-MAIS program, of which about R\$51 million was own revenue generated by premiums. In total over the life of the program, 3 million people had participated. The average value covered is R\$5,571 and almost half a million adverse events had been reported, with an average compensation per claim of R\$3,252.

Other government involvement in the rural insurance sphere. PROAGRO-MAIS goes hand in hand with other government programs, such as:

- The creation in 1997 of the ZARC (client risk agricultural zoning) by the Ministry of Agriculture. It entails stipulations on farming techniques for certain states and crops that have had large productivity benefits (BACEN/MDA consultation, 2009). It is used to determine the insurable crops under other government insurance schemes such as SEAF multi-peril insurance. It attracts a large government subsidy and a small own premium and is linked to credit from banks.
- Another program is the Garantia-Safra for farmers under the poverty line. Fewer crops are covered and only in the semi-arid regions of the Northeast, for people earning up to 1.5 minimum salaries and farming on land no more than 10ha. This product is not linked to credit and currently covers around 558,000 farmers. It is funded by municipalities and the federal government. Farmers pay only R\$6 in premiums. Losses are verified by sampling, not by means of a weather index.
- In addition, government through the Ministry of Agriculture has a subsidy program for private rural insurance called the Subsidy Program for Rural Insurance Premium (PSP). Subsidies vary by crop and is limited to a maximum R\$ amount per producer (once again dependent on the type of crop). On average, 50% of the premium is covered by the subsidy, paid directly to farmers. The state of Parana accounts for 64% of all subsidies in the program (Ozaki, 2008). It is authorised to do so under Law 10.823/03 and Decree

5.121/04. This therefore provides an indirect subsidy to insurers (by stimulating demand) to enter the rural insurance field, in addition to the fact that rural insurance is exempted from all federal taxes. Before this program was launched, only a few companies operated in the rural sector, with limited coverage and a limited range of products (Ozaki, 2008).

- Another rural insurance product is the credit life insurance provided by Aliansa do Brasil (a subsidiary of Banco do Brasil). It is regulated by SUSEP and is therefore not a government subsidy scheme. It operates independently of PROAGRO or PROAGRO-MAIS and is actively sold by the bank along with credit. In 2009, it is expected that it will reach 70,000 farmers through 100,000 policies.

Crowding out or filling a market gap? Government's involvement in rural insurance has meant that there is not much, if any, private sector involvement in agricultural microinsurance outside of the PSP program. Though a number of insurers provide agricultural insurance, this is aimed at commercial farmers rather than smallholders, often distributed through production cooperatives. The question is whether government is crowding out the private sector in the microinsurance market or merely providing where the market would not otherwise reach. Given the fact that state incentives are needed even in the higher end of the market and the difficulties in making agricultural microinsurance work internationally, it is our view that it is the latter. This is confirmed by international experience on the viability of agricultural microinsurance, as summarised in Appendix 5.

3.5. Microinsurance product landscape

In this section we briefly consider the microinsurance product landscape that was revealed in our interaction with industry players. It is important to understand the landscape of microinsurance products currently in the market, particularly when we consider the need to define microinsurance product parameters for regulatory purposes in Section 7.5.

The table below summarises the information on microinsurance products we obtained through our consultations. Note that it is not an exhaustive list of all products in the market, nor does it contain all the details for each product as these were not always available. Rather, it gives an indication of the types of microinsurance products in Brazil and provides a first indication of the type of information the regulator would need to gather in the process of defining product parameters:

Product	Monthly premium ⁵⁶	Benefits
Retail 1	R\$7.5	<ul style="list-style-type: none"> • R\$600 life (R\$200/basket) • R\$500 personal accident hospitalisation (R\$50/day) • R\$10,000 accidental death (double if in public transport) • Monthly prize R\$1,500 • Up to 50% discount on medicines
Retail 2	Not available	Value of product purchased on credit, up to max. R\$600, covering: <ul style="list-style-type: none"> • 12 instalments for personal accident • 6 instalments involuntary unemployment • Assistance call centre (e.g. legal advice)

⁵⁶ Unless specified otherwise, premiums are per individual per month. Note that some policies levy their premiums on an annual basis. We therefore simply divided the annual premium by 12 to arrive at a monthly equivalent.

Product	Monthly premium ⁵⁶	Benefits
Retail 3	Not available	Covers the outstanding loan amount in the case of: <ul style="list-style-type: none"> • Involuntary unemployment • Death • Total disability • Personal accident • Monthly lottery prize
Retail 4	Not available	<ul style="list-style-type: none"> • Extended warranty
Credit provider	R\$2.1-12.6 ⁵⁷	<ul style="list-style-type: none"> • R\$3,000 - 18,000 life • R\$840 - 5040 funeral • 4 monthly prizes of R\$1,500
Utility1	R\$3.99 (R\$7.99 for more cover)	<ul style="list-style-type: none"> • R\$20,000 (R\$50,000) house (fire, lightning, explosion) • R\$50 (R\$100) per month for 4 months towards electricity bill involuntary unemployment/temporary disability • R\$50 (R\$100) per month for 1 year towards electricity bill personal accident • 4 monthly prizes of R\$3,000 (R\$10,000)
Utility2	not available	<ul style="list-style-type: none"> • Life: R\$5,000 plus 12 electricity bills of up to R\$50 each plus 4 food baskets of R\$150 • Funeral assistance up to R\$2,000 • Up to 60% medicine discounts • R\$3,000 monthly draw
Utility3	R\$2-8	<ul style="list-style-type: none"> • Life & asset (home) insurance • Credit life • Extended warranties
Affinity	R\$10 (telemarketing) R\$1-4 (direct mail)	<ul style="list-style-type: none"> • Financial protection for unemployment • Home insurance • Assistance call centre • Capitalisation component
Funeral insurer	R\$12-30 [per family]	<ul style="list-style-type: none"> • Funeral :R\$1,800-R\$3,600 • Optional life (income protection): up to R\$48,000 • R\$10,000 monthly draw
Employee groups	R\$5 (average); R\$15 (max) [per family]	<ul style="list-style-type: none"> • Natural & accidental death • Disability • Birth (with congenital disease) • Work-related illnesses • Maternity food assistance • Funeral cover in case of accident at work
Bank	R\$15-50	<ul style="list-style-type: none"> • Credit life • Unemployment • Home & house assistance (services support) • Personal accident • Funeral • Educational insurance for children
Funeral home	R\$18 average [per family]	<ul style="list-style-type: none"> • Funeral assistance R\$2500 • Food aid • Discounts on medical consultations at own clinic • Discounts on medicines • Legal advice

Table 8. Microinsurance product overview⁵⁸

Source: consultations

⁵⁷ Note that this is a modular policy. The policy costs R\$25 per annum, which provides R\$3,000 of life cover as well as R\$840 of funeral assistance. Each policy holder may choose to buy more than one such “module” to increase the cover on her/his own life or to cover additional family members, up to a maximum of six modules per policy holder.

⁵⁸ Note that, as these products are mostly mass-market distributed products, the table above does not mention other potentially microinsurance-relevant products such as auto insurance or DPVAT.

While we would caution against generalising on the basis of this limited sample, the following cross-cutting features do start to emerge:

Premium and benefit ranges. The products indicate that microinsurance, while the cover is sometimes quite low, with correspondingly low premium levels, is not necessarily restricted to the very low end. The low-income market (broadly defined as explained above to cover 85% of the population) is quite big and hence has a need for a broad range of products offering differing levels of cover. The required level of cover to meet market realities also differs by type of cover. In the sample above, monthly premiums range from as low as R\$2 per month up to R\$50 per month. Benefits (sums assured) range up to R\$50,000 for home owners' insurance and life insurance respectively, around R\$20,000 for personal accident and just below R\$4,000 for funeral assistance. The sample also contains some limited unemployment benefits, though these are quite low and are more an "add-on" to other cover to increase the attractiveness to the market.

Emphasis on personal accident cover. Another interesting feature, which will once again be of relevance when the target market's preferences are discussed in Section 4, is the fact that for some products personal accident cover exceeds life cover. As the discussion in Section 3.2 showed, group personal accident insurance has a much lower claims ratio than group life insurance, implying that it delivers more value to the insurer and value chain and less to the client.

Bundled products emphasising benefits in life. An interesting feature of all the products that is strongly supported by the focus group evidence (Section 4) is that virtually all the products on the list contains a variety of cover. For example, a policy will contain a core personal accident or life component, plus funeral assistance, plus a capitalisation component. Interestingly, a number of products incorporate some kind of medical component such as discounts from selected pharmacies or even discounted access to a clinic. The bundled nature in most cases incorporates "benefits in life", with an emphasis on tangible benefits (such as a discount, a funeral service, a food hamper or an assistance call centre) that you get access to while you are still alive. As the focus groups will show (Section 4), a strong preference was expressed for tangible benefits rather than some future monetary amount which it may be difficult for the individual to discount into a present value.

Bundled products not necessarily composite. Despite almost all being bundled, only two products are in fact composite (provide both life and non-life cover). Most would combine personal accident and/or life, credit life and funeral assistance. Others would combine home insurance⁵⁹ with unemployment benefits. Products that are composite tend to combine personal accident with home insurance, or credit life insurance with an extended warranty. It is also interesting to note that home insurance, which would fall under multi-peril, in some cases covers very limited risk events, such as fire, lightning and explosions only.

Capitalisation omnipresent. One element of the bundled nature that warrants singling out is the role of capitalisation. All but three of the products quoted above have some

⁵⁹ During our consultations, a number of examples of microinsurance products offering home owners' insurance were mentioned. This is made possible by the fact a large proportion of Brazilians own their own homes (though many of them do not necessarily have a deed on the property). According to the PNAD 2007 data, 76% of Brazilian households own the house they live in. This is slightly higher for rural areas (77%) than urban (75%) (IETS, 2009). Generally, household structure and content insurance is however a more expensive product and requires individual loss adjustment, pushing up the cost. For this reason, it has proved the most challenging microinsurance product, internationally.

capitalisation component. Capitalisation is widely regarded as an effective means of attracting policy holders that is a prerequisite to success in the voluntary low-income market.

Distribution channel may shape features. Some product features relate to the distribution channel used. Where utility distribution is at stake, cover may include benefits paid towards your electricity bill rather than a cash pay-out. Where a credit retailer channel is used, an extended warranty or credit life may be the anchor cover around which added features are bundled.

3.6. Microinsurance models

In this section we provide an overview of the main microinsurance models found in Brazil. These models are strongly defined by their distribution strategy but also combine specific products and underwriter features into the overall delivery model.

Importance of distribution. “Microinsurance belongs to the distribution channel”. This quote, made by an insurer during one of the in-country consultations is as true for Brazil as it is for the rest of the world. While product design is important to ensure that products are easily understandable, affordable and appropriate to the needs of the low-income market, distribution is what leads to actual usage of insurance. In light of the importance of distribution, this section considers the main distribution channels for microinsurance in Brazil.

Variety of distribution channels serve the low-income market in Brazil. During our consultations, seven key channels emerged as being of particular relevance to microinsurance distribution. Below, we briefly expand on each before unpacking the cross-cutting themes and taking a view on the main channels going forward.

The low-income distribution models identified all reflect a combination of the factors outlined above. The main categories and features of each are discussed below.

3.6.1. Utility and database distribution

Utility and other “database” distribution already sell popular insurance on a large scale. The first channel that plays a significant role in Brazil is what we term *database* distribution, which is a type of “B2B2C” (business to business to client) distribution channel, often called affinity insurance⁶⁰ in the market. Database distribution refers to the marketing of insurance to an existing customer base, such as the clients of utility or telecommunications companies. Products sold can include home insurance, extended warranties, theft cover for mobile phones, or some life and/or personal accident insurance. The following diagram illustrates the database distribution model and the role of the various actors in the value chain:

⁶⁰ Affinity insurance would include utility distribution and retailer distribution. We separate the category out into database and retailer distribution.

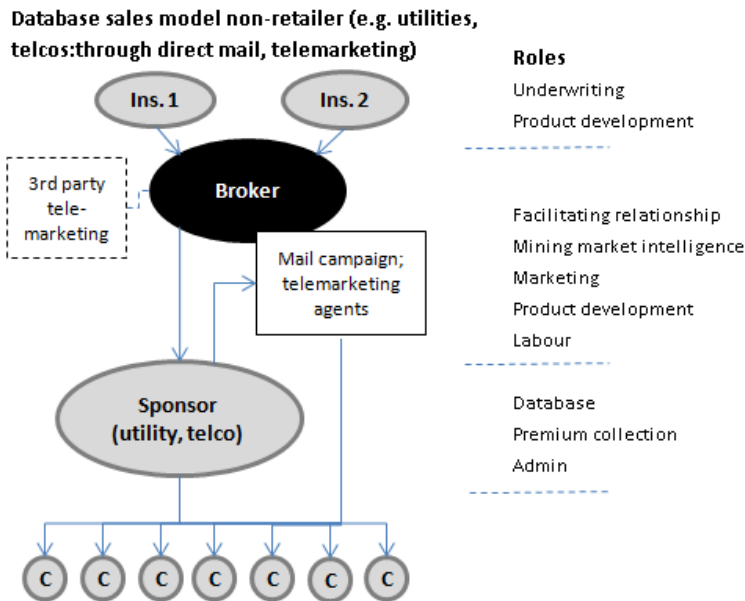


Figure 23. Representation of the database sales channel⁶¹

Source: authors' representation based on consultations

In this depiction, the broker initiates the product in negotiation with the sponsor. It mines the sponsor's database for marketing and segmentation information and uses this as a basis to do product development and attract insurers to underwrite the product. The broker does the marketing and provides the labour for the sales. It may make use of e.g. a third party telemarketing company to assist it. The sponsor provides the database, does basic administration and can facilitate premium collection (by adding it to the utility account). The insurer underwrites the risk and may contribute to product development.

Capitalisation and "benefits in life" driver of sales. Most (if not all) products marketed in this manner include a capitalisation component, which industry players believe to be a major driver of take-up. An additional feature is that these products tend to also include some benefits in-life. This may include free or discounted services such as an assistance call centre. These benefits make it easier for call centre agents (and mail campaigns) to sell the products as they do not have to focus on the death benefit component, which people may find uncomfortable to discuss.

Database allows targeted marketing and facilitates trust. In these models the sponsoring utility or telecommunications company offers access to a database of clients, which allows mining of client information, a means of communicating with them (through the statements mailed to them) as well as the potential trust of clients who are already in an account relationship with the sponsor. This is usually done through an agreement with the sponsor, who may also act as "estipulante⁶²". Marketing is typically done through direct mail and a combination of outbound or inbound call centres. Where utility distribution is concerned, the electricity regulator requires that the direct mail marketing sheet must be a different colour to the electricity statement to clearly differentiate it from the electricity account. The first month, utility account holders receive an invitation to sign up to the insurance. If they

⁶¹ "Ins." denotes insurer and "c" denotes customer.

⁶² Estipulante is a legal term found in regulation. Sponsor is a looser concept. All utility/telcos will be 'sponsors' if they agree to share their client base with an insurer, but it is not sure if all of them will be "estipulante".

opt in, the insurance premium would be added to their utility account from the following month.

Brokers lead sponsor relationship. The role of the broker in this arrangement may take on differing roles depending on the model and how it came into existence. In the simplest form the broker may simply introduce the sponsor and the insurer but will not be involved in the details of the operation. In other models the broker may play a role developing products and running the call centre and in more advanced models (such as the one depicted in the diagram) the broker may also play an active role in mining the utility/telecommunications company's database for information on the target market. This allows for more detailed market segmentation, targeted marketing and the tailoring of products to specific client segments. In the more advanced models noted the broker can use its market intelligence capacity and its 'ownership' of the sponsor relationship to auction off underwriting contracts to the underwriter offering the best remuneration. In some cases there may be more than one underwriter for different products through one channel as the broker can select the best insurer for each product or product component.

Sponsor key to success. Some of the key success factors of this model have been noted as:

- the client database, which allows very specific targeting and marketing;
- brand sponsorship of the particular utility or other group and the trust this embeds;
- cost-effective premium collection as it is integrated with the collection by the sponsoring company; and
- an emphasis on quick and efficient client service (which includes claims payment within a couple of days).

Large-scale, profitable take-up. While detailed information is not available in the public domain, conversations with market players suggest that this channel could be serving in excess of 10m policyholders, the bulk of whom fall in categories C, D and E. Despite its apparent success in the volume of take-up achieved, the conversion rate for these models, however, seems quite low. Again detailed information is not available in the public domain but conversion rates of between 5% and 10% have been noted for some of these models. One player indicated that the response rate to direct mail is as low as 2-3% and that this has come down from more than 10% a decade ago. Another player indicated that 30% of customers drop off after the first premium, but that thereafter persistency is more than 90%.

3.6.2. Retailer footfall

Retail-based distribution offers a ready client base. We refer to this model as the "retail footfall" model as it relies on the customer footfall and brand trust of a retailer or another brand to sell insurance but typically does not provide access to a database of clients that can be mined. As result the sale process tend to rely on customers coming into the store rather than outbound sales campaigns.

Extensive retailer network offers sales force, brand trust, premium collection and administration. Brazil has an extensive retailer footprint, consisting of at least 27,000 retail

stores⁶³ (PWC, 2007). Of these, about 80% are supermarkets. There are also a number of large credit retailer chains⁶⁴. The top 10 credit retailers had a total of 2,503 stores in 2006, the biggest of whom are Casas Bahia (500 stores), Ponto Frio (369 stores), Lojas Colombo (360 stores), Lojas Pernambucanas (238 stores) Magazine Luiza (350 stores) (PWC, 2007). Other chains include Gazin, Wal-Mart and Carrefour.

This has facilitated the emergence of a significant retailer distribution channel for insurance. From the retailer’s perspective, credit expansion in the non-food retailer section has become an important driving force for revenue and partnerships with financial institutions are increasingly popular as a means of increasing sales (PWC, 2007). From the insurer’s perspective the retail network can provide access to a large client base and a ready sales force, can facilitate payments via the POS network and can also provide efficient administration through advanced and integrated management information systems (MIS). In addition it allows the insurer to place the sales force in the lower-cost sales structure of the retailer (discussed below).

This channel can be represented as follows:

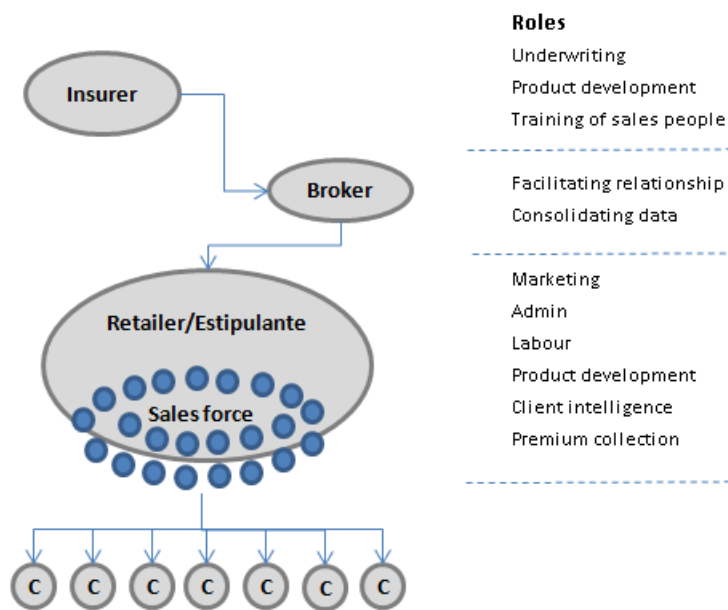


Figure 24. Representation of the retailer model

Source: authors, based on industry consultations⁶⁵.

Variety of products with retailer branding. The insurance products sold through this model are typically white-labelled with the retailer’s branding, leveraging off the brand of the retailer, which the clients know and trust, rather than the insurer. A variety of cover is sold, including credit life, extended warranties, home insurance, cover for death, involuntary unemployment, personal accidents or disability. See Box 6 below for an example.

⁶³ The main retail chains with the widest geographic coverage over the main cities and across the country are Companhia Brasileira de Distribuicao, Carrefour and Wal-Mart all of which are food retailers.

⁶⁴ Defined as retailers that sell white goods and/or furniture on credit.

⁶⁵ “C” refers to clients.

Group policies provide for low-cost policy administration. These models are typically structured as open group policies, where the group is loosely defined as the client base of the retailer (hence “open” as there is no pre-existing common bond or condition for entering the group other than shopping at a particular retail store). While the terms of the policy are stipulated for the group, each individual member (i.e. store client) decides whether to buy the policy. In such an open group policy the retailer (as *estipulante*) may actually be the counterpart in the insurance contract with clients stipulated as beneficiaries.

Active, incentivised sales made possible by cost-sharing. Unlike some international examples (e.g. Pep/Hollard in South Africa) where this type of model is based on passive sales⁶⁶, the typical retailer distribution model in Brazil relies on active sales by store staff and not specialised insurance sales representatives. The salesperson’s income is, therefore, derived from selling multiple products and not only from selling insurance. While this introduces cost sharing across these products, the contribution of insurance to monthly income could still be significant, with some models reporting as much as 40% of salespeople’s income derived from insurance.

Retailer as employer. The retailer typically acts as *estipulante* by aggregating clients and providing the sales force. The insurer has no employment relationship with the salespeople. For its role in sales and administration, the retailer earns a *pro labore* fee from the insurer, which is not a commission but may be correlated with the volume of sales.

Broker as go-between. The relationship between the retailer/*estipulante* and the insurer is intermediated by a broker. The presence of both the broker and the *estipulante* adds an additional step to the value chain.

Active sales, capitalisation and benefits in life secure high take-up. As with the database sales channel, capitalisation and some form of benefits in life are important in drawing in potential clients. While information on take-up is not publicly available for the sector, industry consultations revealed that penetration rates of 45-55% of store clients can be achieved, which is much higher than the figures noted above for database sales. While there is room for improving the value delivery in this model, it is already higher than the comparable experience for database sales.

Box 6. Retailer distribution case study: Casas Bahia

Casas Bahia is the largest white goods chain store in Brazil, with more than 500 stores in 11 states (Casas Bahia, 2009)⁶⁷. It sells various insurance products on its premises, including credit life insurance on goods purchased on credit and extended warranties. One of its insurance partners is Mapfre Seguros.

Mapfre offers two types of insurance via Casas Bahia:

1. A **financial protection** product covering up to 12 instalments of the credit outstanding on the good (depending on the duration of the loan – cover ceases when the good is paid off) in the case of accidental death and up to six instalments in the case of unemployment. This product is offered only to clients who purchase goods on credit, but is sold on a voluntary basis. The cover is limited at R\$600, even if the loan amount is higher. It provides no capitalisation component, but provides access to a “personal assistance” call centre where the customer can obtain advice

⁶⁶ Passive distribution refers to a sales process where the client is not actively sold the product. Clients walk into a store, pick the product off the retailer’s shelf and pay for these without any intervention by a sales agent.

⁶⁷ <http://www.casasbahia.com.br/pesquisaLojas.do>

on a number of topics.

2. The second product is of particular interest to microinsurance development. It is called “**Life Protection and Prize**” (Vida Protegida & Premiada). Its main sales angle is the fact that it is a bundled product that offers benefits to the policy holders while they are still alive, a “benefit in life”. It costs R\$89.90 (approximately US\$50) per year, paid in one instalment by the retailer to the insurer. The consumer can either pay the annual premium to the retailer, or can choose to add it to their loan instalments, paid monthly. This premium buys cover for only one person, not for family members as well. A person can however choose to buy more than one policy to also cover their spouse and/or children. The following cover is provided:

- **Life cover** consisting of a basket of food for three months following the policy holder’s death, at a value of R\$200 per basket (total life cover: R\$600).
- **Personal accident** cover of:
 - Up to ten days of hospitalisation, with a pay-out of R\$50 per day hospitalised (total cover: R\$500)
 - R\$10,000 cover in the case of accidental death
 - This cover doubles to R\$20,000 if the accident occurred in public transport

In addition, the policy holder receives:

- Entry into a monthly **lottery draw** of R\$1,500
- **Discounts on a list of medicines** from a chain of pharmacies. Depending on the type of medicine, up to 50% discount can be received. According to Mapfre, this is by far the most popular component of the product, with policy holders on average making 6-7 discounted medicine purchases each per month.

The life cover is therefore quite small compared to the personal accident cover. This may suggest lower value to the client, but the focus group research (see Section 4) would suggest that personal accidents are regarded as a priority risk by the target market. Though this product was only launched about a year ago, it is seeing rapid uptake.

Sales force training. Casas Bahia’s sales force acts as salespeople for the insurance policies. Though they are not remunerated directly by Mapfre (they are remunerated by the retailer from the *pro labore* allowance) or in Mapfre’s employment, Mapfre provides them with training in insurance sales. Each salesperson receives on average 7 hours of training. It does not involve an exam, but role play and mystery shopper techniques are used to test their capability.

3.6.3. Credit agent sales

Credit agent sales offer potential for microinsurance cross-selling. A variation on the retailer model is where distribution is done through microfinance providers and their sales force rather than the retailer sales force. Similar to the retailer model it utilises the MFI’s branding and agents. The cost of the salesperson is therefore also shared with a third party (credit agents most likely still earn most of their commission off credit sales rather than insurance). As was noted in Section 2.2, the credit market in Brazil is estimated by Galiza (2009) to be around 21m of which the productive credit component is still limited at around 1m.

Compulsory credit life not the norm. The regulation on *vendas cassadas* disincentivises tied sales of insurance and credit (see section 6.1.3.6). As a result, most insurance sold with credit transactions is on a voluntary basis⁶⁸ and penetration is relatively low. The credit agent channel is, however, not limited to credit life insurance sales, but can also cross-sell

⁶⁸ Note that the focus group evidence discussed in Section 4 would seem to contradict this. Many respondents mentioned being “forced” to take out insurance on a loan. Therefore credit life insurance could be perceived as compulsory, even if strictly speaking the client is given the option to buy or not.

other types of insurance such as life insurance, personal accident insurance, funeral assistance and a lottery component (as the example in Box 7 below will show).

Active sales achieve voluntary take-up. A key difference from the retailer model is that the credit agent goes out to customers to sell insurance, whereas in the retailer model sales are conducted via the store network. Even if retailers sell insurance linked to goods on credit, we therefore classify it not as credit agent sales, but as retailer sales. In a study commissioned by Funenseg on the synergies between microfinance and microinsurance, Gonzalez et al (2009) argue the merits of the credit agent model, a model which they regard as underutilised currently. The credit agent is well known in the local community and has an ongoing relationship with clients that place him/her in a good position to also sell insurance.

Box 7. Example of the credit agent model: CrediAmigo

Potential for scale and penetration. Banco do Nordeste's CrediAmigo model is the best known example of the credit agent model in Brazil. Its more than 1,000-strong credit agent sales force (each of whom had on average 430 active loan customers at the end of 2008) has already sold more than 125,000 voluntary life insurance policies, reaching about a quarter of CrediAmigo's credit client base (which is expected to stand at 550,000 by the end of 2009) and the number is growing daily (CrediAmigo consultation, 2009). CrediAmigo believe that as much as 60% or more of credit clients could potentially become insurance clients.

Labour relationships outsourced to NGO. CrediAmigo uses an NGO called Nordeste Cidadania Institute to distribute its products (CrediAmigo Annual Report, 2008). The credit agents are therefore employees of the NGO rather than of CrediAmigo or Banco do Nordeste. This is due to the strict recruitment requirements and other employment conditions imposed on state employees by labour regulation. As Banco do Nordeste is a state-owned bank, these requirements extend to Banco do Nordeste employees as well and would push up the cost of CrediAmigo credit agents.

Modular cover. The insurance policies are underwritten by Mapfre. The premium is R\$25 per annum and covers one person⁶⁹ only. Each borrower may buy up to 6 policies to increase the level of cover per person or to cover additional family members. Each R\$25 premium provides R\$3,000 in life cover as well as R\$840 in funeral assistance⁷⁰. The product also provides four lottery prizes a month of R\$1,500 each. CrediAmigo has found this to be a big incentive for take-up. The insurance policy is essentially a ticket as it is a standardised open group policy without individual risk rating, with a simple policy proposal document for each client.

Role of broker and aggregator. Banco do Nordeste, through CrediAmigo, acts as the *estipulante*. It receives payments from the client on behalf of the insurer. The NGO houses the credit and insurance sales force. The salespeople act as representatives of the broker, but their employment relationship is with the NGO. Furthermore, Banco do Nordeste owns the brokerage that intermediates between CrediAmigo and the insurer (Mapfre). The role of the broker includes vetting policies. Nowadays, CrediAmigo's system "talks" to Mapfre's system, loading the policy information directly onto the insurer's database.

To illustrate the model in the diagram below we have picked the CrediAmigo model. The diagram may vary in two respects for other types of credit agent models: as the broker is owned by the bank, it is shown as overlapping with the bank in the diagram. In other

⁶⁹ CrediAmigo has found that most borrowers (two thirds of whom are female) who buy insurance will buy it for their husbands, who are often the primary breadwinners.

⁷⁰ There is a cheaper option available at R\$15 per year for R\$1,600 life cover.

models, the broker may be independent. Furthermore, in other credit agent models the sales force is likely to be housed directly in the MFI/financial institution:

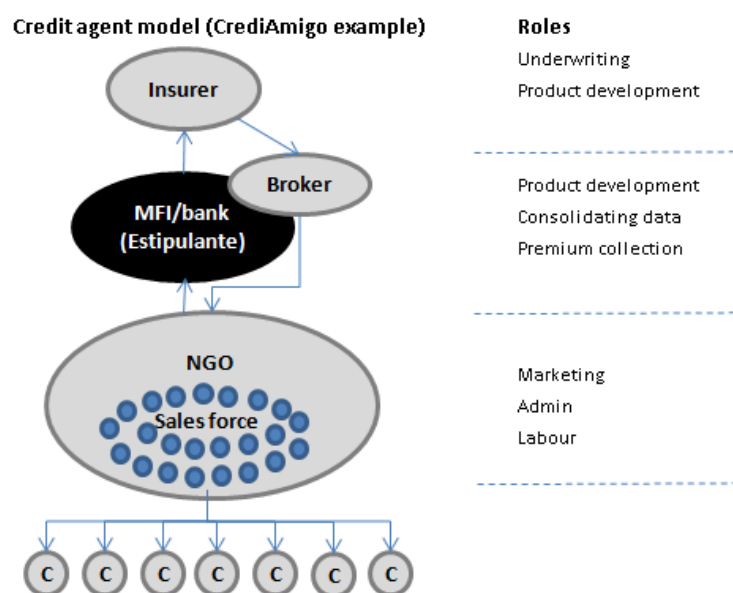


Figure 25. Representation of the CrediAmigo/credit agent model.

Source: authors, based on consultations

3.6.4. Banking channel

Banking sector the single biggest current distribution channel. According to SUSEP (2008), insurance distributed through retail banks accounts for the majority of life microinsurance distribution in Brazil. As discussed in Section 2.2, it is difficult to estimate the total number of people who access banking services, but it is likely to be much greater than the total current insurance client base. This means that a large proportion of banking clients do not already have insurance and that the link with the bank could be used to sell insurance to them.

Structure. The bank channel is similar to the retailer (particularly credit retailer) model noted above (refer to Figure 24), but with two notable differences: the bank may use account information to flag potential sales to the broker (market segmentation), and brokers and their representatives sell insurance, rather than retail sales agents. There is therefore no third party *estipulante* involved (unless the bank does not own its own insurance firm and acts as *estipulante* for a third-party insurer).

Unlocking the banking correspondent network. Though banking correspondents are not currently allowed to conduct insurance sales (see the discussion in Section 6.2), the fact that they have been established as such a popular distribution channel for financial services more broadly implies significant potential for insurance distribution. Furthermore, correspondents already play an important role in collecting premiums through the *boleto* system. For some insurers, the bulk of premiums are paid via correspondents.

Allowing correspondents to conduct microinsurance sales, receive payments and pay claims on behalf of the insurer would expand the reach of the insurance market significantly.

Currently, the uncertainty over whether banking correspondents may sell microinsurance has prevented the model from being used for any other means than a payment channel for cash insurance payments.

A number of insurers linked to banks are eager to utilise the opportunity posed by their large networks of correspondents. Furthermore, at least one bank is piloting the use of its POS network to sell insurance through a simplified on-line IT system that aims to reduce origination costs.

Bancassurance implicitly creates incentive for alternative channels innovation. The fact that most large insurers are also owned by banks puts additional pressure on insurers without links to a bank to pursue alternative distribution channels such as retailers or utility companies.

3.6.5. Collective bargaining and common bond

Another model is where a common bond group decides to endorse a specific insurance product and each member is then free to decide whether to take up the insurance product or not. In some cases the endorsement may also amount to a collective decision so that all members are compelled to take the product.

Group structure facilitates collective decisions. The particular groups referred to here typically have some pre-existing common bond (e.g. members of the same church, of a cooperative or of a workers' union) and there is usually some form of democratic decision-making (be it by voting or through decisions made on behalf of members by trustees or representatives). The group therefore represents the interests of members who are able to influence decisions taken by the group. Accordingly, if a group decides that all members should take a particular insurance product, this is more like a collective group decision than one forced on the group by a third party (e.g. compulsory credit life insurance). We therefore also refer to this model as the “**democratic group endorsement**” model. The group does not underwrite the insurance itself, but collectively decides to obtain insurance.

Box 8. Common bond insurance distribution: the case of PASI

In this category, the insurance provided by PASI (underwritten by Mapfre) warrants special mention. PASI originated 20 years ago in the construction industry, but has since evolved to also cover other industries. It provides insurance cover – paid for by the employer – to employees in the low-income end of the formally employed sector. According to Galiza (2009), PASI currently has 2m beneficiaries (primary policy holders and covered family members), through 13,000 agreements with employers spanning more than 300 unions. It is tailored specifically to workers' needs. Some of the factors that make it attractive are that no waiting period or age limit⁷¹ applies and that claims settlement takes place within 24 hours.

Sign-up process. The workers, through their union, decide that they want insurance cover. The union then negotiates with the employer to provide the cover to the workers as an employee benefit (paid for by the company). The broker facilitates the discussion between the employer and PASI and suggests product modules to the employer that will best suit the workers' needs. PASI does contract maintenance, issues the slips to charge the insurance premium and pays out claims on behalf of the

⁷¹ This is most likely possible due to the fact that all workers in a firm are covered, thereby removing the scope for anti-selection.

insurer. For this, it earns a *pro labore* fee. The broker earns a commission.

Products tailored within group agreement. The insurance product is white-labelled as a PASI product. It is based on the open group policy model. Within the broad agreement individual employer groups and unions have the flexibility to structure the product. Each employee group and employer chooses an insurance package suited to their needs (PASI, 2009 – consultation). Cover can include funeral assistance, unemployment benefits, cover for certain diseases, birth assistance/maternity cover (delivering goods to new mothers) as well as food hampers/basket when a member dies. It therefore emphasises the “benefits in life” concept seen in some of the other models as well. The maximum insured amount available is R\$30,000 in life and personal accident cover, at a cost of R\$15 per month. On average premiums are however around R\$5 per month.

The PASI model can be represented as follows:

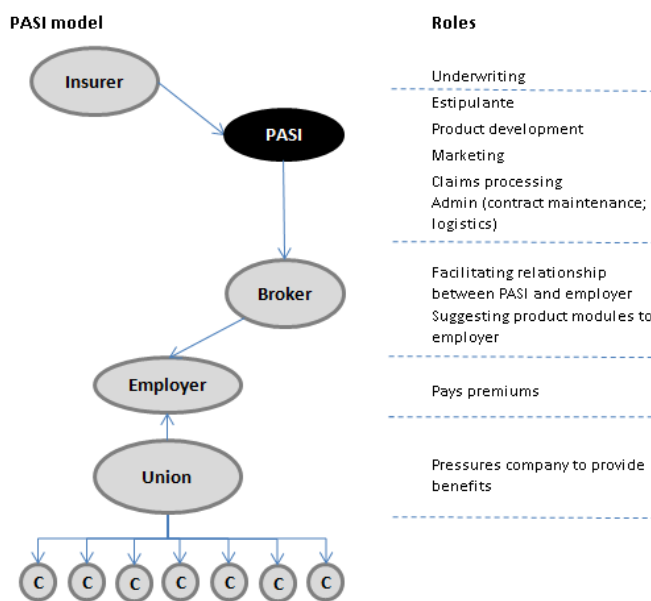


Figure 26. representation of the PASI model

Source: authors' based on consultations

Other examples of common bond insurance than the PASI model may include for example where a cooperative, sports club or church group decides to obtain underwriting and act as *estipulante*.

Potential for growth. There is still much potential for growth in this market. Galiza (2009) estimates there to be 30m union members a figure that rises to 90m if family members are included.

3.6.6. Door-to-door sales

Face to face, active sales. Another delivery channel is the face to face sales conducted by broker representatives. Although by regulation a broker is allowed to intermediate products of multiple insurers, some brokers (and their representatives) generally sell only insurance and represent only one insurer. Such brokers are typically associated with an insurer, yet their representatives are not regarded as employees of the insurer. This structure ensures

that it meets the requirement to only pay commissions to brokers and also places the sales staff away from the insurer in the broker entity.

Box 9. Door-to-door sales: the case of SINAF Seguros

The only example known to us of door to door microinsurance sales in Brazil at present is SINAF Seguros, operating in the Rio de Janeiro area. Its experience turns the conventional wisdom on its head that individual, outbound face to face sales are not viable for microinsurance. SINAF sells policies ranging from R\$12.50 to R\$30 per month, offering various levels of cover. The main component is funeral assistance (provided by a SINAF sister company), as well as “income replacement” in the case of death, whereby the beneficiaries receive a fixed amount per month for a fixed number of months, depending on the level of cover chosen. SINAF policies are sold through a sales force of 110 broker representatives. SINAF covers more than 500,000 lives (100,000 primary policy holders), all in the C, D and E classes.

The SINAF model can be represented as follows:

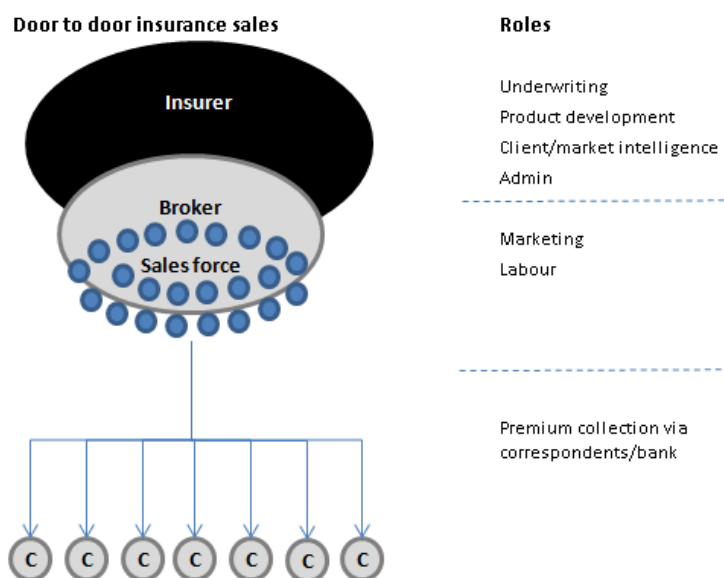


Figure 27. Representation of the individual door-to-door sales model.

Source: authors' representation based on consultations

3.6.7. The funeral assistance channel

The last major model – relevant for a substantial proportion of the current microinsurance market as discussed – is the distribution of insurance through funeral homes or private cemeteries. Funeral assistance distribution through funeral homes or private cemeteries currently takes place outside of the formal definition of insurance. Insurance provision and distribution is therefore done on an informal basis. In this model, all functions are centralised in the funeral home or private cemetery. It provides the funeral service and employs a commissioned sales force to sell its funeral cover, mostly through door to door sales techniques. The funeral home can employ agents directly as it is not subject to the expensive financial sector bargaining council agreements and, given that it does not comply

with insurance regulation, it is not constrained by restrictions on who may receive commissions. It is therefore the model with the fewest steps in the value chain among all those considered.

Box 10. Example of funeral assistance through a private cemetery: Grupo Vila

Grupo Vila is a large, family-owned private cemetery and funeral home group of businesses operating in three states in the Northeast of Brazil. As part of its service package, it offers family funeral plans. Children of up to 35 years of age are covered, as are parents up to 65. Clients typically fall in the C, D and E socio-economic classes.

The average premium is around R\$8-10, covering a funeral service with an over the counter value of R\$2,500. Funeral services on the plan are covered out of expenses rather than from a separate risk pool.

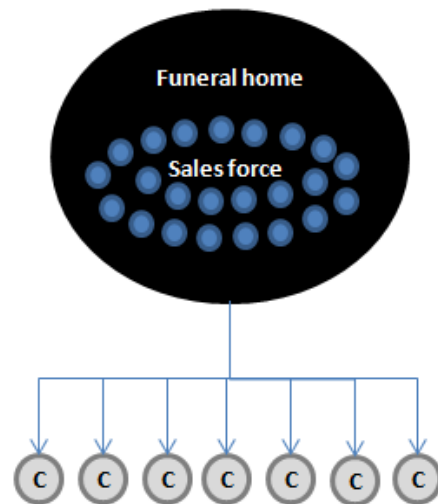
Sales are made through 106 sales women (rather than men, as women are more likely to be welcomed in people's homes) selling door to door. Sales women receive extensive training and are expected to reach their average sales target within six months. To ensure that a consistent message is conveyed, a standard flipchart is used by all sales women during discussions with prospective clients.

Apart from the cemetery and funeral services, Grupo Vila also runs medical clinics named "Multifam", which receive around 5,000 visits per month, 80% of whom are on the funeral plan. The clinics were initiated to build customer loyalty: members of the Vila Grupo funeral plan receive discounted access to the clinics (the clinics are also open to outsiders, but at a higher price). In addition, plan members are informed of the availability of certain check-ups in the clinics during certain times (e.g. urological checks) at a discounted price. This is mostly used to attract customers, but can also be used as a proactive health management tool to reduce mortality in the risk pool.

The informal model is however not the only instance of funeral assistance insurance. A number of insurers indicated that they offer funeral insurance, often in partnership with funeral service providers, intermediated by a broker.

The model can be represented as follows:

Funeral home or cemetery model



Roles

- Underwriting (though not generally based on insurance principles)
- Marketing (via sales force or through funeral homes and cemeteries)
- Collection
- Claim payment in form of funeral service
- May include other benefits "in life"

Figure 28. Representation of funeral home distribution model.

Source: authors, based on consultations

3.6.8. Cross-cutting themes

Brokers prevail, even in alternative distribution channels. There are currently 74,597 active individual brokers and 34,666 active corporate brokers in Brazil (Fenacor, 2009). Even though direct distribution is allowed, most relationships between third parties and insurers are currently still intermediated by brokers. Brokers also often take a proactive role in designing insurance products, providing market intelligence and segmenting the market – beyond just intermediation of the relationship between insurer and client. Brokers are particularly dominant in the affinity sales market where the larger brokerages have developed product design and data analysis capacities. In some cases brokers control access to aggregators.

The broker is present even in situations where it is in fact a representative who conducts the sales and acts very much like a tied “agent” for one insurer (as no agent category exists in Brazil, this term is not allowed where insurance sales are concerned). Such representative is generally remunerated on an incentivised, sales-dependent basis, but his/her remuneration is not called a “commission”. The representative's relationship with the insurer is via the broker or the *estipulante*.

The role of the estipulante. According to Article 21 of the Insurance Act, an *estipulante* is a person that “effects insurance on behalf of others and may be a beneficiary of that insurance”. It acts as a representative of the insured. The *estipulante* collects premiums from the insured and passes it on to the insurer - a role that a broker is not allowed to fulfil (see the regulatory discussion in section 6.1.3). The *estipulante* is similar to the administrator found in other jurisdictions. It performs certain functions that are in effect outsourced to them by the insurer, such as premium collection and bulking, policy and claims administration. In the first instance, however, the *estipulante* is an aggregator of clients. This puts it in a favourable bargaining position vis-a-vis insurers, as it controls access to the client base. This is the case with for example a retailer chain or a utility company. The *estipulante* has the power to move the book from one insurer to another, white-labels the policies and

will have some say in product design or features. Insurers guard against the power of the *estipulante* by entering into long-term contracts or by building up critical mass in terms of the client base – which makes it more difficult to switch to another insurer.

Labour regulation places sales force at arm's length: As will be discussed in section 6.1.3 labour legislation is a core contributing factor to the fact that insurers try to place the sales force in a lower cost environment (i.e. the retailers), rather than directly in their employment.

Additional steps in the value chain add cost. An interesting feature of all the models quoted above, with the exception of the funeral home model (which is not subject to regulation) is the fact that there are a number of steps in the value chain in each case. This adds to distribution cost and may explain the high selling expenses referred to above. This is the result of labour legislation and broker legislation and the resultant structure of the microinsurance market.

The importance of active sales. The dual distribution challenge for the microinsurance market is to develop cost-effective models that are able to (1) achieve take-up and (2) ensure that clients make informed decisions (for consumer protection's sake, but also for policy holder persistency, which is important to insurers' bottom line). To achieve this, all the channels in Brazil discussed above to some degree rely on *active sales* of insurance through face to face interaction with a sales person, even through alternative distribution channels. The main exception is the database distribution channel. It normally makes use of three marketing strategies: direct mail, inbound and outbound call centres. The first two are largely passive, whereas the last one represents active sales.

3.7. Current take-up of insurance

This section explores the available data to present the best possible understanding of the take-up of insurance products. This exercise is significantly compromised by the fact that the only comprehensive datasets dates from 2003 and precedes the recent growth trend in the insurance industry as was noted in Section 3.2. We commence by discussing the findings of these surveys but then use other smaller surveys and data points to obtain some estimates of what the current market could look like.

Data source used. The latest available data on insurance usage in Brazil stems from IBGE's 2002/3 POF (household expenditure) survey. Below, we attempt to reconcile the various estimates based on the 2002/3 POF to arrive at a picture of current insurance market penetration. We draw on two main sources, both based on the nationally representative 2002/3 POF household survey:

- The microinsurance study conducted by FGV (Neri et al, 2009) as input into Funenseg's microinsurance research program and released September 2009. The study restricts the analysis to people over the age of 15. Its interactive website data analysis tool allows two options: an "individual filter" and a "household filter"⁷². This rendered different statistics on the number of individuals over the age of 15 that use insurance, versus the number of households where any person in the household has insurance, both of which we consider below (referring respectively to "FGV individual analysis" and "FGV

⁷² The POF survey rendered two datasets: one for the answers of the individual respondents (the "individual filter") and one where the respondent's answers are taken as representative of the household.

household analysis”, but noting that both are still based on the same household dataset. Home or house insurance was excluded from the analysis.

- The data analysis conducted by IETS (2009), commissioned by Funenseg as an input into our study. It conducts a household analysis only, did not filter the data for adults (people over 15 years) only and did not exclude any types of insurance from the analysis.

Outdated dataset does not provide accurate current picture. In reading the analysis below, it should however be noted that, because the dataset used by both sources dates back to 2003, the picture presented is likely to be an underestimation of the current reality, as much of Brazil’s upward mobility took place subsequent to 2003. A number of further issues make it difficult to compare results from different studies:

- Different studies estimate total insurance usage among Brazilians differently, depending on the assumptions and sample used and on whether total household or individual household respondent usage is tracked⁷³.
- Being an expenditure survey, insurance usage was measured only indirectly. The survey asked respondents whether their household has expenditure on various types of insurance (alongside other expenditure items). This implies that the respondent may not be aware of the insurance expenses of other household members, or may not think of insurance as one of the household’s budget items. Once again, this will mean that results will differ depending on whether the total household is tracked, or the individual respondent, or the household divided by number of members to arrive at an individual estimate.
- It is not clear to what extent usage of informal insurance such as in-kind funeral assistance (prepayment of services) was included.
- As with all demand-side research, it is likely that the survey reflects perceptions rather than actual behaviour and that respondents may not want to disclose certain information.

Despite these complications these datasets remain the only available sources of information; below we explore them through two different analyses to see if any insights can be gained about the nature and development of the insurance market in Brazil. We start off by considering the conclusions that could be drawn at the individual level (given that the data derives from household surveys) and then proceed with the analysis at the household level.

3.7.1. 2003 data

17% of adults had insurance in 2003. The Funenseg-commissioned research on the microinsurance market released by FGV in September 2009 reveals the following usage figures among the adult population (defined as those aged 15 or older):

	Total (%)	% of CDE
Total insurance	16.79	10.78
Health insurance	12.94	8.09
Car insurance	2.95	0.73
Life insurance	4.31	2.56

⁷³ For example, the “individual filter” may not capture actual individual usage by all household members if only one household member was interviewed.

	Total (%)	% of CDE
Private retirement plan	0.45	0.16
Other insurance	1.41	1.2

Table 9. Percentage of adults (individuals older than 15) in households that use particular insurance product

Source: FGV (Neri et al), 2009, based on POF 2002/3 data

These figures represent the percentage of *individuals* over the age of 15 that have some kind of household expense on insurance. Therefore less than 20% of all Brazilians had insurance in 2003, reducing to almost 11% for those in the C, D and E income classes.

It is interesting to compare usage across the socio-economic classes and by type of insurance product:

	E	D	C	AB
Total usage ranges (for those with lowest income in the class to highest)	<~3%	~3-10%	10-40%	30-70%
Average (% of population in this class, older than 15 years)	1.45%	4.19%	15.69%	46.17%
Health plan/insurance	0.76%	2.64%	12.07%	36.65%
Car insurance	0.06%	0.09%	1.15%	13.84%
Life insurance	0.29%	1.01%	3.74%	12.88%
Open or closed private pension	0.01%	0.13%	0.20%	1.91%
Others	0.44%	0.74%	1.56%	2.43%
Out of pocket health expenses	5.92%	11.87%	26.49%	52.72%

Table 10. Percentage of adults in households that have specific insurance products, by socio-economic class and product

Source: FGV (Neri et al), 2009, based on POF2002/3 data

The maximum insurance usage in the E class (by those with the highest income in the class) is 3%, but on average only 1.45% of class E have some form of insurance. The maximum usage rises to 10% for D (4% average) and between 10 and 40% for C (16% average). A person in classes A and B has a chance of up to 70% to have insurance, with on average 46% insurance penetration in these classes. This tells us that there is still significant scope for growth in classes A and B (beyond microinsurance), but also that class C should be targeted for the scale of growth possible.

Where product usage is concerned, health insurance is by far the most popular, followed by life insurance. A much larger proportion of the sample has health expenses than have health insurance, implying that they do face risks on health expenses.

Insurance usage differs as follows across regions:

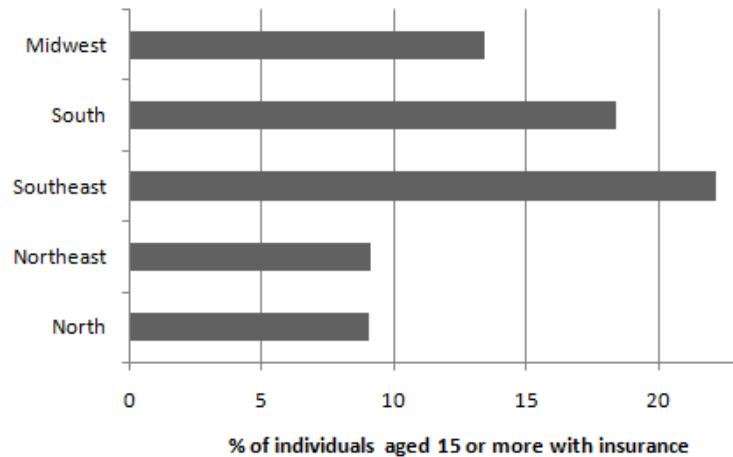


Figure 29. Adult insurance usage by region

Source: FGV (Neri et al), 2009, based on POF2002/3 data

The most underserved regions remain the North and the Northeast, as poorer and more rural regions than the rest. The Northeast is home to 25% of all households and the North to 6% according to the 2002/2003 POF. Therefore 31% of households remain underserved relative to the rest of the country. In the more affluent South and Southeast, respectively 18% and 22% of adults have insurance, reducing to 13.4% in the Midwest. Though higher than the North and Northeast, this penetration remains low enough to warrant also focusing on richer, “easier to reach” areas.

Roughly a third of households⁷⁴ report having insurance. If, in the same dataset, the data is considered by *households* with members over 15 years and not by individuals, the picture changes as follows:

Product	% usage
Insurance	35.89
Health Plan/Insurance	28.78
Auto Insurance	7.14
Life Insurance	10.75
Pension Plans Open or Closed	1.1
Property Insurance	2.32
Other	3.69
Expenditure on health	51.33

Table 11. Insurance usage breakdown: “family filter” over 15 years

Source: FGV (Neri et al), 2009, based on POF2002/3 data

Though only 17% of individual adults have insurance, just more than double that percentage of households has insurance⁷⁵. Once again, health insurance or plans have the highest

⁷⁴ Note that this means that the respondent reported that the household as a whole had a monthly expenditure on insurance premiums. This implies that at least one person in the household has insurance. The survey does not measure how many household members have insurance.

⁷⁵ This makes sense on the reasoning that one adult household member would take out insurance on behalf of the household, even if there is more than one individual in the household. Therefore the percentage of households with at least one individual with insurance will be higher than the percentage of individuals with insurance.

penetration, followed by life insurance. It should be taken into account that this data will largely reflect the pre-VGBL market.

The IETS household analysis renders slightly different results. According to this analysis, 14.5m or 30% of all households have at least one person with at least one insurance product, reducing to around 8% for rural areas⁷⁶:

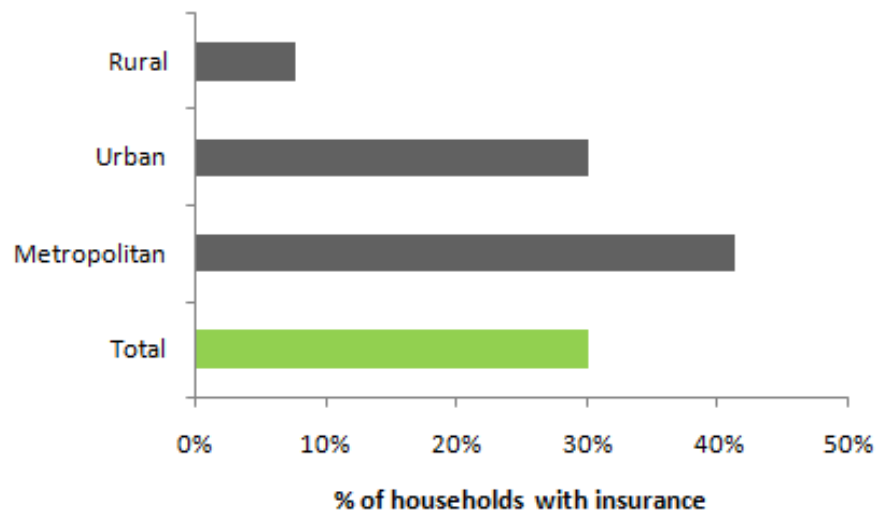


Figure 30. Total insurance usage by area.

Source: IETS (2009), based on POF2002/3 data

Almost 25% of households have some kind of health or dental insurance. Life and funeral insurance, in contrast, reaches less than 10% of households:

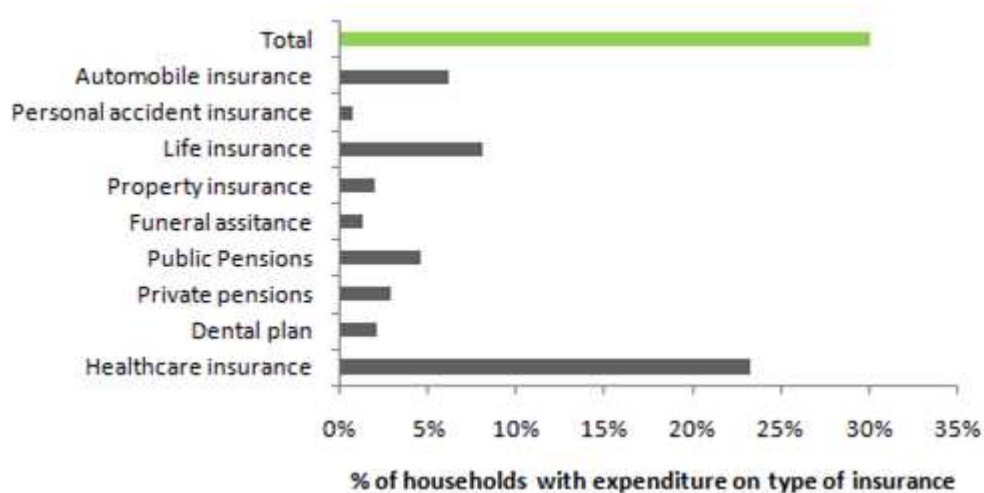


Figure 31. Insurance usage by type of cover

Source: IETS (2009), based on POF2002/3 data

When grouped together, the following usage categories emerge:

⁷⁶ The skew between rural and urban is more or less the same for life insurance and for health insurance

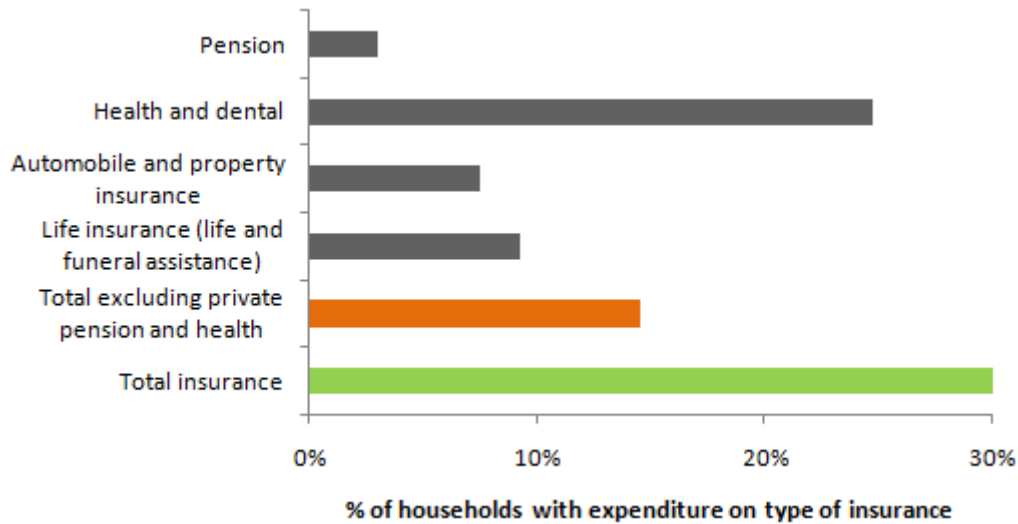


Figure 32. Usage of insurance product categories

Source: IETS (2009), based on POF 2002/3 data

This shows that health and dental insurance is the single biggest category. This is confirmed by the 2008 ANS data (FenaSaude, 2009) that there are 51.2m health insurance/plan beneficiaries in Brazil, 40.8m of whom are covered by health plans and the rest by dental plans only.

When health and private pension⁷⁷ products are excluded from the market (to arrive at the more “traditional” target market for microinsurance), only **14.6%** of households have insurance. Within this market, life and funeral insurance has the biggest uptake (at just short of 10% of all households). In contrast to some other countries, automobile and property insurance is not that far behind life and funeral insurance.

As would be expected, insurance usage rises along the income distribution:

⁷⁷ Note that public pensions were not included in the first place. When private/supplementary pensions are also removed, it shows the data for risk-only insurance products, excluding long-term contractual savings.

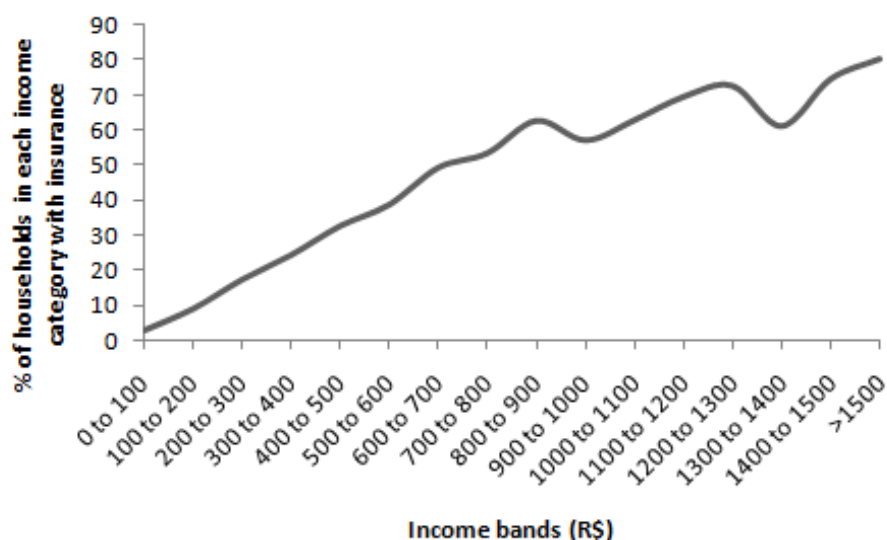


Figure 33. Total insurance usage by income category

Source: IETS (2009), based on POF2002/3 data

The linear nature of this curve is surprising given international experience, where insurance uptake is normally exponential (i.e. with virtual zero usage for a few low-income categories, rising sharply for richer segments). In Brazil, however, even people in the poorest groups have some insurance and there is a direct proportionality between income increases and insurance usage. One possible explanation may be the size of the income brackets used in this analysis. It may be that there will be significant variation within the “R\$ 0-100” bracket, i.e. that a more exponential pattern would have emerged, had smaller brackets been used⁷⁸. It may also be due to the fact that household and not individual survey data is used.

Usage of insurance is somewhat lower than usage of bank accounts and much higher than usage of loans or credit cards. However, the penetration of these services was measured as the percentage of households who indicated that loan repayments, bank tariffs or credit card interest fees are among their monthly expenditure items. These figures are therefore likely to be an underestimation, as some households may be reluctant to acknowledge that they have debt or may not count bank tariffs as a significant expenditure.

⁷⁸ This bracket covers all people earning up to roughly \$1.8/day.

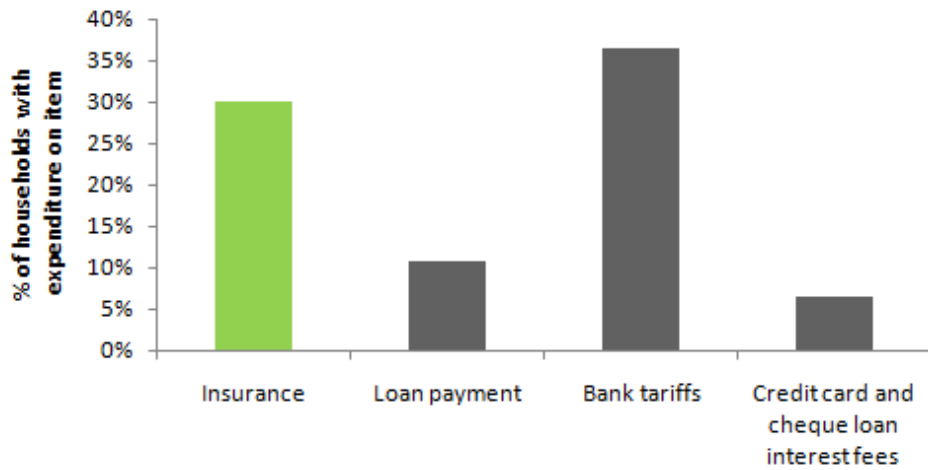


Figure 34. Usage of insurance versus other financial services

Source: IETS (2009), based on POF2002/3 data

Another interesting indicator is to track the percentage of monthly income spent on insurance:

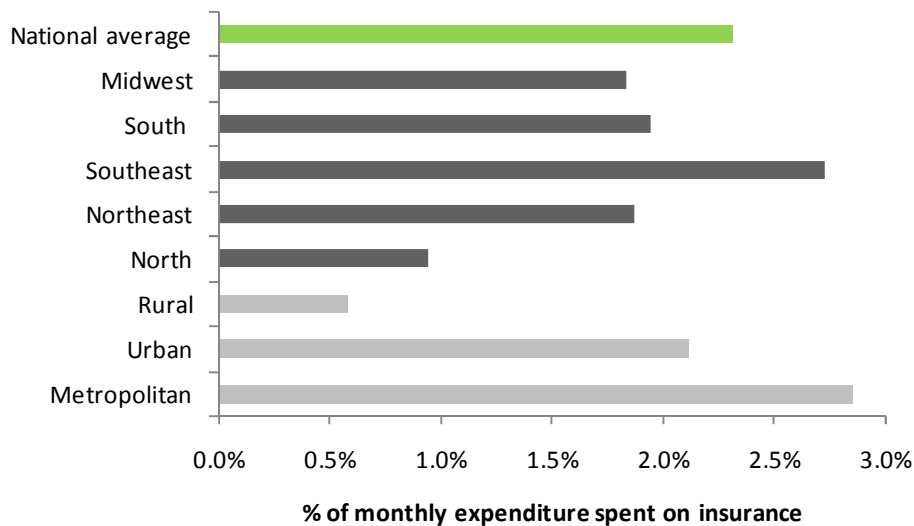


Figure 35. Percentage of monthly household expenditure spent on insurance by those households that have insurance

Source: IETS (2009), based on POF2002/3 data

On average, those households that do have insurance spend just below 2.5% of their monthly budget (R\$138) on insurance. This is lowest for the Northern region and all rural areas and rises to just below 3% in the Southeast and in all metropolitan areas. Should one take current ratio of insurance premiums to income as an indicator of affordability, it would mean that insurers can target premiums of 2.5% of average income in designing insurance products⁷⁹. Should the product focus on the North or rural areas, the ratio is below 1%.

⁷⁹ Should we assume a premium of R\$5/month, this hypothesis means that microinsurance will only be affordable to people earning more than R\$200 per month (roughly 40% of the minimum wage).

3.7.2. Deriving estimates of the market today

Squaring the 2003 numbers. The analyses rendered by the FGV and IETS research, while slightly different, sketches more or less the same picture of insurance usage five years ago:

- Roughly a third of households had some kind of insurance in 2003.
- This was higher in metropolitan areas (41% of households) than in rural areas (8% of households)⁸⁰ and reduces by about a third for the C, D and E income classes (16.8% of individuals in total have insurance, versus 10.8% CDE⁸¹).
- The 2003 figures indicated significant room for insurance growth across the board, but class C, given its size and upward mobility, can be singled out as the biggest target area.
- Despite the fact that metropolitan and urban penetration is higher than rural penetration, there seems to still be significant scope for growth even in urban and metropolitan areas. Due to the high urbanisation rate, most of the population lives in urban areas⁸².
- The North and Northeast, which together account for about a third of households, remain the most underserved areas. These are however also the poorest areas with the lowest functional literacy rates (as discussed in Section 2.1).

What has changed since 2003? As mentioned, these figures reflect 2002/3 data and are therefore outdated. FGV estimates that, should one account for the income effect of people having moved to higher income brackets, population growth and financial innovation since 2003, the rate of access would have grown by 44.3% between 2003 and 2009, i.e. from 16.79% to 24.2% of individuals over the age of 15. Should one take the number of adults from the 2007 PNAD survey (134.8m), this implies that around 33m people currently have insurance⁸³. An analysis of premium growth over the same period would, however, suggest that the growth may have been higher. For example, total life insurance premiums in the industry grew by on average 32% per annum between 2001 and 2008, though it must be noted that the bulk of this can be attributed to VGBL.

But it is difficult to pin down an exact estimate of how many individuals or how many adults or households have insurance today. The following bits of information can be used to piece together the puzzle:

- JLV Consulting, in a presentation at the SUSEP/Funenseg Microinsurance Workshop in September 2009, estimated that there are around 50m Brazilians with insurance.
- According to ANS and FenaSaude data, the number of people covered by health or dental plans (i.e. total beneficiaries, not just primary policy holders) was estimated at 51.2m (40.8m health, 10.4m dental) in September 2008. This alone amounts to 26% of the population or 37% of adults⁸⁴. As the Regulatory analysis will show (see section 6.1.3) the scope for health microinsurance is, however, limited by regulation, implying

⁸⁰ According to the IETS analysis.

⁸¹ Note that, as IETS did not do a breakdown by A-E income classes, we quote the individual analysis (based on household data) from FGV here). It is not the same as the 30% of households with insurance.

⁸² These are also the areas where there are the most touch points for reaching potential insurance customers in terms of bank account usage, electricity and water utilities and retailer infrastructure.

⁸³ Note that this figure, as with all the usage figures quoted, refer to total number of people covered by insurance: not only primary policy holders, but also the family members that they have added to their insurance policies.

⁸⁴ Number of people aged 15 years or older as per the IBGE 2007 PNAD population count.

that one should not necessarily include health in the estimation of the total current microinsurance market in Brazil.

- The accepted conventional wisdom is that between 20 and 25m Brazilians are covered by informal funeral plans (once again, this includes primary policy holders and their family members that are covered on the policy).
- From our consultations, we were able to identify at least 10m people covered by mass or popular insurance (though no information is available on overlap between insurers, which challenges any definite estimate).
- The microcredit market (including consigned credit) has been estimated to have 21m clients (Galiza, 2009), of which a significant proportion are likely to have credit life cover.
- One of the microinsurance research projects commissioned by Funenseg and presented at the Microinsurance Workshop in September 2009 (Datafolha, 2009) conducted a survey of 428 low-income households in the cities of Sao Paulo and Rio de Janeiro to test their perceptions of and willingness to pay for insurance⁸⁵. In total 44% of respondents had insurance⁸⁶. 27% of respondents had health insurance and 22% had life insurance.

Though the survey was by no means statistically representative of the population in the two cities and it would be an error to scale the percentages up to the total Brazilian population, it nevertheless gives us an idea of the orders of magnitude. It is likely that penetration in other cities and states (with the exception of Brasilia) will not be above that of Rio or Sao Paulo. Should the scenario be sketched that 35% of all Brazilian adults have insurance, it would amount to around 47m people⁸⁷. Applying the same ratio between total insurance usage and life insurance usage⁸⁸ as in the Datafolha survey, this scenario renders around 23.6m adults to be using life insurance only. Note, again, that this is not an accurate estimate, but a scenario only.

Scenario: current microinsurance market size may be more than 30m. One cannot simply add up these numbers to arrive at an estimate of the total market, as the degree of overlap is not known and we may not have captured all the figures. However, the figures are high enough to postulate that the total insurance market (formal and informal) covers at **least 40m-50m people** (roughly between 30% and 37% of adults) at present. Should we assume that 60%⁸⁹ of those in AB already have insurance, it means that 17.4m of the 40m to 50m are outside of the microinsurance market. **The remaining 22.6m to 32.6m would represent the existing microinsurance client base – or 14% - 20% of the CDE socio-economic classes.**

This indicates (i) that popular insurance has taken off in Brazil and already represents microinsurance on a large scale, but simultaneously (ii) that there is still significant room for growth. Class C alone has around 98m individuals and the potential microinsurance target market as will be outlined in Section 7, comprised almost 70% of the population or 128m people in 2008.

⁸⁵ 64% of the interviews were in Sao Paulo and 36% in Rio. The targeted audience for the interviews were individuals with *household* income of 1-5 minimum salaries (this covers 70% of the population). 59% of the respondents were household heads.. 35% of respondents did not have any financial products, 46% had a bank account and 38% a credit card.

⁸⁶ This figure reduced to 33% for those in the 1- 2 minimum salary range, was 44% for those earning 2-3 minimum wages and increased to 56% for those earning 3-5 minimum wages.

⁸⁷ Note that it would have been preferable to calculate the number as a percentage of all adults with a household income of up to 5 minimum wages. As we however only have *individual* minimum salary data, not household, that is not possible.

⁸⁸ It is not clear whether informal funeral assistance would have been captured under "life insurance".

⁸⁹ This assumption is based on the FGV (2009) data that on average 46% of people in AB have insurance. This was adjusted upwards as it is likely to have grown since 2003. There is no specific calculation basis for the adjustment to 60%.

As is apparent, these are “guesstimates” or approximations at best. A nationally representative survey specifically on financial product usage is needed to obtain the true level of penetration.

4. Understanding the potential microinsurance client

This section shifts the focus to the demand-side and explores the features of the current and potential client market. We commence with a brief reference to analyses of the determinants of insurance usage based on survey data. The bulk of the discussion, however, focuses on the results of a set of focus groups conducted as part of this study.

4.1. Determinants of insurance usage

A core part of any market development strategy is to understand the drivers of behaviour in the target market. Survey data throw some light on the determinants of insurance usage⁹⁰, but different studies use differing statistical techniques to determine the determinants of insurance usage, rendering diverse and sometimes conflicting results. FGV (Neri et al, 2009) use a stepwise modelling approach to isolate the determinants of insurance usage in the 2002/3 POF. IETS (2009) conducted a probit analysis focusing specifically on microentrepreneurs. A third set of insights stem from the survey conducted by Datafolha (2009 – as described above). Though this was not a nationally representative sample, it nevertheless reveals interesting insights as it was particularly targeted at understanding the perceptions of and willingness to pay for insurance in the low-income market.

The main conclusions of the three sources on the determinants of insurance usage can be compared as follows:

	FGV	IETS	Datafolha	Synthesis
Income	Income class is the most important determinant of insurance usage, but it is family/household income, rather than personal income, that is important.	n/a	The perception of insurance is more positive for poorer people - a counter-intuitive result. Yet perceived affordability is by far the biggest reason for not being willing to buy insurance.	Income and perceptions of affordability matter
Race & religion	Race and religion do not play a role once other variables have been controlled for	Whites are more likely to have insurance than non-whites.	n/a	Race and religion do not play a statistically significant role
Gender	Females are more likely than males to take up health insurance. All other insurance is more likely to be used by males.	Controlling for several factors, women are more likely to have insurance than men;	Less willingness to pay for insurance if head of household is female	Though contradicted by the IETS findings, the overall impression is that males are more likely to take up insurance than females.
Age	Plateau in demand over the age of 50	The probability of having insurance increases with the age of micro-entrepreneurs, but at decreasing rates	Perception of insurance more positive for younger people; but older household heads have higher willingness to pay for insurance; higher willingness to pay if there are children under the age of 5 in the household	Demand increases with age, but also where there are small children

⁹⁰ Once again, this is for the most part based on 2003 data and hence outdated.

	FGV	IETS	Datafolha	Synthesis
Type of insurance product	Complementary relationship between having other private and social insurance and the demand for a specific insurance	n/a	People think health insurance is more important than life or auto insurance	Health insurance is important. Once somebody is an insurance client, they are more likely to also buy other types of insurance.
Region/state	For the same demographic profile, people in Rio are 46% more likely to have insurance than in Sao Paolo.	Ranking of regions with higher proportion of insured: Midwest, Southeast, South and Northeast.	People in Sao Paulo state have a lower willingness to pay than in Rio state	People living in Rio are more likely to have insurance than those in Sao Paulo.
Education	n/a	The more educated, the greater the chance of having some kind of insurance	No statistically significant effect on willingness to pay by education of household head	The effect of the number of years of schooling is likely not to be significant. This is a counterintuitive finding given the commonly accepted link between education and income. It also does not illuminate the effect of financial education or literacy.
Other financial services	n/a	Having credit and a bank account are determinants of being more likely to have insurance	Having other financial services does not have a statistically significant effect	The results on the effect of other financial services are ambiguous.

Table 12. Determinants of insurance usage from three studies

Source: FGV (Neri et al, 2009); IETS (2009); Datafolha (2009)

As the determinants differ between studies and depend on statistical significance, it is not easy to generalise across studies. It is therefore important to complement these quantitative findings with *qualitative insights* on how people perceive their risk exposure, what coping strategies they employ and what their awareness and perceptions of insurance is.

4.2. Focus group findings

In the rest of this section we consider the demand-side insights gained from a series of focus group discussions commissioned for the study to better understand the potential microinsurance client base.

Box 11. Focus group research: rationale and methodology

What are focus group discussions? Focus group discussions (FGD) are a qualitative market research tool. The central methodology is to form small groups (usually 8 to 10 individuals) and then to test their views and perceptions on a certain matter through interactive discussion between the group and a professional moderator. Group members were selected according to gender, age and socio-economic class. At recruitment stage it was also noted whether the person has insurance and a bank account so as to allow disaggregated analysis and comparison between people with and without insurance. One group was selected to comprise solely people with insurance, for the rest insurance usage was random. As the findings are qualitative, they cannot be used to draw valid conclusions on the population as a whole, but can only give an indication of the experience of the sample.

Role of FGDs. The objective of the focus group discussions was to understand the lower-income

market's income and expenditure profile, experience of risk (the severity of different risks) and interaction with insurance. It also prompted their decision-making criteria (whether to buy or not to buy insurance) and their perceptions of the insurance market. Though survey data can also shed light on these factors, it does not provide the level of qualitative insights required to understand perceptions and the motivation behind behaviour. Focus groups provide the opportunity to probe these issues through discussion.

Features of the participants. For this study, fifteen FGDs were conducted, drawn from four different locations: five groups in Rio de Janeiro, four groups each in Sao Paulo and Fortaleza, as well as two groups in a semi-rural area in the state of Ceará. These two groups were constituted by members of the CrediAmigo microfinance program. The profile of the participants was as follows:

- A total of 125 participants (61 men and 64 women) were consulted. While 1 group (in Ceará) was of mixed gender, 7 groups were female-only and 7 groups male-only.
- Half of all participants were in class C and half in class D⁹¹.
- 6 groups each were constituted of participants between the ages of 25 to 35 and 40 to 60. 1 group was aged 30-55 (the insurance-only group) and in two groups (the semi-rural ones) the ages were not assessed. 38% of the *participants* were aged 25-35 and 42% were aged 40-60.
- Household sizes varied from one or two to as high as 8.
- It was not assessed whether members of the semi-rural groups (a total of 15 participants) had a bank account or insurance or owned their own house. For the rest:
 - 66% owned their own house (either directly, or it is owned by a family member);
 - 85% indicated that they or an immediate family member have a bank account; and
 - 51% indicated that they or a family member have insurance.
- It is likely that the semi-rural groups would bring the averages for bank account and insurance penetration down slightly, while slightly increasing the home ownership percentage.

Full summary statistics of the focus groups are contained in Appendix 4.

Focus group report. An experienced market researcher, Mr Joao Fortuna, was contracted to conduct the FGD research. Cenfri provided inputs to the discussion guide and was able to attend the first two focus group discussions in Rio de Janeiro to get a first-hand sense of the discussions and the insights emerging. The full focus group report is available upon request. Here, we summarise the main findings⁹².

4.2.1. Income and household budget priorities

Low formal employment but a wide variety of income-generating activities. The majority of the discussants were self-employed or informally employed. Only a small proportion of all participants were formally employed and all of them in the urban areas. In the semi-rural group, all participants were self-employed. There was quite a marked difference between how men and women earned their livelihoods, as well as between the rural and urban areas:

⁹¹ The income class for the semi-rural groups was not assessed, but from the discussions we infer all to be in class D (or even lower).

⁹² Note that we draw directly on Mr Fortuna's report, quoting sentences directly where relevant, without necessarily including quotation marks. Quotation marks are only used to indicate quotes by focus group participants.

- **Females** tended to be clothing vendors, agricultural labourers, hairdressers or engage in other, related entrepreneurial activities. In the semi-rural area, most were producers or traders of clothing or table cloths which is sold in Fortaleza, the nearest city. Another common occupation is to prepare and sell sweetmeats and snacks. Where they were in fixed employment, women tended to be shop assistants, cashiers or packers in supermarkets, or to work as receptionists.
- Self-employed **males** tended to work in the construction industry (bricklayers, painters), or to work as electricians, computer technicians, or as delivery men or salesmen. Employed males, in contrast to their female counterparts, worked in construction, the public sector or for transport agencies (e.g. bus drivers).

Generally low education. Though 80% of respondents did undergo some secondary schooling, many of them did not finish the senior secondary level. Some only had a primary school education to their names. Despite this, our general impression from the few groups we attended was of engagement and lively debate among fairly well informed consumers. This is a stark difference to the focus group experience we have had in Africa and Asia, where the need for consumer education and awareness was certainly one of the single biggest insights.

Spending priorities follow the hierarchy of needs. Most respondents indicated that they prioritise food and monthly utility payments (electricity, gas, water, telephones) in their budgets. The majority owned their own homes. For the rest, rent is a major expenditure pattern. The Ceára group emphasised CrediAmigo instalments as a monthly budget priority. In all cases, discussants however emphasised that medical expenses, should they arise, would take precedence and may even require them to spend less on food and utilities. Education comes in after food, utilities, rent (for those to whom it applies) and medical expenses. This is because education expenses are only significant for those with children in private schools, which was only a few respondents.

Making room in the budget for leisure. Despite the majority of respondents saying that they have no money left over at the end of the month and often find themselves in the red, almost all interviewees still spend money on leisure activities or non-essential expenses. Men tend to set aside income for having beer with their friends, while women will prefer buying personal items or going to the hairdresser:

“And for buying some clothes as well. Every month I buy shoes, or an item of clothing.”

“A new reality”. The fact that money is spent on non-essential items reflects what the focus group report terms the “new reality” of low-income Brazilians. The effects of social inclusion in Brazil are evident. The focus group discussions communicated a sense of transformation and new-found prosperity, of being “inserted into consumerism”. For the first time, people feel that they too can have durable goods such as DVD players, refrigerators, etc and can dedicate part of their budget to entertainment. This was enabled by a real increase in household income, increased presence of outlets selling these goods and services in their vicinity and a noticeable expansion in the extension of credit. Two participants expressed this sense of living in a “new, optimistic reality” as follows:

“In the crisis that we were living in, we didn’t even have the means to eat properly. Today, we can eat well, buy meat, beans, fruit. The best times are the present, the Lula era.”

“Everything is easier now... Food... We can purchase television sets, pay monthly instalments. I was able to buy my home, which was my dream.”

“I think that today, with a little planning, the poor can buy what they need”.

“It has become easier to own things. In my business, there are moments when it is tough, then there are months when I make good sales, so I am able to pay my bills, balance things out, and buy a few more things.”

New worries for the new reality. Yet the majority of participants still perceive life as difficult, but now on a different level. With the increased consumerism comes increased expenditure and higher indebtedness. Most discussants still find themselves broke at the end of each month. Participants now see their main challenge as balancing their desire for purchasing goods and services with their still limited household income:

“When there is a salary increase, there is an increase in debt. It is easier to buy things, everyone has a credit card.”

Social inclusion has not led to increased savings. 40-50% of urban respondents indicated that their household has a bank account. Although between three and four participants in each group of ten indicated that they have savings accounts, almost all revealed that they had a zero account balance. There were also three participants (in total) from the Fortaleza groups and the semi-rural Ceára groups that kept money at home.

Despite being recently “economically empowered”, less than 10% of all respondents are able to save for emergencies or for their children’s education. The prevailing attitude, although it was not expressed in so many words, seemed to be one of “crossing the bridge when one gets there”.

4.2.2. Risk experience

The “new reality” attitude spills over into people’s risk experience and concerns about the future. Respondents spontaneously mentioned the education of their children as their biggest concern about the future. “A better future for my children” is a key-phrase in Brazilian culture, especially amongst the socio-economically underprivileged classes, who affirm that they are prepared to “make sacrifices” in order to achieve this objective. Education is regarded as a key tool for upward mobility. Only after prompted by the facilitator did the majority of the groups express concern about adverse risk events. The general sense was that now is not the time to worry about the possibility of death or other risk events, but rather to live fully in the new reality. However, once prompted, all participants acknowledged that they are exposed to unforeseen events and spontaneously mentioned the types and severity of the events which places them at risk and that will have implications for their budgets.

Health and personal accident risks rank top-most in the minds of the urban target audience. The focus groups present an interesting deviation from the demand-side findings, internationally, that death and health are the two biggest risks in the minds of the microinsurance target market. While health is still paramount, the fear of accidents is mentioned alongside it. This confirms that the industry trend to emphasise personal accident microinsurance cover is in line with market realities (once again cautioning against generalisations from this limited sample).

Health risks cause most financial pain. Diseases and accidents are regarded as unforeseeable events leading to medical expenses. Though treatment may be expensive, respondents feel that delaying or neglecting it will just lead to greater losses. The duration of the expense is furthermore uncertain. Recovery can be quick, or the effects can linger for a number of years and the financial burden on the family budget can be large:

“My eldest daughter had epilepsy; I spent 70% of my earnings on her treatment.”

“A health problem is more difficult to deal with. If it is a serious disease, it takes longer to treat. You can lose everything, but at least if you regain your health, you can recover your losses.”

The last quote highlights the sense that it is worth “investing” in health as an asset. If you recover, you can work again to sustain your dependents. Illness of a breadwinner can be disastrous for a family.

The three semi-rural groups were the exception to this trend. They all regarded disease and personal accidents as intermediary risks and prioritised loss of income and theft.

Unemployment beats death to second place. Across the fifteen discussion groups, unemployment or the loss of a business was ranked second in the hierarchy of the most concerning and expensive risks. While death is an unavoidable risk, the risk of losing their incomes is more immediate in their minds. As mentioned, this was especially pronounced for the semi-rural participants, all of whom were microentrepreneurs. To lose their businesses would be to regress to a past that was marked by limited opportunities:

“What I have is the result of very hard work. I have made my clientele. I have participated in CrediAmigo for the last ten years, growing little by little. If I lose this, how will I survive?”

“I have a little stall on the pavement. If the mayor’s office prohibits this, I will lose my income overnight.”

Furthermore, the loss of employment was more of a concern for women and for participants over the age of 40. Respondents in Rio and Sao Paulo were less concerned than those of Fortaleza, who felt that they had more limited opportunities of reemployment or earning a living through alternative activities.

Death recognised as a risk with serious financial implications. Though death was recognised as an unavoidable and unpredictable event, most respondents were at first reluctant to discuss it. This may have led to it being sidelined as a risk during the discussions.

Nevertheless, most respondents felt that the death of a family member can have a serious financial impact on the family. The first concern mentioned was funeral costs, which were generally regarded as high. Though municipalities offer free burials for those who cannot afford a private burial, the respondents indicated that the family's pride and dignity would not allow a "pauper's" funeral:

"Such funerals are very sad. A person who has a deceased family member buried for free suffers many humiliations. The person has to go from one place to the next, wait for signatures, see the social worker, provide a certificate indicating poverty ... just for a poor quality coffin, made of cardboard."

Secondly, discussants emphasised the loss of family income due to the death of a breadwinner:

"It is worse when the deceased is the supporter of the family. There is a funeral, and afterwards the source of subsistence ceases. There is no money to maintain the household."

The fear of theft is a daily reality for many. Theft was also often mentioned during the discussions and, in aggregate, ranks after death. Personal items may be stolen at any time. House break-ins, though more infrequent, can have a higher impact for most:

"It happens often. In the street, at the bank, while driving. If someone hasn't yet been robbed, they have a family member who has. "

"My friend left work with all her money and was mugged."

"I lock my house, and am very careful. You spend thirty six months paying off a television set, so that a thief can come and steal it! You're crazy!"

The financial impact of a mugging was regarded as far more serious by those respondents who were informal traders, especially those in the semi-rural groups that travelled into Fortaleza to conduct their business. When doing so, they are forced to carry cash in their pockets or handbags. This money being stolen is the single biggest risk they face, ranked first by all three rural groups:

"When I go to Fortaleza, I die of fear. I pray all the way there and all the way back."

This highlights the security advantages of moving from a cash-based society to one where people increasingly transact electronically.

Damages to house structures ranked last. The respondents did not give priority to the risk that their houses may be damaged. They did discuss the fact that it may happen. Recent floods as well as a large fire in a favela in Sao Paulo that they had heard of increased their awareness that they may also be exposed to such risk. However, they regarded these risk events as rare. The sense was that everyone is exposed to disease and death, and thieves lurk on street corners, but that many families spend their entire lives without having to face damages caused to their homes.

In summary, the overall risk perceptions of the focus groups discussants can be represented by the following risk matrix:

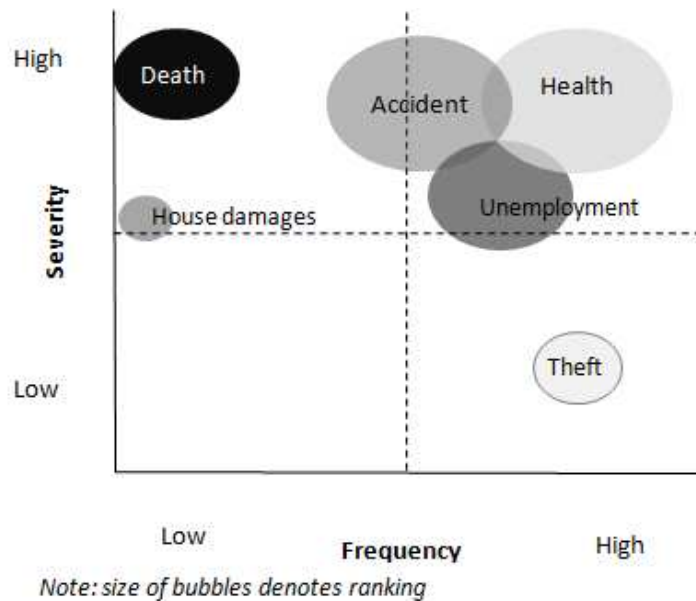


Figure 36. Graphical representation of risk experience of the focus group respondents.

Source: authors' representation based on focus group report by Mr Joao Fortuna⁹³

4.2.3. Coping mechanisms

Respondents turn to loans and reciprocal support rather than savings for unexpected expenses. As discussed above, participants do not feel that they have enough savings to fall back on in times of trouble. They were quite willing to accept responsibility for this:

“It is a great mistake for us not to have savings”

Rather, they resort to various types of loans or family/community support.

Loans from relatives and friends the first resort for most. Loans obtained from relatives and friends seem to be the most common and frequently used source of funding which respondents use for responding to emergencies.

Reciprocal support underlies family loans. Cases were reported where loans are only partially repaid, due to a tacit understanding that in future the borrower will be morally bound to help the lender, should the lender ever be in similar circumstances.

“When I’m tight for money, I ask my relatives. Sometimes a brother doesn’t have the full amount that I need. So then I borrow a bit here, a bit there. This is how I solve the problem.”

⁹³ Note that this is our impression only based on the discussions and rankings given. It does not present actual levels of exposure.

“If I can, I borrow from my sister. I repay her as I can. Sometimes, I don’t even repay the full amount. We forget about it, and don’t worry about it. But if she can’t pay a bill, I’ll pay it for her, and if I can I’ll still lend her more.”

Co-responsibility for family expenses. Where it concerns expenses for which all family members are responsible, a family collection or “vaquinha” is made and contributions are deemed to be compulsory. One family member takes the initiative to collect money from all the others, who contribute according to their means.

“My grandmother died. None of us were prepared for this, and she had no money. The funeral was going to cost 3 500.00 reais. My husband gave a predated cheque, went to his seven siblings and collected 200 from one, 300 from another...”

Advances from employers or clients also common. Though family support can be taken for granted, it is often not enough to cope with the impact of a risk event. Furthermore, the level of support will depend on the relationship and level of trust between family members and friends. For those who are formally employed, turning to their employer for an advance is a common complementary strategy. Self-employed people, on the other hand, may turn to a regular client for a loan against goods or services to be rendered in future. These loans are once again relatively small and cannot by themselves cover large losses.

Donations rather than loans in rural areas – and as last resort for urban residents. In all of the above instances, a loan is taken out, even if all the money is not paid back in the case of loans from family members. This is different to the focus group experience we have had in African countries where family and the community are approached for donations rather than for loans. The three semi-rural groups were more in line with the experience in other, poorer countries. It is donations and community support rather than loans that are most prominent:

“Here, when someone is in need, everyone helps. Everyone is a friend. Sometimes someone is in need, but doesn’t even have to ask. If someone finds out, he tells another person, who tells someone else, so everybody knows, and everyone helps.”

Furthermore, even urban respondents indicated using donation lists, called “listas”, but only as a last resort if there is no one else to turn to. Listas were more popular in the 1970s and 1980s, but have since fallen into disrepute due to abuse by opportunists:

“In the communities there are those who make a list and ask their neighbours for donations. But the lists are suspect. No-one believes in them anymore, because people abuse them. Last month the mother died, this month the grandmother dies, next month the mother dies again.”

The penetration of credit cards into the lower-income market has raised their confidence in the ability to cope. With the popularisation of credit cards in more recent years, and their current distribution via supermarkets and chain stores to consumers from the lower middle class segments, this survey’s target population group now has at its disposal another source of emergency funds. The majority of credit card holders have a limit that they can withdraw in cash from their credit cards, at automated teller machines. Thus, they now have access to

immediate cash, without having to make requests or provide justifications. This however comes at a cost:

“I immediately think of my credit card. I draw from it straight away, without having to explain myself to anyone. I just cannot delay the repayment, because the interest is so high I’ll lose my shirt.”

Credit cards not yet a reality in rural and poorer areas. There were stark differences between different respondents in the use of credit cards: it was more prevalent among women than men, and more prevalent in Rio de Janeiro and São Paulo than in Fortaleza, a poorer city. In the semi-rural areas, this possibility was not even imagined.

Bank loans less popular, unless consigned credit can be obtained. Though almost half of the urban respondents also had bank accounts on which they could get loans, there was more reluctance for a bank loan than for credit card expenses:

“I have a bank loan. There is always some bank offering credit. It’s easy but the problem is the interest rate. I think it’s best to only get a bank loan in very serious situations, when there is no other way.”

Respondents indicated that public servants and pensioners have access to consigned credit offered by state banks such as Bank of Brazil and Caixa Econômica Federal, as well as some private banks. Such loans, deducted directly from the payroll, enjoy lower interest and were viewed as very attractive to those who qualified. Though very few did, they would make use of the fact that a relative or friend could get access to consigned credit:

“When my father died, we remembered that my mother, a pensioner, could obtain a consigned loan. I went to the Bank of Brazil with my brother, who had signing powers on her account. We immediately drew the amount that was needed for the burial.”

Productive credit also used for emergencies. In the Fortaleza groups, the home of CrediAmigo, the use of solidarity loans (where each member of the group signs for the whole loans to serve as social collateral) were also mentioned as a coping mechanism:

“I have been a member of CrediAmigo for a long time. Once I raised a loan of three hundred reais, but then my daughter became ill and I spent all the money on medicine. Once I had repaid the loan, I raised another one to purchase my inputs.”

This was known of, but not used, in the semi-rural groups, but never heard of in Sao Paulo or Rio de Janeiro.

Piggybanks (“Caixinhas”): a common savings mechanism that serves as implicit risk mitigation tool. Caixinhas were quite prevalent among the discussants in the Rio de Janeiro groups, less so but still present in Sao Paulo and Fortaleza, but not at all in rural Ceará. They are savings groups that also provide loans at pre-agreed interest rates to members. Members agree at the frequency of contributions to be deposited in the piggybank, usually monthly at pay-day. Piggybanks are more prevalent among employees working for the same firm. However, they can also be started by groups of friends or neighbours, and always

operate in an environment of mutual trust. At the end of each year, the total savings balance and the surplus from loans is distributed among members.

Rotating savings schemes also exist as risk management tool, but less common. Caixinha differ from the so-called rotating savings and credit associations (ROSCAs) found in many other countries where members take turn to receive a monthly or weekly payout, depending on the frequency of contributions. In Brazil, this function is fulfilled by “Sorteio”. It was found among some participants in Sao Paulo and Fortaleza, but was unheard of by participants in Rio and in the semi-rural areas.

As with the piggybank concept, small groups of friends or acquaintances are formed, and operate on the basis of reciprocal trust. The group meets at regular pre-established intervals, i.e. every fortnight or every month. At the gathering, each member makes an equal and mutually agreed upon contribution (determined when the group is formed) to a savings pool. A draw takes place and the winner receives all the money deposited in the pool. No loans are made and money is strictly paid out only on the fixed meeting date. Once a member’s name has been drawn, he/she does not participate in subsequent draws, but must continue to contribute to the pool. This means that everybody gets a turn to win the draw. Sorteio meetings are also regarded as an opportunity for socialising.

With some skill on the part of the members, the ROSCA can be used to cover emergency expenses. A small number of focus group participants indicated that they turn to the sorteio for emergency funding. If in dire straits, they know that they can request the group to give them the money that month rather than having a draw. If the other members refuse, the person can negotiate with the winner to borrow the money:

“If someone has a problem, they can negotiate an exchange with the winner. So they take the money, and then when their names are drawn, they repay the person that made the exchange with them.”

Ex post rather than ex ante coping strategies. With no exceptions, the risk coping mechanisms discussed above are all *ex post* tools, i.e. ways of coping that a person turns to after a risk event has already occurred and they find themselves in need of money to deal with the financial consequences. There was a very limited sense of planning in advance for the impact of adverse risk events. No *ex ante* tools such as risk pooling groups were mentioned, though the expectation of reciprocal support from the family or joining a sorteio in the knowledge that you could “move up your turn” in the case of an emergency may be regarded as an implicit way of planning in advance for eventualities.

4.2.4. Awareness, perceptions of and interaction with insurance

Insurance not spontaneously mentioned as a mitigation strategy. Insurance as a risk prevention measure was only mentioned spontaneously by very few respondents, and only after they had mentioned every other measure, particularly loans.

Yet insurance penetration quite high. This is particularly puzzling in light of the fact that almost half the respondents, or somebody in their immediate families, had insurance. Only one group (10 individuals) was recruited specifically because they have insurance – for the rest it was random. The types of insurance that group members had are typically funeral

insurance, credit card insurance and multi-cover insurance sold through their electricity companies. An interesting observation is that the semi-rural participants, many of whom have funeral cover, did not regard this as insurance.

Across the board awareness of insurance, but detailed understanding lacking. In general, even the non-insured did have some basic understanding of insurance. Most respondents defined insurance as a “good thing” for unforeseen circumstances. Respondents explained the concept of insurance as follows:

“Insurance is like a pool of money set aside, to be used when one needs it ...It’s a good thing for a family. But it’s for those who can afford it, who have the means...”

“Insurance is like savings, it is money that one sets aside for when one needs it. But right now we cannot save; the money that we earn is not enough yet for us to save.”

“Insurance is good to have, but difficult to keep. It becomes one more bill to pay.”

Almost all the respondents, regardless of gender, understood the basic functioning of insurance as premium payments in return for compensation only when a risk event occurs. They are aware of the fact that, even if after having contributed for a long time, if premiums are then stopped and a risk event happens, they will not receive a pay-out:

“If there is any trickery, any fraud, they don’t pay out. I think that this is fair. What isn’t fair is that they don’t pay out if premiums are in arrears.”

Many also knew what the required procedures for claims were:

“If it is a case of theft, you have to make a statement at the police station, take the case number to the insurer, and fill in a form. Then they will check if everything is in order, so that they can pay out.”

“In the case of a funeral plan, you need to submit the death certificate that is issued by the registry’s office.”

Understanding was highest in Fortaleza, followed by Rio de Janeiro and then Sao Paulo and the semi-rural groups. This could be attributed to the fact that there have been more intensive insurance marketing campaigns in these cities than in Sao Paulo. Younger respondents were also more knowledgeable about insurance than older ones.

Fine print remains a challenge. The general awareness was however not high enough to remove uncertainty and suspicion about fine print. Familiarity with the exclusions, conditions and fine print in insurance was low and many suspect that the insurers use fine print as a trick to deceive the insured and side-step claims payments:

“Insurers don’t know how to speak to the public. They don’t provide clear messages, they don’t explain exactly how the insurance works.”

“I find it very difficult to understand the insurance document. It is written in fine print and I need a dictionary... Generally you are signing a document that contains provisions which you actually need a lawyer to explain to you.”

"I think it was the fine print that complicated the situation when my father became an invalid. Neither he nor we understood that he was entitled to a disability pension. We only found that out after he died."

Some trust in insurance, but many remain suspicious. Once prompted on the topic of insurance, there was a marked difference between those with and without insurance. Those without insurance were suspicious about insurance and did not know much about it. The suspicion is based on word of mouth regarding bad claims experiences that others have had, as is evident from the following quotes.

"In the world that we live in today, insurance is a good thing. Actually it's not all good, because you lose your car, but the insurer does not pay you its exact value. Beside, everyone knows that there are delays in the pay-outs and so forth..."

"I would prefer to save money in a little corner. You know that you have to die. You pay insurance for ten years, and the amount comes to R\$ 1 0 000 for example. But your wake and funeral only cost R\$ 2 000."

"Some say insurance isn't trustworthy. Their car was stolen, and the insurance didn't pay out. The amount that was supposed to be paid out, wasn't."

"Insurance is good, but half complicated. In my case I pay, but I don't know if I'll ever be compensated."

"My mother made a loan, so she was obliged to take out a life policy. She died. Insurance does not want to pay out the benefits, nor at least pay out the amount she paid in. When she died, there were premiums in arrears. So now I am involved in a court case to try and force the insurer to pay the premiums in arrears and pay me the rest. It's really difficult."

The attitude was totally different for those with insurance: they are remarkably aware of the real costs of insurance and believe the benefits to be worthwhile. Even if the insurance premium implies that they have to reduce their expenditure on pleasure or that they have to delay the purchase of a much desired item, they prefer the peace of mind that insurance provides. Peace of mind and security are the terms that are most frequently used to define insurance by the respondents who have insurance:

"It means exactly what it says. It means security, and the peace of mind of knowing that you are prepared for whatever happens."

"Insurance leaves you feeling more comfortable about the future. You sleep better at night, because you have fewer worries."

People had good claims experience or felt confident that they would receive claims:

"When we made the funeral plan, everyone in the family was in favour of it, except my husband. But we went ahead anyway, and he was the first to die, poor man. The funeral plan paid all the expenses. So we were right, and he was wrong."

"My insurance isn't very expensive. And I don't want to have to claim. I don't want anything to happen to me. May I never need to claim! But, if I ever do, at least it's there."

This was however different for car insurance, which was generally regarded as very expensive and “money wasted” if no claim is incurred.

There was furthermore a strong understanding among the insured of insurance being a form of “disciplined savings”:

“Through insurance one lands up saving, because you have committed to making a monthly payment. Its different from a savings account, as you always have this to buy, or that to pay, and so you land up not depositing money into the savings account.”

“People have the desire to make insurance, but there are other priorities, other things to pay, and so one keeps delaying insurance. Especially us women, we always want new earrings, or a new lipstick. So we spend fifty, sixty reais, on little things.”

Insurers also have reason to be suspicious of policy holders... Though it was condemned by all the participants, many of them knew of cases where consumers defrauded insurers:

“I know of a case where the owner took his car apart completely. He sold the parts off piece by piece, and then told the insurer that the car was stolen. The insurer paid out.”

“A friend of mine was involved in drag racing. He smashed his Pick-up Corsa into a wall, and wrote off the car. Another guy who had insurance and he made a deal. The other guy smashed into the back of his car, then he contacted insurance, and the insurance paid for both cars.”

Participants condemned this behaviour as they felt that it pushes up the cost, thereby penalising the innocent.

Perception that insurance is expensive, but not only for the rich. The prevailing opinion is that insurance is “very expensive”. This opinion is stronger among those who do not have insurance, but is also present among those who have cheaper forms of insurance, such as funeral cover, and multiple insurance sold by domestic electricity providers. These people imagine the costs of life insurance, for example, to be much higher than they are in practice. Generally the majority of participants imagine the costs of insurance to be in the ratio of 1 (monthly premium) to 100 (compensation). Even in Fortaleza, where knowledge about the matter is better, the imaginary costs are much higher than the real costs. Asked about how much they thought a life insurance policy to the value of R\$ 30 000 would cost, they answered in the following vein:

“For that type of benefit you would pay an average of R\$150 to R\$180 per month....”

Even more expensive, according to general opinion, is motor vehicle insurance for cars and motorbikes:

“I have a Parati 92 but I don’t have insurance. I tried to make one but gave up. It is more expensive to have insurance, than to buy the car of the year.”

Nevertheless, discussants in general did not feel that insurance was for the rich only:

“It’s not just for the rich. But first we need to sort out our expenses. Once we have managed that, it will be easier to start thinking about life insurance, for example.”

Value for money, especially if benefits are tangible. Those who had insurance felt that it provides good value for money. Where credit card insurance is concerned, one respondent remarked:

“It’s very cheap, and it is included in the account statement, so you don’t even feel it. And it gives you some assurance. If your card is lost or stolen, you won’t suffer losses.”

Funeral plans were regarded as especially good value:

“It’s cheap, only 17 reais per month for 10 people... the salesmen come home, chat with you, show you that it is worthwhile ... and then they take care of everything very well, the coffin, the wake, the flowers for the hearse, coffee, tea, biscuits. You don’t have to worry about anything. “

Box 12. Funeral insurance case study: Renata’s story

“He was our anchor, the one who kept everything together”. These are the words of Renata, a housewife living with her husband, mother and two teenage sons in the low-income neighbourhood of Nilopolis on the northern outskirts of Rio de Janeiro. The family had just returned from a holiday visiting family, with only R\$4 (~US\$2) left on their names, when disaster struck. Unexpectedly, Renata’s father died. Though he had had some health problems from time to time, he had refused to go to a doctor and his death had come as a big shock to the family. A few months after his death, they are still coming to terms with it.

Renata’s husband is a bus driver. He was a favourite with his father in law, “like his own son”. He works two shifts a day to give his family all the opportunities he possibly can. This is attested by the neat house and furniture. Yet they are worried about the education and future of their two sons, aged 17 and 11. “They are very lazy, that’s a problem”. Functional illiteracy in Brazil is around 25% and education remains one of government’s biggest challenges.

Earning slightly more than R\$1000 (~\$555) per month, the family is not rich, but are gradually building up their assets. Renata and her mother add to the family income by selling ice lollies out of the house. On Sundays, his day off, Renata’s husband constructs a second storey to their house, which he built himself on the same plot at the back of his parents in law’s house. He also built a roof terrace featuring a built-in “churrasco” (barbeque) – his sanctuary and a source of great pride for the family. But all of this can be put at risk by a financial shock.

Therefore Renata was all the more thankful that she had decided a couple of months before to take out a funeral insurance policy and add her parents as lives covered. Though she was initially suspicious of insurance and doubted her ability to maintain regular monthly premiums, her aunt told her about the benefits of insurance. When, a few days later, an insurance salesman showed up at her doorstep, she decided to take out funeral cover⁹⁴ – a step she now regards as “sent from above”. Renata had a very positive claims experience: “all we had to do was cry” – the rest was all taken care of. As a result, she has maintained her funeral policy and is now an active advocate for insurance in her community. She describes the salesman, who still contacts her from time to time, as “an angel”.

This underlines the importance of claims and word of mouth to build the value proposition of insurance. It also highlights the importance of face to face contact between clients and salespeople.

⁹⁴ A plan from SINAF.

The case study confirms the finding from the focus groups that high value was placed on *tangible benefits* – such as funeral plans that pay out in the form of a funeral service. This is also the case for the multi-cover insurance sold by electricity companies, which includes tangible benefits while the policy holder is still alive:

“The insurance offered by Coelce is very good. It covers fire, life, unemployment, the basic food basket, and even discounts for medicines bought at pharmacies.”

Another tangible benefit is an **extended warranty**. Extended warranties are very well known among the respondents and at least half of the respondents have taken out extended warranties on electrical and electronic appliances bought in recent years. The extended warranty costs about 20% of the price of the appliance for an additional year of cover.

Health plans in high demand, as well as insurance that includes pharmacy discounts. Health plans are practically desired by all, due to the poor quality service that is provided by the public health care system. However, as the costs were generally regarded as very high, only a few participants (approximately 20%) actually had a health plan in their family. Most frequently the children are the beneficiaries. It is also common for the health plan to be paid for by a relative, the grandparents or parents. As extenuating circumstances for the lack of health plans, respondents mentioned the slight improvement in public health care, and the expansion of populist pharmacies and cheap insurance that provides discounts on medicines. People therefore tend to “settle for” insurance that provides some health benefits because they cannot afford a full health plan.

Relatively high persistency. Only a small number of respondents indicated that they previously had insurance but cancelled it. The main reason for cancellation is when a loan expires:

“I’ve had insurance before. When I needed a loan from the bank, the manager forced me to take out insurance. I carried on paying, and the insurance started to increase. After a while I was paying interest on interest. As I had already repaid the loan, I stopped paying the insurance.”

Negative claims experiences also led some participants to cancel policies.

Insurance distribution not perceived to be a constraint. In contrast to focus group experience in other, poorer developing countries, all the respondents said it was easy to buy insurance, due to the ease with which one can find brokers, salesmen, shops or points-of-sale. Insurance salesmen are everywhere: at bank branches, shopping centres, street shops, and there are even the door-to-door salesmen. The latter are mainly funeral cover salesmen.

“It’s very easy. Insurance is sold on every street corner. There are stalls at shopping centres, in the middle of the aisles, at the bank...”

“Everyone knows someone who works in insurance. It’s easier than playing the lottery.”

Premium payment is easy. The unanimous opinion was that it is just as easy to pay premiums as it is to find an insurance salesman. There was a sense that insurers have “a solution for everybody” – from debit orders to “boleto” payments through correspondents. In the semi-

rural areas (most of whom had funeral cover), door to door collection on pre-arranged dates was reported.

Insurance is actively sold. This adage that insurance is “sold, not bought” is confirmed by the focus groups. Very few of them indicated that they were proactive in buying the insurance. Instead they are approached and convinced by a salesperson to buy insurance:

“If you enter a bank, immediately there is a salesman trying to sell you insurance. If you speak to the manager, if you request a loan or a credit card, he almost forces you to buy insurance.”

“The salesmen of Paz Eterna, Cred Urna and Plaza go to the streets, knock on doors, and convince people to take out a funeral plan.”

“SINAF sends salesmen to your house. They do research and draw prizes for those who respond. They show you the advantages of the funeral plan, and show you that it is cheap and worth paying for.”

“Here in São Paulo, a Kombi stops in the street, various young ladies descend, and then go from door to door selling a funeral plan.”

“The insurers send direct mail, with promotional offers, or saying that the premium was paid... they send magazines; they try to please... they try to sell you more insurance... they phone my husband to find out if he would like to take out other insurance...”

The same holds for insurance on credit cards. Credit card companies send correspondence and telephone their clients, informing them of the advantages of having credit card insurance.

“I have credit cards. At every opportunity they try to sell me insurance.”

The challenge of converting potential demand into actual usage. When asked whether they intended, at some time in the future, to buy some form of insurance, almost all the respondents answered affirmatively. However, their responses were not very convincing. Almost every answer was accompanied by the proviso that they would think about the matter more carefully when their “financial situation improves”. A substantial number of respondents spoke of the fact that insurance that is truly appropriate for people like them does not exist. As a whole, the answers and reactions indicate that these people will need some stimulus to transform their vague intention into a genuine desire for insurance. The most significant intention to buy insurance was demonstrated by the younger groups, as well as by the groups from Fortaleza, closely followed by Rio de Janeiro⁹⁵, and then somewhat behind, the groups from São Paulo.

Cultural barriers persist. The focus groups revealed certain preconceptions and superstitions around death and specific accidents. A considerable proportion of the respondents want to avoid discussing these events, because they believe that speaking about them makes them more likely to happen.

⁹⁵ It is important to note that Fortaleza and Rio de Janeiro (Grande Rio particularly) are locations where more incisive actions have been undertaken to sell insurance to the C and D income groups, such as funeral insurance.

“I don’t like to speak about death. It’s like someone is cursing me. I immediately change the subject. Insurance! Don’t even think about it!”

The sense was that it was the income impact of death on you, in life, that would prompt you to take out a funeral plan for a relative, rather than the need to provide for others after your death (life insurance). This may relate to cultural factors (Brazilians are passionate about life, not death), or to the fact that life expectancy, at 72, is quite high⁹⁶, implying that people do not expect to die at a time when their dependents would not be provided for. Insurance is regarded more as something to “fix a problem” than as a long-term financial tool.

Need for tailored products and flexibility. The participants engaged in lively debate on what product features they need of insurance. Many expressed the need for greater leniency in late premium payments. Self-employed people, who cannot depend on the federal government’s unemployment fund, would like to see the creation of unemployment insurance, especially for people who lose their business.

“It’s very bad to lose one’s job, it ruins a person’s life. There should be an insurance to support people for a time, say for six months, while they find another job.”

⁹⁶ In India, life expectancy is 65. In an AIDS-ridden country like South Africa it is only 50 (World Bank World Development Indicators, 2009).

5. Conclusions on the microinsurance market

This section summarises the market analysis in a set of salient market features. This is followed by a synthesis of the key drivers of microinsurance market development in Brazil.

5.1. Salient market features

The preceding analysis of the various aspects of the microinsurance market in Brazil can be summarised in the following salient features:

Upward mobility. More than 20m people have ascended to the middle class due to social welfare policies and employment-generating growth at low inflation levels. Apart from the problems in the education system, socio-economic factors bode well for continued development and unemployment is low.

“On-grid” and accessible population. 85% of the population live in urban areas and virtually all of them are served by utilities. This means that their contact details and payment profile are captured in a database by the utilities, that they already receive regular statements. Furthermore, most Brazilians also now have a cell phone and a significant proportion have credit or payment cards or a bank account.

Wide-reaching, low-cost payments infrastructure. Brazil has the world’s largest network of correspondents where banking transactions can be conducted and cash payments can be made. In addition, there are more than 3m points of sale. The reach of the financial sector footprint through the correspondents, POS network, as well as the broader touch points via retailers and utilities as aggregators of clients result in an ubiquitous, readymade, cash friendly payment system and distribution network. This sets Brazil apart from most microinsurance experience internationally, where one of the key challenges is how to deal with the target audience’s preference for cash payments and with the limited footprint of the formal payment system.

A well-developed financial sector. Though no comprehensive data is available on the number of banking sector clients, BACEN data on the number of accounts and cards in circulation would suggest that a large number of potential microinsurance clients already have a bank account or credit card. Furthermore, while the microcredit market is still relatively underdeveloped in Brazil, its reach has increased significantly in recent years.

Sophisticated insurance industry, but not all providing microinsurance yet. The Brazilian insurance industry is well-organised through the federations, comprises multiple players operating through multiple channels and uses a diversity of products for mass market insurance. This already represents microinsurance on a fairly large scale. There are a few players that are key innovators in the microinsurance space, while other insurers follow a more “wait and see” approach.

Microinsurance trends still recent. Though there is a large insurance industry in Brazil showing increasing interest in microinsurance, it should be borne in mind that the insurance market in Brazil, as it currently stands, is still relatively young. It has been only 15 years since

the Real Plan brought stability to Brazil. In many ways the insurance industry, as the rest of the economy, had to reinvent itself after hyperinflation. Foreign entry in the insurance market has only been allowed from 1996 and the insurance industry had to realign itself to the opportunities of the retail market after focusing on corporate insurance and employee benefits. In many ways, the trends in the insurance industry, including the growth in the client base and the rise of the VGBL plans are therefore still recent and insurers are only now positioning themselves in the popular or low-income market.

Decreasing client value. While the introduction of microinsurance or mass market products have led to increasing coverage, regulatory data show that the value delivered to clients has been decreasing. An analysis of the microinsurance-relevant product lines in Brazil shows alarmingly low claims ratios for lines such as extended warranties and credit life, as well as selling expenses that are high by international standards.

Benefits in life provide sales proposition. Some policies offer discounts on medicines, free visits to the doctor or capital pay-outs upon hospitalisation in the case of an accident. Others pay out benefits in the form of food parcels (mostly through food stamps/coupons to minimise administration). The emphasis falls on providing some kind of benefits in life, i.e. of value to policy holders while they are still alive and not only in death and on the tangibility of benefits.

Importance of capitalisation. Most microinsurance products we considered also provide a capitalisation component, entering the policy holders into a monthly draw. This is a core part of the benefits in life approach. The existence of capitalisation plans, and the option to isolate the lottery component from the savings component in order to offer it as an incentive add-on to insurance is a very interesting feature of the Brazilian microinsurance market. Virtually all of the microinsurance products that we have come across to date have a capitalisation component and it seems to be a successful instrument to generate interest in the insurance market.

Strong demand for health insurance. The health insurance market is the single biggest insurance sub-market in Brazil at the moment by number of people covered and the focus groups revealed a high willingness to pay for health cover. The Brazilian government places strong emphasis (as a right under the constitution) on universal healthcare. The supplementary health plan market is characterised by strict regulatory conditions including the inability to exclude prior conditions or to price on an individual health risk basis and the need to include a prescribed list of minimum benefits in health insurance cover. This means that health plans are priced out of the reach of many in the low-income market.

The importance of active sales. As is evident from the discussion above, the degree to which Brazil has been able to harness voluntary, *active* sales of microinsurance sets it apart from much of the international experience and will continue to drive market development.

A large current and potential microinsurance sales force. The banking correspondent network as well as the retailer network with its sales force and the more limited credit agent network presents a large potential microinsurance sales force. These sales people are not in the first instance insurance representatives. Therefore part of their cost is covered outside of the insurance.

Arms-length distribution. The combined impact of broker legislation (the fact that commission may only be paid to a broker and that there does not exist a category of tied agents) as well as labour legislation cause insurers to be reluctant to establish an employment relationship with sales representatives. This has led to a situation where insurance intermediation has been put at “arms length”. That is, insurance sales on behalf of an insurer are not made by representatives of that company, but by employees of either a broker or of a retailer, utility company, etc, even if they sell only the products of one insurer.

The existence of client aggregators. Arms-length distribution also relates to the fact that there are a variety of mass market distribution channels in Brazil that serve as client aggregators. These aggregators act as “estipulantes” that grant access to groups of clients and provide administrative functions. While mass distribution through aggregators can bring down sales costs vis-a-vis individual broker sales, the analysis has shown that it also adds additional steps in the value chain that may explain the high selling costs in the market.

Current usage already quite high. Our conservative hypothesis would be that the insurance market (excluding health) could already cover 40-50m individuals. After accounting for the likely proportion to be in the A and B categories, up to 30m of the market may already be microinsurance.

An engaging target market living in a new reality, but not prioritising insurance. The focus group evidence points towards a well-informed and engaging lower-income market. They have a strong sense of being “inserted into consumerism” and aspiring to a better lifestyle, of being optimistic about the future. At the same time, indebtedness is on the rise and the new reality is creating a spending rather than a savings culture. While the value of insurance is recognised, the market will need some convincing to actually buy insurance. They see the need for regular premium payments as a constraint.

Lack of savings in the low-income market presents a fiscal risk. Over and above the risks to the individual household, the lack of savings and risk cover may create a potential risk for the state. That is because those who do not provide for themselves will ultimately be the responsibility of the state, e.g. through Bolsa Familia. Getting those families who can to manage their own risks will allow the state to prioritise its support to those who are in most need of help.

While the microinsurance market in Brazil is already larger than expected, there is still much potential for growth in terms of coverage, diversity of products and better value delivered. The total C, D and E target market stands at 128m people, 50-60% of whom could be assumed to form the potential target market for microinsurance. This growth will be through a number of key channels (as highlighted above) and, as the product analysis showed, will cut across a number of product lines, calling for flexibility in what is classified as “microinsurance”.

Below, we synthesise the main drivers of microinsurance market development in Brazil that emerge from the analysis. This, in turn, sets the scene for our concluding chapters on the market and regulatory strategy for developing the microinsurance market.

5.2. Drivers of microinsurance market development

Simply describing the salient features of microinsurance in Brazil does not provide a sufficient basis for designing a strategy for the future development of the market. The more fundamental question turns on what drives the development of microinsurance in Brazil. We propose the following six drivers.

- Macroeconomic conditions
- Social inclusion
- Pervasive public and private infrastructure
- Labour legislation and the broker regime
- Cultural drivers
- Regulatory drivers

Here, we discuss the first five drivers. The regulatory drivers will be unpacked in section 6.4.

Macroeconomic conditions impact both positively and negatively on insurance development. Improved economic conditions combined with financial stability have increased peoples' incomes, have retained the value of their earnings and have provided them with options to invest and grow the value of their earnings. This means that spending power of the lower-income classes has increased and this could be utilised for, amongst other things, insurance. The return to economic stability has allowed the rebuilding of trust in long-term financial products and the need to rebuild lost savings (as result of economic instability) has prompted the rapid rise in VGBL⁹⁷. Despite the rapid stabilisation achieved by the Real Plan, however, the hyperinflation legacy continues to shape the behaviour of the current generation. Hyperinflation led to a suspicion of long-term financial instruments and also undermined saving. Anecdotal evidence still shows a tendency of the low-income market to withdraw their full salary and spend it at the beginning of the month. It may take a complete generation (25 years) to remove the effects of hyperinflation from society. One of the unexpected positive outcomes from hyperinflation was that it forced financial institutions to be efficient and innovative. This will be a significant benefit as these institutions start to explore the low-income market. Hyperinflation also forced the population to actively manage their finances, for example by investing in a house rather than financial instruments whose value could be eroded by inflation.

Social inclusion empowered the poor. The fruit of Brazil's strong growth experience over recent years were widely distributed, not least due to strong social inclusion policies implemented by government. This included job-creating growth policies as well as direct social transfers. In this way, public policy has been a significant driver of growth. Social inclusion policies are credited for playing a large role in the phenomenon of the upwardly mobile middle market in Brazil. The focus group research strongly supports the findings from the consultations that social mobility has inserted the middle market into consumerism. They have a sense of being economically empowered and aspire to an even better life with more consumables. They are optimistic about the future to the extent that it may even undermine their uptake of insurance. Yet, for the first time, there may be room in their

⁹⁷ Hyperinflation can also partially explain the high home ownership level (with the house as an asset that maintains its real value).

budgets for insurance⁹⁸. This significantly expanded the target market of people who can afford microinsurance. Success in social inclusion has also institutionalised financial inclusion into the policy platform of the Ministry of Finance, BACEN and the CNSP.

Wide-reaching public and private infrastructure create touch points with the potential market. Unlike the typical scenario faced by most developing countries, Brazil's well-developed financial sector, ubiquitous, cash-friendly payment system, on-grid, urbanised population and wide-reaching public infrastructure via the municipalities combine to form a strong backbone for financial sector development. It provides insurers with a large distribution system that can be used to place their products within reach of the bulk of the population. The existence of an efficient payment network is fundamental to making the microinsurance market work as the target market often has a preference for transacting in cash.

Labour legislation and the broker regime tilt bargaining power away from insurers and increase cost. The current market structure and distribution design are to a large degree the result of the combination of the labour legislation and broker power in Brazil rather than efficient, client orientated design. Due to the effort of companies to avoid direct employment relationships, outsourced and informal employment is increased. In the insurance sector this leads to longer distribution chains and increased costs. It also bestows disproportionate power on the aggregators vis-a-vis the insurers. The control of the distribution channel and ownership of the client base (through controlling access to the clients) by either the broker or the *estipulante* has become an important consideration that impacts decisions on partnerships and thereby shapes market development. In some instances, such as utility distribution, credit life or extended warranties, product design will also be driven by the interests of the aggregators and not just the clients. This may also provide an explanation for the high sales costs found in the SUSEP data.

Cultural drivers shape product features and delivery. The microinsurance products found in Brazil exhibit unique features, including the fact that they bundle in various "benefits in life" as well as a capitalisation component. This is driven by cultural factors – Brazilians' passion for life and aversion to the topic of death. On the downside, the rising culture of consumerism is also a driving force of the microinsurance market and the types of products that are in demand. It raises a warning signal on the risk of the newly-empowered middle market losing the gains of social inclusion through inadequate savings and risk protection. This presents a crucial public policy imperative for developing the insurance market in Brazil.

⁹⁸ In the 2003 POF survey, those respondents that had insurance spent on average just below 2.5% of their monthly income on premiums. This could therefore be regarded as a crude measure of affordability.

6. The regulatory framework for microinsurance

This section discusses the insurance regulatory landscape in Brazil, as well as the regulatory changes over the past few years that have impacted on microinsurance, the impact of regulation as it currently stands on the market, the work of the Consultative Commission and the main tenets of the Microinsurance Bill.

6.1. Insurance regulatory landscape

6.1.1. Political system and legal culture

Federal system. Brazil is a federal republic consisting of 26 states and the federal district of Brasilia. The states operate as semi-autonomous entities, with separate administrations (though all under the same model set by the constitution) and relative financial independence. Under the 1988 constitution, states may levy their own taxes, in addition to receiving a share of federal taxes collected locally⁹⁹. The federal system pervades many areas. For example, budget allocations are done by state and national statistics are gathered at state level. In the insurance sphere, SUSEP grants licenses to operate as insurer by state and sets capital requirements by the number of states operated in.

Congressional political system. Brazil follows a congressional or presidential rather than a parliamentary political system. The country is governed through a National Congress consisting of two chambers: an 81-seat Federal Senate to represent the states, as well as a Chamber of Deputies consisting of 513 directly elected congressmen. New legislation is introduced or “sponsored” by a congressman and then goes through various committees in the Chamber of Deputies and the Senate before being adopted. This can be a more lengthy process than in countries following a parliamentary system. Under a parliamentary system, ministries draft acts which are then approved by parliament and signed into law by the president.

Legal culture. Brazil has a codified legal system that derives largely from Portuguese civil law, under the Roman legal tradition. There is a distinction between complementary and other laws. The expansive 1988 constitution, consisting of 250 articles¹⁰⁰, is the highest law. Amongst others, it contains an outline of the tax legislation and fundamental labour rights¹⁰¹. Certain laws (including the Insurance Act) are drafted to be *complementary* to the constitution. They require an absolute majority in the Congress to change (Gomm-Santos, 2008)¹⁰². The congressional system grants stronger powers to executive government. For this reason, congressional laws tend to be general in scope, drafted at the principle level. The details are left to be worked out at the level of subordinate legislation, which can be issued by the executive arm such as a Ministry or industry regulatory authority.

⁹⁹ http://en.wikipedia.org/wiki/Politics_of_Brazil

¹⁰⁰ <http://www.marcusmarsiglia.com/articles/brazilian-legal-system.html>

¹⁰¹ <http://www.marcusmarsiglia.com/articles/brazilian-legal-system.html>

¹⁰² As the regulatory analysis will show, this has implications for the microinsurance regulatory framework. Provisions contained in the Insurance Act, as complementary legislation, are very difficult to change. The regulatory authorities however have freedom to determine subordinate legislation that contains the details around the principles set in complementary legislation.

6.1.2. Institutional landscape

The SUSEP Working Group on Microinsurance's third partial report sets out all the players in the insurance landscape. At the macro or regulatory level, the main players are:

- The **Ministry of Finance** is the executive body responsible for financial sector regulation. In the insurance sphere, it chairs the CNSP. The Ministry's Division of Economic Policy (SPE) plays a significant role in the microinsurance regulatory process. It advises the Minister of Finance on the formulation, follow-up and coordination of economic policy (GT SUSEP, 2009¹⁰³).
- The **CNSP** (National Private Insurance Council) is the insurance regulator, responsible for "the policies, recommendations and guidelines of the Brazilian Government concerning insurance companies in Brazil." The Minister of Finance or his representative serves as president of the CNSP and the SUSEP Superintendent is the vice-president. Other members of the council are: representatives of the Central Bank, Ministry of Justice, Ministry of Social Security and the Securities Commission (CVM) (GT SUSEP, 2009). The CNSP was created by Decree-Law No.73/66, which also defines its main functions, namely:
 - Setting the standards and guidelines for private insurance
 - The regulation and supervision of the incorporation, organisation and operation of insurance providers and brokers, as well as the application of penalties
 - Establishing the general characteristics of insurance contracts
 - Setting capital requirements
- **SUSEP** (Private Insurance Superintendent) is an autonomous institution created by Decree-Law No.73/66, but with close ties to the Ministry of Finance. It is the insurance supervisory authority, the executive body responsible for implementing all the policies set forth by the CNSP and for the supervision, organisation, operation and control of the insurance market in Brazil (excluding health insurance). In practice, most of the functions of the CNSP are delegated to SUSEP. Together with the CNSP, it forms the central body for the regulation of microinsurance (GT SUSEP, 2009).
- The **ANS** (National Agency for Supplementary Health) is the health insurance regulator. It was created by Act 9.961/2001 as an autonomous entity linked to the Ministry of Health, rather than the Ministry of Finance. The creation of the ANS followed on from the implementation of Act 9.656/ 1998, which established a separate regulatory regime for health insurance, removing it from the ambit of the Insurance Act (Decree-Law 73/66). The ANS is responsible for the regulation, standardisation, control and surveillance of health insurance in Brazil (GT SUSEP, 2009).
- The **SPC** (Secretariat of Complementary Pensions) supervises closed private pension funds. This is not of direct relevance to microinsurance.
- The Ministry of Social Security (**MPS**) is responsible for social security and social insurance in Brazil. Microinsurance may become a complementary instrument for social security in future (GT SUSEP, 2009).

¹⁰³ Third partial report

- The **MDS** (Ministry of Social Development) is responsible for the implementation of the Bolsa Familia Program. It plans to roll out a financial inclusion program linked to Bolsa Familia.
- The Central Bank of Brazil (**BACEN**) is an autonomous federal institution that was established by Act No. 4.595/64. As the country's monetary authority, its mandate is to "ensure the stability of the currency's purchasing power and the soundness and efficiency of the financial system". It regards the goal of financial inclusion as being encompassed in this mandate.
- In addition to its general role, BACEN also plays a role in the agricultural insurance sphere as implementing agency for PROAGRO-MAIS.

Insurance institutions outside of government of relevance to the microinsurance process are (GT SUSEP, 2009):

- **Funenseg** (the National School of Insurance), is a foundation supported by SUSEP, FENASET and FENACOR. It participates in the CNSP Consultative Commission on Microinsurance, to which it provides research support, and it acts as coordinator of the GT SUSEP sub-committee on research.
- **CNSeg** is the national federation of private insurance and investment companies. Through its member bodies, it represents virtually the whole of the insurance industry.
- **FENACOR** is a registered trade union acting as industry body for the insurance and investment brokers industry.

6.1.3. Insurance laws and principles

The key pieces of legislation applicable to insurance provision in Brazil are:

1. Law-Decree No.73 of 1966, as amended (henceforth referred to as the "Insurance Act")¹⁰⁴
2. Brokers' Profession Law 4.594 of 1964 (henceforth referred to as the "Broker Act")
3. Law 9.656 of 1998 on supplementary health insurance (henceforth referred to as the "Health Act")
4. Decree-Law No.261 of 1967 regulates capitalisation companies¹⁰⁵
5. Complementary Law No. 109/2001 provides for supplementary (open private) pension schemes (henceforth referred to as the "Private Pensions Act")
6. The Civil Code, Law 10.406/2002 (henceforth referred to as the "Civil Code")

¹⁰⁴ Article 192 of the Federal Constitution states that insurance companies require government authorisation to operate and that supplementary legislation will regulate the granting of such authorisation and the participation of foreign capital in insurers. Accordingly, the incorporation and operation of insurers are governed by Decree-Law No. 73/1966 (as regulated by Decree No. 6,0459/67), specific provisions of the Civil and Commercial Codes as well as various pieces of subordinate legislation.

¹⁰⁵ Resolution 015 of 1992 and its amendments stipulate the regulations of capitalisation and Circular 130 of 2000 contains the general conditions and technical actuarial note regarding capitalisation securities (SUSEP, 2009).

7. The Consumer Code
8. The Brazilian Tax System, as outlined in Articles 145 to 162 of the 1988 Constitution. Under Article 146, a complementary tax law was established in the form of the Federal Tax Code¹⁰⁶

Below, we set out the core tenets of insurance regulation in Brazil that have the greatest bearing on the development of microinsurance, grouped according to five thematic headings. In addition to referring to the Acts noted above, we will also draw on subordinate legislation where relevant.

6.1.3.1. Separate regimes for insurance, pensions, capitalisation and health

Though all risk-based financial products with the exception of closed pension funds and health insurance are regulated and supervised by SUSEP, they are subject to different regulatory regimes. The following differences are of relevance to the microinsurance analysis:

- The **regulation of health insurance** under the Health Insurance Act falls outside the jurisdiction of SUSEP. No insurer may provide health insurance unless registered as a supplementary health insurer with the ANS. The main differences in the treatment of health insurance and other insurance are:
 - A much greater degree of institutional flexibility exists within the health insurance sphere than the commercial insurance sphere. Whereas only companies may register as insurers, the health space¹⁰⁷ is also open to cooperatives. Indeed, as the market analysis showed, a substantial proportion of players in the health market are cooperatives. Furthermore, health maintenance organisations, *odontologia* or philanthropic organisations owning their own hospitals may also provide health insurance and make up the bulk of the market. Vertical integration is therefore allowed in the health sphere – for all entities bar health insurers. Due to the restriction in the Insurance Act on insurers doing any other business than insurance, health providers that are registered as insurance companies may not own their own hospitals.
 - Health insurance is subject to price controls by age bracket. The ANS has defined seven price levels for individuals plans (Ocke-Reis, 2005). These price controls apply to the premiums to be paid by policy holders and not to the prices paid by insurers to medical service providers. Though initial prices can be set freely, subsequent price increases are controlled. According to the consultations, prices are negotiated under strong political pressure. This does not apply in the rest of the insurance market.
 - In addition, prescribed minimum benefits apply to supplementary health plans and no discrimination or exclusion is allowed on age or prior medical condition.
 - Article 1 of the Health Insurance Act defines private healthcare plans¹⁰⁸ as

¹⁰⁶ <http://www.v-brazil.com/government/laws/tax-laws.html>

¹⁰⁷ Along with agricultural insurance and workers' compensation insurance.

¹⁰⁸ Free translation

“continuous provision of services or assistance to cover costs of pre-or post set price, for an indefinite period, to guarantee, without financial limit, the health care, the right of access and care by professionals or health services, freely chosen, members or non-accredited network, contracted or referenced, to medical care, hospital and dental, to be paid fully or partly at the expense of the company contracted by direct payment or reimbursement to the provider, and order on behalf of consumers”.

This definition makes it clear that the benefit under a supplementary health insurance plan is linked to the cost of a medical procedure of service and that membership will guarantee access to healthcare. Should a non-health insurer therefore provide an insurance product for which the trigger is hospitalisation, or which provides pharmacy discounts as a rider to life, personal accident or other insurance, it would be able to argue that this does not constitute health insurance as defined, as it is not an indemnity benefit.

- Capitalisation companies are subject to a different minimum capital requirement than insurers or private pension plans. Further differences are:
 - Detailed specifications are made on how capitalisation contracts should be entered into, what term should apply, how interest accrues, how and when draws are to be made, etc.
 - Of relevance for microinsurance is the fact that one person/entity is allowed to pay the premium for a capitalisation benefit on behalf of other person(s).
 - Capitalisation bonds with a duration of fewer than twelve months may be structured into a series or batch, all subject to the same general conditions. For example, a series of 100,000 capitalisation “titles” can be purchased (by e.g. an insurer or any other entity) for up to 100,000 different customers, which will compete in the same draw (SUSEP, 2009).

In the rest of this analysis, our focus is on insurance, with reference to pensions, capitalisation and health only to the extent that these are relevant to the development of the microinsurance market.

6.1.3.2. Who can be an insurer?

Restricted institutional space. Article 24 of Law-Decree 73/66 specifies that “only insurers organized as stock companies or cooperative societies duly authorized shall be allowed to write insurance business.” However, cooperatives may not provide the full spectrum of insurance products: “an insurer organized as a cooperative society is authorized to write only agriculture, health, and workers compensation insurances”. Therefore life and general insurance may only be written by corporate insurers.

According to Decree-Law No. 73/66 (Article 74), authorisation to carry on insurance business shall be given by the Minister of State for Industry and Commerce. Currently, this function is fulfilled by the Ministry of Finance, which has delegated it to SUSEP. A company wishing to register as an insurer must therefore submit a written application to SUSEP. This should be accompanied by a copy of the company’s bylaws, proof of its regular incorporation and proof of the deposit of a required portion of paid-up capital.

6.1.3.3. Capital requirements

Capital requirements are set according to the number of regions (each comprised of one or more federal states) in which an insurer or other company operates. The requirements also differ between different types of operators:

Capital requirements. For an insurer providing life and/or asset insurance and operating in the whole country, minimum base capital should not be less than **R\$15 million**. This is comprised of a fixed portion of R\$1.2m, required as a minimum for authorisation to start operating, plus a variable portion calculated in terms of the number of regions in which the insurer operates. The table for establishing base capital requirements is contained in CNSP Resolution 178/2007. It identifies 8 regions and the states resorting in each. The capital requirements by region are as follows:

Region	States	Instalment (R\$)
1	Amazonas, Para, Acre, Roraima, Amapa, Rondonia	120 000
2	Piaui, Maranhao, Ceará	120 000
3	Paraiba, Rio Grande do Norte, Pernambuco, Alagoas	180 000
4	Sergipe, Bahia	180 000
5	Goias, Federal District of Brasilia, Tocantins, Mato Grosso, Mato Grosso do Sul	600 000
6	Rio de Janeiro, Espirito Santo, Minas Gerais	2 800 000
7	Sao Paulo	8 800 000
8	Parana, Santa Catarina, Rio Grande do Sul	1 000 000
Minimum base capital requirement for operating in all states		15 000 000

Table 13. Minimum capital requirements for composite insurers in Brazil

Source: CNSP Resolution 178/2007

The fact that capital requirements differ by state implies that there is a *de facto graduation of capital*, since the capital requirements are lower if you only deal in certain states. An insurer can therefore start in one state and grow its capital over time to expand to other states. However, the requirement for Sao Paulo alone, where most of the economic activity is, is still very high for a small operator.

Chapter IV, Article 11 of CNSP Resolution 178/2007 states that the full payment of the required capital (composed of the base capital plus the additional capital in line with the subscription risk), could be paid over a period of four years from the date on which the resolution came into effect: 15% in year one, 40% within two years, 79% within three years, and 100% within four years. While this represented a graduation or phase-in of the new capital requirements, it would not apply to a company wishing to register or expand its area of operation today.

Capital requirements for open private pension funds same as for life. R\$7.2m in minimum capital requirements should be met by an open private pension plan company operating in all regions, of which the fixed proportion is R\$1.2m and the variable proportion is as per CNSP Resolution 73/2002 as set out in the table above.

Capitalisation subject to higher requirements than life insurers. Capitalisation companies are subject to a minimum capital requirement of R\$10.8m. The fixed component to obtain authorisation to start operating is R\$1.8m, with the rest a variable component as per the other product lines.

Capital requirements lower for health insurance. In the health market, though also determined by region, the minimum capital requirement for operating in all states is lower than that required of other insurers operating in all states. Furthermore, health operators who could not meet the minimum levels were allowed six years after the implementation of the health insurance legislation to increase their capital to the minimum level.

Solvency requirements determined by SUSEP. In addition to the capital requirements set out above, insurers should also maintain minimum solvency margins. These margins are established in SUSEP Circular 12/1996 and are set by type of activity, ranging from zero to R\$4,143,500 (GT SUSEP, 2008b).

6.1.3.4. Registration and ongoing operational requirements

In addition to the capital requirements, CNSP Resolution 166/2007 stipulates further requirements for registration as an insurer. This includes that the applicant must submit a business plan and must explain how management and governance is to be conducted. It must also demonstrate its actuarial skills, its capacity to provide insurance and to manage the associated risks and must set out the corporate governance standards it will observe. SUSEP Circular 249/2004 contains various internal audit and other internal control requirements. CNSP Resolution 86/2002, amended by SUSEP Circular 371/2008, sets the accounting standards that insurers need to adhere to. This includes the requirement that independently audited financial results be published in a newspaper/periodical of broad circulation. Furthermore, the Civil Code of 2002 increased the requirements on companies in terms of the publication of annual financial statements. These costs can be significant for a small insurance company¹⁰⁹.

Detailed business plan requirements. The requirements for the business plan (set by Article 4 of SUSEP Circular 311/2005) are quite detailed and include:

- i. “strategic purposes of the supervised company;
- ii. detailing of the organizational structure, consistent with its business plan and with clear definition of the responsibilities attributed to the several levels of the company supervised;
- iii. description of the economic environment in which the company or entity supervised expects to operate;
- iv. financial estimates, showing the property development in the period, with identification of the source of funds that make possible this development;
- v. investments policy;
- vi. company policy related to information technology;
- vii. branches of insurance where the company or entity supervised intends to act and the estimated shares of such branches of insurance in its total revenue; and

¹⁰⁹ GT SUSEP notes that a half-page publication in a major newspaper costs around R\$50,000.

viii. reinsurance policy.”

The business plan should set out the way that the provider operates, its plan to obtain a market share and estimates of outcomes, income and financial results. In addition, for point (iii), statistics should be drawn up on the interest rate, the economic growth rate, asset and liability remuneration rates, inflation and estimated economic growth going forward, with particular reference to how it is likely to affect the organisation’s sales¹¹⁰.

6.1.3.5. How products are defined and registered

Demarcation

No registered insurer is allowed to conduct any other business than insurance (Article 73). There are four categories of insurance licenses in Brazil:

- General (non-life) insurance;
- Life insurance;
- Private pension funds; and
- Health insurance (the authorisation for which is provided by ANS rather than SUSEP)

Upon registration an insurer is authorised to conduct either, a combination, or all of the insurance categories above, with the exception of health insurance, for which a separate company should be formed and a separate license obtained from the ANS. Private Pension Entities require specific authorisation from SUSEP. Only life insurers (authorised by SUSEP) may obtain additional authorisation to sell private pension products. Composite Insurers (life and non-life, excluding health insurance) can be authorised, on the condition that they maintain separate accounting between their life and non-life divisions¹¹¹.

Even though composite insurers are allowed, there is still a degree of demarcation. Outside of certain bundled product combinations (such as house and personal accident insurance) that are pre-approved by SUSEP, insurers are not allowed to design composite products. However, one policy document covering two different types of insurance (e.g. life and property) may be given to customers, with the condition that more than one policy number is generated and it is clearly specified how much the policyholder is paying towards each type of cover. Such bundled policy combinations are not allowed for health insurance, as strict demarcation applies between health and other types of insurance.

Product approval

Prior product approval for non-standardised policies. According to Article 78 of Law-decree No. 73/66, “insurers are allowed to write only insurances for which they have obtained the necessary authorization, according to plans, rates and standards approved by CNSP.” New

¹¹⁰ As a pilot project and input into the CNSP Consultative Commission process, Funenseg commissioned a business plan modeling exercise for a microinsurance unit in a traditional insurance company (Araujo, 2009).

¹¹¹ In practice, composite insurers are however not the rule. Rather, one insurance group will have separate companies for life and non-life (and often even separate companies within the non-life insurance market for auto and asset). For example: there are five registered insurers within the Bradesco group: Bradesco Saude (health), Bradesco Auto/Re Companhia de Seguros (vehicle insurance), Bradesco Capitalização (capitalisation), Bradesco Seguros (general) and Bradesco Vida e Previdência (life and private pension) (SUSEP database – list of registered insurers).

products are registered and filed with SUSEP. The product should be submitted to SUSEP along with the prescribed technical actuarial note and the clauses and conditions that shall govern it. SUSEP may at any time establish requirements that have to be met before the product may be launched (communication from CNSeg legal counsel, 2009). For most products, a “file and use” product approval process is followed. SUSEP performs only limited checks and the insurer can go ahead to launch the product unless SUSEP raises an objection. There is no time cut-off during which SUSEP may raise objections. For products with a savings component, more detailed prior approval is needed (SUSEP consultation, 2009).

Standardisation allowed. Under CNSP Resolution 11/1988, the CNSP grants SUSEP the authority to authorise the following types of policies (Article 2):

- *Non-standardised plans*, namely insurance plans for which the contractual conditions and actuarial technical notes are drawn up by the insurance company itself
- *Standardised plans*, where all policies under the standard plan are subject to the same conditions as contained in the norms published by the CNSP/SUSEP or as approved by SUSEP and published on its website. For standardised products no individual product approval is needed.

All policies marketed by means of tickets (see discussion below), will be standardised, as a ticket by its nature¹¹² implies standardised features. The one exception is asset (“damage”) insurance. In this category all products are non-standardised as all products are unique, whether negotiated by means of tickets or by means of policies (GT SUSEP, 2008b).

Tickets

Under Decree-Law 73/66¹¹³, there are two ways of entering into an insurance contract, through a **proposal** signed by the applicant (policy holder) or through a “**ticket**”:

- Art.9: “The insurance contract shall be executed after the acceptance of an application signed and submitted by the proposed assured or his/her legal representative or a registered broker, with the respective insurance policy being issued, except in the cases provided for in the following Article”.
- Art. 10: “It is hereby authorised the execution of an insurance contract after the acceptance of an oral application submitted by the interested party with the respective issuance of a mere cover note ticket”¹¹⁴. This was further elaborated on in Art. 2 of Decree No. 60.459/67, where it is stated that contracting through tickets may be done simply by issuing them, without the need for the policy holder to sign the proposal. This further reduces and simplifies the contracting procedure (GT SUSEP, 2008b).

The possibility of ticket sales is entrenched in the Civil Code (Law 10.406/2002), which states that: “[the] insurance contract is proven by presentation of the policy or the insurance ticket and, failing these, by the document showing proof of payment of the respective premium” (Article 758).

¹¹² “Tickets have two basic characteristics: the first, related to the form of recruitment, is dispensing with the proposal; the second, related to the structure of its contract, is its standardization, which involves contractual conditions which are relatively simpler than non-standardized products” (GT SUSEP, 2008b).

¹¹³ Free translation as supplied by Funenseg.

¹¹⁴ “Art.11. Where the insurance contract is executed as mentioned in the previous article, the bona fide (good faith) of the insurer in accepting the application is deemed to be a “juris tantum” presumption.

A ticket automatically creates a standardised insurance product where the insurer has no option to analyse the individual risk characteristics of each client, but can only do so for the “ticket” as a whole. Tickets therefore per implication relate to group and open group policies (see below). The client, likewise, cannot choose the particular risks covered or level of cover, but must adhere to the standard terms of the ticket.

Group versus individual policies

The difference between ticket and proposal insurance also relates to the difference between group and individual policies:

- *Individual policies* are sold individually, not through any group structure and are based on individual underwriting (individual risk assessment). Ticket policies will therefore not be individual policies, as the risk can only be assessed for the group as a whole.
- *Group or collective policies* are all policies that insure the risk of two or more people, regardless of whether there is a pre-existing bond between such people (CNSeg legal counsel opinion, 2009). This relates to the creation of the *estipulante* (see discussion in the next sub-section) under Article 801 of the Civil Code as entity that contracts insurance on behalf of other people and to CNSP Resolution 107/2004. *Open group policies* are life insurance and personal accident policies that admit any person from the general public to the policy through the *estipulante*. Even if policy holders are considered to be individual policy holders, the policy does not lose its collective nature. *Closed group policies* will relate to groups with a pre-existing bond such as savings clubs or affinity groups, where the entry of any person into the group policy depends on a specific link or association that is not only based on the insurance (CNSeg legal counsel opinion, 2009).

Regulation for specific product lines

There are a number of regulations pertaining to specific types of insurance products that will emerge as relevant to microinsurance in the discussion in Section 7.5:

Funeral insurance. Until 2001, Law 6.435/77 Article 6 allowed for small amounts to be paid out for funeral assistance with very limited regulatory requirements, since it was managed solely as co-insurance among members. This law was repealed in 2001 by Complementary Law 109, creating a legal vacuum as regards funeral insurance. This problem was partially solved in 2004, when CNSP Resolution 102/2004 was issued. It differentiates “insurance cover” from “assistance services” and allows funeral assistance services to operate outside the definition of insurance as it entails benefits in-kind (assistance services) rather than monetary reimbursement in the event of a claim. Therefore funeral insurance, a potentially important microinsurance product, is not currently deemed to be “insurance” and is not regulated. An organisation does not need to be an insurer to sell funeral insurance and the sales process does not need to be intermediated by a broker.

Popular insurance. As will be discussed in Section 6.2, two SUSEP circulars have been issued to create respectively life and automobile popular insurance. Insurers have however not launched products that comply with the exact parameters of these circulars. The features of the popular insurance products and the reasons for the lack of uptake will be explored in Section 6.4.

Agricultural insurance may be provided by cooperative societies or corporate insurers. The sector is also characterised by government involvement due to the development policy emphasis placed on agriculture. There are a number of circulars and resolutions pertaining specifically to agricultural insurance¹¹⁵. These are not specifically covered in this report.

6.1.3.6. Selling insurance

Market conduct regulation is contained both in the Insurance Code (Decree-Law No. 73/66) and the Brokers' Profession Law (Law No. 4,594 of 1964). It stipulates who may intermediate insurance and what requirements they must adhere to in doing so. There are two main intermediation questions that are of relevance to microinsurance:

- Who may sell insurance? Through which channels can premiums be paid?
- To whom may brokerage be paid?

These questions, in turn, relate to the nature of the broker regime in Brazil, the role of the *estipulante* and the restriction on banking correspondents from selling insurance.

Below, we briefly consider each.

Insurance sales

Brokers the predominant, but not only entities that may sell insurance. Unlike in many other jurisdictions, there are no tied insurance agents in Brazil. Under Article 122 of the Law 73/66, insurance distribution must be conducted by registered brokers, who can be either natural or legal persons. The broker is therefore put forth as the intermediary who is legally authorised to canvass for and promote insurance contracts between insurance companies and policy holders (GT SUSEP, 2008b). On the other hand, Article 9 states that the insurance application¹¹⁶ may be signed and submitted by the proposed insured, *or his/her legal representative, or a registered broker* (Decree-Law 73/66, emphasis added). This implies that a broker does not need to intermediate in order for an insurance contract to be entered into. This is confirmed by Law 4.584/64 (Broker Law), which explicitly states that broker intermediation is not mandatory:

“Insurance companies, through their head offices, affiliates, branches, agencies or representatives, may only receive insurance contract proposals:

- a. through the duly qualified insurance broker;*
- b. directly from applicants or their legitimate representatives¹¹⁷.”* (Article 18)

Art. 13(2) of Law No.4.594/64 also explicitly provides for direct contracting between the insured and the insurer, without any input from a broker¹¹⁸. Though it has not been implemented, CNSP Resolution 115/2004 furthermore requires employees “and the like” of insurance companies, capitalisation companies and private pension funds to be certified if,

¹¹⁵ Such as CNSP Resolutions 46/2002; 50/2001; 100/2004; and SUSEP Circulars 160/2001 and 305/2005

¹¹⁶ As discussed in Section 6.1.3.5, an insurance contract is entered into either when a signed policy proposal/application is received, or by means of a ticket.

¹¹⁷ This latter phrase that seems to create the space for the figure of the *estipulante* – to be discussed below.

¹¹⁸ This is however discouraged by Art. 19 of the same law (to be discussed below), by which insurers not selling policies via a broker have to pay an amount to Funenseg.

amongst others, they perform claims management, internal controls or *direct sales*¹¹⁹. Therefore direct sales are implicitly included in the functions of insurance employees.

There are furthermore no explicit barriers to other marketing channels. SUSEP Circular 267/2004 (on popular group life insurance) expanded the distribution channels which could be used to include utility lines, providers and concessionaries of public services, call centres and the internet. Flexibility regarding alternative distribution channels is important for microinsurance. Often, however, such alternative distribution is still, in practice, intermediated by a broker. This relates to the strong position of the broker profession as will be discussed below.

Banking correspondents not allowed to sell insurance. Banking correspondents were created through Resolution 2640/99, as amended by Resolution 2707/2000, Resolution 3110/2003 and subsequent amendments and additional rules. The initial provision for banking correspondents dates back to Circular 220 of October 15, 1973 (BACEN, 2009b). From 2003, all institutions authorised by the Central Bank (not just banks) are allowed to have correspondents.

Banco Central do Brasil Circular 3,111 of 2003 lists a number of banking services to be provided by correspondents, such as receiving deposits and making payments relating to various bank accounts and investment funds, performance of collection services, reception and forwarding of proposals for issuance of credit cards, etc. *This list does not include the selling of insurance*¹²⁰.

Conditional sales of insurance: vendas cassadas. According to Article 39 of the 1990 Consumer Code (Law 8078), "vendas cassadas" (which translates directly as "married sales") are not allowed in Brazil. Article 39.1 reads (free translation):

"It is forbidden to the supplier of goods or services, among other abuses, to influence the supply of product or service for the supply of another product or service, and without just cause"

This means that the acquisition of one product cannot be conditional upon the purchase of another product without such other product being material to it. For example, a furniture store cannot require you to buy a TV stand or cabinet as a condition to the purchase of a TV set, if you only want to buy the TV set. In the financial services sphere, the bank cannot require you to take out home equity insurance when you buy a *car* on credit. That would be *vendas cassadas*. However, if the bank stands to lose money if you die and therefore cannot repay your loan, it can require you to take out *car* insurance as a preventive measure because it takes on risk in granting you the loan. This principle holds also for the *estipulante* regulation (see the discussion below). Under CNSP Resolution 107/2004, the *estipulante* is prohibited to bind any of its products with insurance unless the insurance will serve as a direct warranty for the product.

¹¹⁹ According to CNSP Resolution 115/2004, certification should be done by SUSEP-accredited institutions and the parameters for certification will be determined by SUSEP. The industry associations may also develop criteria. Certification should be phased in over a five-year period, with all employees to be certified by 1 January 2010. New certification should be obtained if the employee's job description changes. The implementation of this resolution was however halted by Resolution 179 of 2007.

¹²⁰ There is however a provision to include "any other activities, at the discretion of the Central Bank of Brazil". This implies that the Central Bank would have the scope to open the space up to microinsurance intermediation.

The concept of *vendas cassadas* can be quite complex. Take for example the case where supermarkets sell six-packs consisting of different flavoured tubs of yoghurt – is the sale of the one flavour made conditional upon the sale of another? Where insurance as a loan guarantee is concerned, it could be argued that it does not constitute “tying”, but is typical to the very nature of insurance that is warranted by the Constitutional principle of free enterprise and should not be confused with the married sales that the legislature sought to prevent in writing Article 39 of the Consumer Code of 1990.

The prohibition on *vendas cassadas* is therefore not absolute. Furthermore, there are some specific exceptions for credit insurance: Article 20(f) of Law-Decree 73/66 holds that insurance coverage for credit risk under a mortgage loan is obligatory. Furthermore, Article 791 of the Civil Code expressly provides for insurance to guarantee a debt in the event of death.

Despite these exemptions, *vendas cassadas* remains open to legal interpretation. It is the general conception in Brazil¹²¹ that magistrates and judges will tend to favour the consumer in court cases relating to the Consumer Code, e.g. where the consumer argues that he/she was “almost compelled”, even should the insurer argue that the consumer did give formal authorisation.

Credit providers generally do not consider the prohibition against *vendas cassadas* as preventing them from requiring borrowers to obtain credit life insurance when they enter into a loan agreement. Some credit providers “tip the hat” to the *vendas cassadas* principle by offering a choice of credit life policies to clients.

Market conduct requirements in insurance sales. Under the Consumer Code, consumers must be well informed and there should be full transparency. Article 31 requires that products and services should be offered to consumers in a correct, clear and accurate way, with adequate information in Portuguese on their characteristics, quality, quantity, price, warranty, validity, origin, etc (CNSeg legal counsel, 2009). This can be interpreted as that the consumer must be allowed an informed choice of whether or not to take up the insurance. This holds for credit insurance, as well as for insurance sold with e.g. a utility bill¹²² – the consumer should be aware of the insurance and explicitly agree to contract it.

CNSP and SUSEP have also developed insurance-specific consumer protection criteria as contained in CNSP Resolution 110/2004 and SUSEP Circular 292/2005 respectively:

- Resolution 110/2004 establishes the minimum rules and criteria to be observed in selling insurance so as to safeguard consumers, inform them of their rights and ensure that preventative measures are taken so that consumer complaints do not arise. This it does by providing for each insurer to have an ombudsman and laying down certain minimum rules and criteria for such ombudsmen. The main objectives of ombudsmen are: i) to explain and clarify the insured/the beneficiary’s rights; and ii) to act to prevent and resolve conflicts. This may include modifications to the company’s internal procedures, with a view to improving the quality of service.
- Circular 292/2005 stipulates the administrative procedures and requirements for dealing with consumers. It significantly simplified the procedures from previous requirements in

¹²¹ Confirmed by CNSeg legal counsel opinion (2009).

¹²² As confirmed by a September 2009 civil ruling in the Court of the State of Rio de Janeiro

the aim of reducing red tape and hence costs and increasing efficiency. The client must sign a declaration that she/he has received the requisite information to enter the insurance transaction with sufficient knowledge of all the aspects thereof.

Together with *vendas cassadas*, the consumer protection considerations disincentivise credit providers from insisting on compulsory credit life insurance. The result is that, in contrast to many other countries, compulsory credit or credit life insurance is not as a rule practiced in Brazil. Note that this finding, which emerged strongly from the consultations, is contradicted by the focus group discussions, where many participants indicated being “forced” to take out insurance on a loan.

Commissions

Only brokers may receive commissions or brokerage. Decree-Law 73/66 stipulates that brokerage fees may not be paid to anybody other than a registered broker (Article 124). This is mirrored in Article 13 of the Broker Law. No commission caps are imposed by regulation.

The Broker Law adds that insurance can also be effected directly between the insurer and the insured, in which case commission is not payable (Article 13(2)). Under Article 19 of Law 4.594/64, as amended by Laws 6.317/75 and 7.278/84, insurers not selling policies via a broker (i.e. conducting direct sales or making use of alternative distribution channels) have to pay an amount equivalent to the “usual commission” to Funenseg towards the development of insurance education. This amount is not formally set, but depends on market practice. Indications are that non-broker distribution still plays a very limited role in the market at large. This may be due to the disincentive introduced by Article 19.

Pro labore to some extent substitutes for commissions. Another feature of the Brazilian insurance market that is of particular relevance to microinsurance is the phenomenon of a *pro labore* payment to a third party that plays a role in the insurance value chain. *Pro labore* is paid for administration and other expenses and is therefore not regarded as commission. In practice, *pro labore* however often relates directly to insurance sales and takes the form of incentive remuneration. For example, an insurer will pay a retailer a *pro labore* fee, which the retailer will use to remunerate its sales people based on the number of policies they sell. It is therefore commission in all but name and is used to circumvent the requirement that only brokers be allowed to receive brokerage. This will be considered again when we unpack the role of the *estipulante* below.

Broker regime

A strong broker profession. As a result of these stipulations, brokers traditionally dominate the insurance distribution market in Brazil. The profession of the insurance broker is regulated by Law 4.594 of 1964, as well as provisions in the Insurance Act (Decree-Law 73/66) and various CNSP Resolutions. In order to register as a broker, an individual is required to have the proper technical knowledge and skills to act as a broker (Article 123). This shall be verified by SUSEP by means of an examination according to requirements set by CNSP (Article 123(1), Decree-Law 73/66). Specific requirements apply regarding brokers’ minimum prior qualifications and the application and registration process (contained in CNSP Resolutions 81/2002, 149/2006 and 179/2007).

Relatively high barriers to entry. Qualification as a broker entails attending a training course of 6-10 months, followed by an examination, making this a specialised profession. While SUSEP moderates the qualifying examinations, the training and certification function is fulfilled by Funenseg. An insurance broker may hire representatives, but all such persons must also be registered with SUSEP in compliance with the requirements established by the CNSP (Article 123 (2) and (3), Decree-Law 73/66).

CNSP Resolution 149/2006 allows for the certification of employees “and the like” of brokers to conduct claims management, sales, etc, with certification standards to be set by SUSEP (who may delegate it to FENACOR)¹²³. It can be interpreted as opening a door for active sales by employees or salespeople that are not certified brokers themselves, but instead meet a lower bar of certification as employees. This provides the broker profession with an opportunity for microinsurance distribution. However, this resolution has not been implemented. The timeline for certification was halted by Resolution 179/2007 and there have been no developments on this front since.

Estipulante

The restrictive broker regime has fostered the development of the *estipulante* in Brazil – a third party entity that acts as representative of the insured and can enter into group policies on behalf of the insured. The Insurance Act (Decree-Law 73/66), Article 21 regulates the position of the *estipulante* as follows:

“For the purposes of applying for a compulsory insurance and maintaining the respective coverage in force, the “estipulante” is equated to the named insured.

- 1) *For the purposes of this Law-Decree, “estipulante” is the person who effects insurance on behalf of others and may be a beneficiary of that insurance.*
- 2) *On voluntary insurances, the “estipulante” is a representative of the insured.*
- 3) *CNSP shall establish the rights and obligations of the “estipulante”, as it may be the case, in the regulation of each class or type of insurance.*
- 4) *If an “estipulante” has collected the premiums from the insured and has not passed them on to the insurer on the relevant dates, he/she/it would be subject to a fine, imposed by SUSEP, of an amount equal to double the amount of premiums retained, and to criminal prosecution.”*

The *estipulante* as representative of the insured is also allowed for in the Civil Code (articles 767 and 801). In the case of inappropriate appropriation or retention of premiums by the *estipulante*, the insured will be entitled to sue the *estipulante*, not the insurer, since the *estipulante* is the direct representative of the insured.

Who may be an estipulante? Insurers, brokers and estate agents are prohibited from acting as *estipulante*, unless they are employers who stipulate insurance on behalf of their employees (Article 2). Apart from them, any entity may be an *estipulante*.

How are estipulantes remunerated? The *estipulante* is remunerated by means of *pro labore*, as described above. The insured must be informed if there is any change in the percentage remuneration of the *estipulante* (CNSP Resolution 107/2004, Article 5).

¹²³ As discussed, this also applies to insurance employees where direct sales are concerned (Resolution 215/2004).

What is the role of the estipulante? CNSP Resolution 107/2004 amended the rules applicable to an *estipulante*. Article 1 states that the *estipulante* has the power to represent the insured before the insurer. The *estipulante* will be the legal contractor for group policies only with regard to employees of the same employer, and only for employment insurance. For the rest, the contractual relationship will be deemed to be between the insurer and the insured.

Article 3 sets out the duties of an *estipulante*, namely to provide all the necessary information to the insurer and to keep the insurer informed of any changes in registration details, including changes in risk, to provide any information requested by the insured on the insurance, to specify the value of insurance premiums if applicable, to collect and pass on premiums to the insurance company, report claims to the insurer and inform the claimants of the timeframe and specifications for claims, specify the name of the insurer in the policy document and, when the *estipulante* agreement makes the *estipulante* responsible for administration, to pass on all communications or notices from the insurer to the insured. Furthermore, it should report any illegalities to SUSEP and provide SUSEP with any information requested.

Shifting the emphasis to the insurer. Of these, the premium collection and bulking (Article 3.V) is an important function not allowed for insurance outside of the *estipulante* (see the discussion on bank-based premiums below). Another interesting requirement is that the name of the insurance company should be in the same typeface as that of the *estipulante* in any promotional material (Article 3.XII). Together with Article 1, this article would seem to aim to bring the insurer more to the forefront of the relationship with clients. This is cemented by paragraph II of Article 4, which prohibits the *estipulante* from terminating the contract with the insurer without the prior consent of at least 75% of the insured group. In the same vein, the insurer cannot change current policies (between renewal dates) without the express consent of at least three quarters of the insured group (Article 10), a principle that was already entrenched in the Civil Code.

Bank-based premium collection

All premiums to be paid via a bank. Article 8 of Law 5.627/70 requires all premiums to be collected via a bank. There is therefore no cash payment option directly to a broker or other party and group collection of premiums is not allowed¹²⁴. If this is interpreted as requiring debit order premium payments, this raises the cost of premium collection and may be a barrier to entry for clients without a bank account. There is however an exemption provision, at SUSEP's discretion, for the insurance premiums for individual life insurance as well as for policies of which the premium is equal or less than 25% of the minimum wage (CNSeg legal counsel, 2009). Thus SUSEP has the power to exempt most of microinsurance (of which the premiums are likely to be lower than 25% of the minimum wage) from this requirement.

Bank correspondents play an important role in receiving premiums, thereby mitigating the impact of this requirement. Though the banking correspondents may not sell insurance (accept insurance proposals on behalf of the insurer), they may act as payment channel through the *boleto* system by which cash payments can be deposited into the insurer's bank account. This still meets the requirement that insurance premiums have to be intermediated

¹²⁴ The one exception is for cities with fewer than 10,000 inhabitants, where collection through aggregators is allowed under Article 105 if there are no registered brokers present (GT SUSEP, 2008b).

via a bank. GT SUSEP (2008b) confirms that the requirement for intermediation via a bank cements the importance of correspondents as a basic instrument for premium collection for microinsurance.

Labour legislation

Rigorous labour regime. As will be discussed in Section 6.4, strict labour legislation causes insurers to place employment relationships at arm's length. The role of the *estipulante* and the broker position are strengthened by the strict labour legislation in Brazil. Though insurers are technically allowed to make use of tied salespeople (by conducting direct rather than broker sales and by paying their sales force incentive-based salaries rather than commissions), they are very reluctant to do so due to the collective bargaining conditions in the financial sector, which makes it expensive to have own employees as sales people.

Conditions for labour relationship. Brazil has a very rigorous labour regime. The original labour legislation was enacted in 1943. There are three conditions to establish a labour relationship (Ximenes, 2009 – personal communication):

1. The kind of service provided – it must have a personal aspect. The employee cannot be replaced by a third party.
2. Non-eventuality of the service – is the service necessary for the company to achieve its objectives? Is there continuity?
3. Dependency and subordination – the employee depends on the employer and the employer has the power to give a command to the employee to which the employee is obliged to listen.

Implications of labour relationship. A labour relationship can be established, even if there is no labour contract. Contracts also do not need to be in writing, but can be tacit or implicit. What matters in labour law is reality – things as they happened, not as they were formalised. In the broker industry this leads to an interesting situation: under the Broker Law, a broker may not be an employee of an insurance company. But jurisprudence holds that if certain conditions are met, a labour relationship can be established and that the insurance company has obligations vis-a-vis the broker. Normally, such conditions are only emphasised when a relationship ends. Should an “employee” take an employer to court, it is likely that the courts will favour the individual.

Onerous labour law requirements. Once a labour relationship has been established, labour laws apply and minimum employee rights are established. These rights can be quite onerous for an employer and include the right to a pension fund, a 13th salary each year, one month paid vacation for every 12 months worked, during which the worker receives his/her salary plus 30%, paid rest of at least one day a week, additional benefits for overtime, nightshifts, hazardous conditions, etc. Once established, labour conditions cannot be changed against the employee, even if the employee agrees in writing. These requirements can be more strict according to the specific collective bargaining agreements in an industry, e.g. to define the week as five days, implying that one day out of the five should be remunerated rest or else be compensated. The employer is obliged to fulfil not the minimum legal requirements, but conditions of the collective bargaining agreement.

Only natural persons may become employees. If you contract with a corporation, you cannot have a labour relationship. As in other fields, this has a big impact for insurance distribution, as it often leads to outsourcing of tasks to contractor organisations who in effect act as “labour brokers”, rather than direct employment.

6.1.3.7. Taxation regime

The following table sets out the respective taxes levied on insurance business as well as the method of valuation for determining the amount of taxes due.

Type of tax	Applicable Rates	On what is it levied?
IOF Tax on financial transactions	Life - 0.38% Health - 2.38% Rest - 7.38%	This tax is levied on gross premium, before commission is deducted.
COFINS Contribution to Financing of Social Security	4.65%	Levied on premium income net of claims payments, but not net of other costs.
CSLL Social Contribution on net income	15%	Levied on after tax income.
IRPJ	25%	Levied on net income (profit before tax).
PIS/PASEP Social Integration Program/Civil Servants Savings Program Contribution	1.65% ¹²⁵	Levied on gross revenues (including financial)

Table 14. The insurance tax structure in Brazil.

Source: discussion with Ricardo Bechara Santos and Maria da Gloria Faria, legal advisers to CNSeg, 21 October 2009

Rural insurance is exempt from any federal taxes or charges under Article 19 of Decree-Law 73/66.

Section 6.5 below will consider the proposed Microinsurance Tax regime in the Draft Microinsurance Bill and Section 7.5.6 will consider the likely impact thereof.

6.2. Recent changes

Over the past number of years there have been a number of changes in subordinate legislation that have paved the way for microinsurance. SUSEP has been involved on the international microinsurance front through the IAIS-Microinsurance Network Joint Working Group on Microinsurance (JWGMI) for a number of years and has issued two circulars in an attempt to start moving towards popular insurance. Yet it is not the two popular insurance circulars, but other changes that have had the most profound impact on the opportunity for microinsurance in Brazil.

¹²⁵ This was the rate in 2007, as obtained from the latest available tax tables at: <http://www.receita.fazenda.gov.br/principal/-Ingles/SistemaTributarioBR/Taxes.htm>. It is indicated at 0.65% PIS and 1% PASEP. PIS is applicable to all corporate entities, whereas PASEP is only applicable to corporate entities “governed by public law”.

Key changes since 1994. The Real Plan can be regarded as the watershed in recent Brazilian economic history and is also the rough date from which we track recent regulatory changes that may be of relevance to microinsurance. Key changes include:

- The opening up of the market to **foreign insurers** in 1996
- The creation of the PGBL plans in 1998, followed by the VGBL plan in 2001. As discussed in Section 3.2, VGBL plans have spearheaded the growth in the life insurance market and account for more than 60% of total premiums in the industry. This is due to specific regulatory characteristics that make it attractive to the low-income and informally employed market. It does not require the filing of a complex tax return. It cannot be deducted from taxable income, but the principal amount is tax-free. It allows lower contributions and more flexibility than traditional open private pension products.
- In 2003, SUSEP started a **modernisation process** to bring insurance in Brazil in line with international best practice, most notably the IAIS Insurance Core Principles. This has resulted in various new Circulars and Resolutions regarding the solvency and operation of insurers, such as Resolution 178/2007 (see below).
- Since 2003, BACEN requires **2% of banks' demand deposits to be dedicated to microfinance operations**, or else to be deposited with the Central Bank without remuneration. Funds are targeted to microfinance through a national program under Law 11.110 of 2005.
- Since 2004, legislation also allows **consigned credit** –loans for salaried workers, including public pensioners, of which the repayments are deducted off the employee's payroll without the abilities of employers to stop the order (BACEN, 2009c; Ministry of Finance consultation, 2009). The latter provision has been a major driving force in the growth of the retail credit market.
- The issuance of CNSP Resolution 107 of 2004 clarified the **role of the *estipulante*** and its position vis-a-vis the insurer and the insured, as described above.
- The **risk-based capital requirement** principles of **Solvency II**¹²⁶ are being implemented in Brazil. Solvency II is an international insurance regulation standard that amongst others entails a move away from standardised industry capital adequacy requirements to a risk-based regulation approach where the onus rests on each individual insurer to determine its risk exposure and hence its capital adequacy requirement¹²⁷. This is then approved by the supervisor¹²⁸. Moving towards Solvency II is one of the elements of SUSEP's attempts to bring the Brazilian industry in line with international standards as set by the IAIS. CNSP Resolution 158/2006 requires insurers to develop their own model for assessing risks, in which case they will be allowed lower factors for insurance premiums and retained losses in calculating their additional capital component of their minimum capital. Companies without such an internal model have to adopt higher factors (Lima & Machado, 2008).

Once the required minimum capital is calculated, insurance companies must show that their adjusted net equity is equal to or greater than the minimum capital requirement.

¹²⁶ As it is referred to in the EU.

¹²⁷ For an overview, see www.fsa.gov.uk/pubs/international/solvency2_discussion.pdf

¹²⁸ In other jurisdictions, such as South Africa, such an approach has proved potentially detrimental to microinsurance. This is because smaller insurers, who are likely not to have the capacity to develop the actuarially complex internal risk assessment models, would be subject to a standard formula based on industry averages. This would entail a significant increase in capital adequacy requirements over current levels for small insurers and would hence present a barrier to entry to such organisations. The impact of Solvency II on microinsurance in Brazil would need to be investigated through future research.

Starting January 1, 2008, the adjusted net equity of insurance companies will be compared to their required minimum capital (Lima & Machado, 2008¹²⁹) and, under Resolution 178/2008 a solvency recovery plan and solvency corrective plan is required, should the minimum capital fall short. CNSP Resolution 178/2007 represents a further step towards risk-based capital requirements in that it grants SUSEP the authority to reduce the norms of the Resolution, thereby opening up the door for reductions in capital requirements (such as the creation of a second tier of capital requirements for e.g. microinsurance) on the basis of lower risk.

- SUSEP Circular 267/2004 (on popular group life insurance) **expanded the distribution channels** which can be used and through which premiums can be collected to “electricity, gas, telephone, consumption bills or any other viable means”. This opened up the space for alternative distribution in Brazil. This Circular, as well as its sister-circular on popular auto insurance, will be considered in more detail below.

The timeline of relevance to microinsurance in Brazil can be represented as follows:

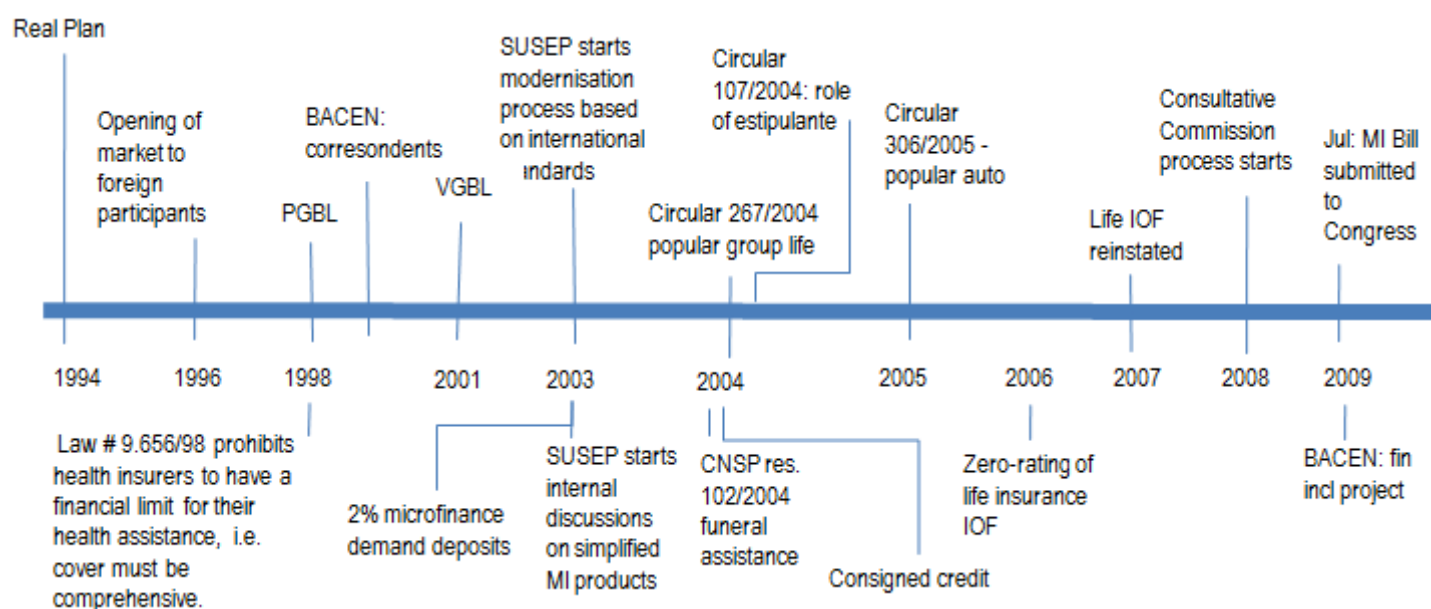


Figure 37. Microinsurance regulatory and context timeline

Source: authors' representation based on various sources and consultations

*Limited direct impact of popular insurance circulars*¹³⁰. The introduction of the popular group life and auto insurance Circulars have not had a direct impact on the market. Towards the end of 2003 (coinciding with the initiation of the insurance reform process) SUSEP initiated internal discussions to design simple and low-cost products. This culminated in the release in 2004 and 2005 of two popular insurance circulars. These are:

- Circular SUSEP 267/2004 that creates a popular life insurance category; and
- Circular SUSEP 306/2005 that creates a popular auto insurance category.

¹²⁹ Quoted directly.

¹³⁰ Note that there is no distinction between popular insurance and microinsurance in the international environment. Whereas in Brazil the conceptual definition of microinsurance is insurance products targeted at the poor, the only functional definition thus far is the benefit and premium caps contained in the popular insurance circulars.

Rationale and features. According to SUSEP these circulars drew on the positive experience of the PGBL and the VGBL and aimed to provide the market with standardised popular insurance products adhering to certain cover, premium and benefit standards. In brief, the product features are:

- *Life popular insurance:* provides basic life and personal accident cover to a maximum insured value of R\$10,000. However, additional cover can be added for food expenses (in-kind, i.e. food stamps, but with the option of a monetary payout) of R\$200 per month for a maximum of 6 months. In addition, a funeral benefit providing funeral services to the value of R\$1,800 by a funeral supplier accredited by the insurer or in cash may be added. No regional restrictions may apply on funeral services (i.e. the funeral service must be available nationally). Policies, which should have simplified policy documents, are group-underwritten (collective insurance), but with the issuance of individual certificates. A waiting period of six months applies and no children under the age of 18 may be accepted. Products must be approved by SUSEP through the same detailed technical actuarial note as other products. Restrictions are imposed on the frequency and conditions under which premium rates may be reviewed. The cost, commission and profit loading on the premium may not exceed the pure risk premium. The use of alternative distribution channels is encouraged (Article 11).
- *Auto popular insurance:* covers material damages exclusively to any type of *used* vehicle. Premiums are to be calculated on a monthly basis, even if other payment options are chosen. The maximum loss limit (benefit) is also R\$10,000. In addition, a premium limit of R\$20 in insurance policy costs is set. Policy documents should be simplified. As with popular group life insurance, SUSEP should approve the technical actuarial note before any product is launched. Detailed specifications apply regarding the information that should be contained in the policy document and the different options for risks to be covered by the policy are specified.

Demonstration effect only. This regulatory initiative did not elicit the expected response from the market. This may be due to a number of reasons. While the product parameters set out in the circulars are quite restrictive, the circulars do not offer strong enough incentives to make it attractive for insurers to market these products. The primary incentive relates to the permission to use alternative distribution channels in the case of popular life insurance. Insurers already make use of alternative distribution channels intermediated by a broker. Therefore this has not proven a strong enough “carrot” to ensure registration of products under the popular insurance circulars.

6.3. Work of the Consultative Commission

Appointment and tasks. The **CNSP Consultative Commission on Microinsurance** was established in terms of CNSP Regulation 10/2008. It is constituted by public and private sector representatives¹³¹ and its main objective is to promote research into microinsurance and advise the CNSP on the technical and operational aspects of microinsurance (CNSP Consultative Commission, 2009 – final report).

¹³¹ Executive Office of the Ministry of Finance; Political Economy Office (SPE); Private Insurance Regulator (SUSEP); Central Bank of Brazil (BACEN); Ministry of Social Security (MPS); National Federation of Private Insurers and Capitalization Firms (FENASEG); National Federation of Private Insurance and Re-insurance Brokers, Capitalization Brokers, and Insurance and Reinsurance Brokerage Firms (FENACOR); and the National School of Insurance (FUNENSEG).

In mid-2008, the **SUSEP Microinsurance Working Group (GT SUSEP)** was established in terms of SUSEP Decree 2.960/2008. Similar to the CNSP Consultative Commission, it has an official mandate and is not merely an ad hoc working group. Its main purpose is to provide technical, legal and operational inputs to the Consultative Commission for the development and regulation of microinsurance in Brazil, and to act as secretariat for the Consultative Commission. GT SUSEP has embarked on a thorough research and review process of the regulatory environment for microinsurance. In this process, it has produced four input reports:

- *Report I*, August 2008: the definition of the concept of “microinsurance”, identification of the target group, definition of the concept “low-income population” for the purposes of microinsurance;
- *Report II*, October 2008: Identification of Regulatory Barriers to Microinsurance in Brazil
- *Report III*, May 2009: Microinsurance stakeholders and their respective roles
- *Report IV*, August 2009: Principal parameters for Microinsurance Products

Research outputs. The **main findings** from this research process, as summarised in the CNSP Consultative Commission’s final report of September 2009, include:

- Microinsurance is an important risk mitigation tool for the low-income market.
- Given its specific characteristics, microinsurance warrants a separate set of regulations.
- There is a need for further studies to identify the tax implications and ways in which regulation can reduce the costs of microinsurance, in a way that will still comply with international standards.
- Microinsurance is distinguished from popular insurance in that it targets specifically the low-income population.
- At the same time, the definition of microinsurance adopted (see below) does not include an income cut-off. Though the Commission initially defined the “low-income population” to be those living on up to three times the minimum salary, per capita, the minimum salary was later argued not to be a sufficient definition, as it is a “moving target” that increases above inflation annually and masks many regional differences. Furthermore, the Consultative Commission realised that the target market can be defined in terms of income without the need to build an income cut-off into the definition. Such an income cut-off would be difficult and costly to police. The conclusion is that products that are specifically designed for the needs and profiles of the targeted low-income population will in fact define the target-group, more so than the target-group itself.

The **core recommendations**¹³² in the Consultative Commission’s final report for the microinsurance regulatory process going forward are:

- **Definition.** Microinsurance should be defined *conceptually*. The adopted definition is:
“... insurance protection, provided by entities authorised to operate in the country, which aims primarily to preserve the socio-economic, personal or family situation of low-income population, protecting them against specific risks, in exchange for the

¹³² Quoted directly where relevant

payment of premiums that are proportional to the probability and costs of such risks, in accordance with the law and internationally accepted insurance principles.”

- **Types of providers.** Microinsurance should only be provided by authorised, sound organisations. It should be established whether microinsurance should be provided by specialised insurers (microinsurers) or traditional insurers, or both.
- **Prudential treatment.** Allow for different treatment of microinsurance operations whilst still ensuring that prudential criteria, governance and compliance are observed proportionally to the operational risks incurred.
- **Tax.** Tax concessions should be considered for insurance providers and in terms of the provision of the microinsurance products, rather than as a concession or subsidy directly to consumers.
- **Product types.** For the purpose of regulation, (i) credit life insurance; (ii) group life insurance and personal accident cover; and (iii) funeral insurance should be regarded as microinsurance product categories. It should be possible to adapt the list of products as the market develops.
- **Product parameters.** Microinsurance product parameters should be defined by which microinsurance can be distinguished from traditional insurance products. This will serve to stimulate innovation while still ensuring that the necessary conditions for the protection of low-income customers are in place. Target parameters should be established for:
 - Minimum policy contract term/duration;
 - Maximum insured amounts, according to type of insurance;
 - A time limit for payment of claims that is shorter than is the case of traditional insurance, as well as payment procedures that are appropriate to the needs of the target market;
 - Types of underwriting (including criteria for policy proposals and/or certificates);
 - Claims documentation required, defined per type of insurance.
- **Distribution channels.** The distribution channels used should be appropriate to the identified target group.
- **Microinsurance brokers.** A microinsurance broker category should be created to ensure that intermediaries selling microinsurance have sufficient incentives for microinsurance sales, but are also skilled enough to ensure that adequate information and advice is provided to consumers. It is recommended that microinsurance brokers be allowed to operate at all points of sale and should be subject to specific rules and training requirements. The Commission sees the opportunity for 20,000 microinsurance brokers to be trained over the next five years.
- **Microinsurance correspondents.** Create a “microinsurance correspondent” entity, thus allowing for appropriate regulation of the relations between consumers, insurers and distribution channels.
- **Details of the regime.** Microinsurance legislation should stipulate requirements relating to:
 - maximum premiums;
 - prior approval of products;

- approved distribution channels;
 - governance;
 - transparency and compliance requirements and criteria;
 - solvency and required equity capital;
 - market conduct (with special attention being paid to consumer protection and the need to ensure that the consumer is sufficiently informed about the product); and
 - the avoidance of regulatory arbitrage
- **Financial education.** The need for effective financial education programmes to stimulate awareness and hence microinsurance market development should be considered.

6.4. Impact of regulation on development of microinsurance

In Section 5.2 the drivers of market development were set out as they relate to the macro and socio-economic context, the culture and the insurance market. There are however also regulatory forces shaping the current state and development going forward of the microinsurance market. Here, we consider the core areas of impact.

Growing emphasis on financial inclusion. The Ministry of Finance has a strong financial inclusion emphasis that spills over into the insurance sphere via the Ministry's position as chair of the CNSP, which in turn determines the supervisory stance taken by SUSEP. In practice, SUSEP takes a leading role in furthering financial inclusion through insurance regulation. The increasing emphasis on financial inclusion is in line with a broader government priority on social inclusion. Social inclusion and its relevance for the insurance sector was discussed in Section 2.1. The work of the Ministry of Social Development around the Bolsa Familia Program and the planned financial inclusion drive around that exemplifies this move towards more emphasis on financial inclusion.

Furthermore, BACEN's mandate under Law 4.595 of 1964 is to "ensure the stability of the currency's purchasing power and the soundness and efficiency of the financial system". It regards the goal of financial inclusion as being encompassed in this mandate. Accordingly, BACEN has issued a number of regulations aiming to promote financial inclusion, including on banking correspondents and the microfinance requirements for banks discussed above, as well as the creation of simplified current and savings accounts¹³³ through Resolutions 3.104 and 3.113 of 2003. Further financial inclusion efforts include:

To consolidate its financial inclusion efforts, a dedicated Financial Inclusion Project was launched within BACEN's Financial System Organisation Department¹³⁴. The financial inclusion project takes a broad view of microfinance as any financial service directed at the low-income market, i.e. also including insurance. The initial focus of the financial inclusion project is however solely on microcredit, with plans to expand it to other financial services over time (BACEN, 2009).

¹³³ In August 2009, there were 5.5m active simplified accounts (out of 10m in total), with an average balance of just R\$69 per account. Simplified savings accounts are much less common, at just 200,000 in August 2009, of which a mere 17,100 are active, with an average balance of R\$134 (BACEN, 2009d).

¹³⁴ The first phase spans 2009, with Phase II kicking off in 2010. The aims of Phase I were to diagnose the strengths and weaknesses of the microfinance sector in Brazil and to articulate the stakeholders involved. A stakeholder forum on financial inclusion was held from 16-18 November in Salvador. In Phase II, the capacity of BACEN will be increased and the actions expanded, building on the results of Phase I (BACEN, 2009).

Implicit graduation in capital requirements. Though, at R\$15m, minimum capital requirements can be regarded as fairly high in Brazil, there is implicit graduation of capital due to the fact that the variable component is set by region of operation, while the fixed component (at R\$1.2m) is much lower. Therefore an insurer can start out with relatively low capital requirements if it initially operates only in one state, gradually building up capital as it expands.

Increasing costs of compliance. Despite the move towards greater financial inclusion, the increasing sophistication of regulation that SUSEP has deliberately pursued since 2003 has also implied that the regulatory burden has grown. Strengthening the controls on the industry will improve its ability to deliver microinsurance and to ensure value to and fair treatment of clients. At the same time, the modernisation of the industry through greater controls may risk increasing the regulatory burden and entry barriers. This should be taken into account in considering strategies for microinsurance development. Furthermore, GT SUSEP (2008b) concedes that there are a number of regulatory factors that push up compliance cost, including bank-based premium collection, the product approval process, reporting requirements, etc. In its second partial report, GT SUSEP (2008b) highlights the fact that the *registration and operational requirements* on insurers (such as the need for a very detailed business plan, publishing of audited financial statements, etc) increase the cost of operation to such an extent that it may present entry barriers for prospective microinsurers.

Tax implications. There is broad agreement that the current tax regime increases costs in the insurance industry, to such an extent that it could present a barrier to microinsurance development. This will be one of the core strategic issues considered in Section 7.5.

Regulatory vacuum for assistance business has spawned an industry. As discussed, funeral assistance is a large existing microinsurance market in Brazil that largely operates outside of the regulated insurance sphere. A large number of funeral homes do their own underwriting without basing it on insurance principles or being watched over by the regulator. This could lead to questionable solvency that puts the consumer at risk. The market is however not totally informal. Some insurers also partner with funeral homes to underwrite their books. One insurer indicated in consultation that it has built up a book of more than 2m funeral assistance policies in this way.

The regulated nature of capitalisation. Capitalisation is one of the main drivers of microinsurance uptake. Capitalisation is possible because it is allowed for in regulation, a historical provision in Brazil that few other countries have. Furthermore, regulation allows capitalisation to be taken out by an insurer on behalf of policy holders and for a series of capitalisation “titles” to be bought on behalf of clients that will guarantee a winner. All of this serves as an incentive for insurance uptake, but still in a regulated environment.

The direction of health insurance policy restricts scope for health microinsurance. The demand-side research showed a strong demand for health cover, even in the low-income market. The strict conditions on supplementary health plans (to meet government’s equity goals where access to health care is concerned) however make health insurance expensive compared to other microinsurance products. Therefore health insurance (with the exception of dental plans – some of which are quite inexpensive) may be outside the reach of many in the low-income market. There is no option for a “second tier” of health plans for the microinsurance market with lower benefits, but also lower premiums that at least provide

some protection. Due to these dynamics some non-health insurers have started to offer limited health benefits on policies aimed at the lower-income market. As the market analysis showed, this can take the form of hospital cash benefits, pharmacy or medical clinic discounts. There seems to be a high demand for such benefits, implying that it could be a driver of the direction that the health microinsurance market will take.

Absence of agent is key to mass distribution. As the analysis in Section 6.1.3.6 has shown, the fact that there is no agent category in Brazil, that brokerage may only be paid to a broker and that distribution is not limited solely to brokers, coupled with the nature and cost of labour relations in the insurance industry due to strict labour legislation, have inadvertently created the mass distribution models discussed in Section 3.6. This it has done by forcing the industry to use third party distributors whose employees would be at arm's length from the insurance industry. Insurance "piggy-backs" on the sales force of retailers or other third parties. The result has been longer and more expensive distribution channels.

6.5. Microinsurance Bill

The Microinsurance Bill was submitted to Congress as Draft Bill 3.266/2008 by Congressman Adilson Soares in parallel to the CNSP Microinsurance Consultative Commission process. The Consultative Commission approved the Bill as a timely initiative and made a number of recommendations that were included in an amendment to the Bill. Before it can be authorised by National Congress, the Bill needs to pass through various committees in the Chamber of Deputies. It is already quite far advanced in this process.

The Bill rests on 4 pillars:

- Specialised microinsurance firms
- The creation of a microinsurance broker regime
- The creation of a microinsurance correspondent category that will be open to any groups such as churches, clubs and companies. Premiums paid to the correspondent will be accepted as payment to the insurer.
- The creation of a special tax regime

The material terms of the amended draft Bill, dated July 2009, can be summarised as:

Definition. Microinsurance is defined in line with the definition suggested by the Consultative Commission (Article 1).

Microinsurance schemes. All microinsurance schemes must be authorised by SUSEP. Authorisation will be granted according to the criteria determined by SUSEP. Criteria will be established by product category, using the following parameters:

1. Types of products and cover
2. Benefit limits
3. Maximum period within which claims should be paid
4. Period/contract term

5. Simplified ways of distribution, including by electronic means
6. Simplified ways of contracting (through policies, tickets, individual certificates and electronic means)

Microinsurance providers. Under Article 2, microinsurance can be provided by: (i) insurance companies licensed to solely operate microinsurance (dedicated microinsurers); as well as (ii) existing insurers that create a separate division for the operation of microinsurance, with separate accounting.

Microinsurance brokers. The bill creates a category of microinsurance brokers, defined as *natural persons* that intermediate only microinsurance. SUSEP shall regulate the qualification and licensing of microinsurance brokers (Article 3). The purpose (as set out in the Legal Basis to the Bill) is to create 20,000 new microinsurance brokers in the next five years. In addition, existing qualified brokers are automatically authorised to sell microinsurance.

The idea is that Funenseg would develop and provide the training for microinsurance brokers (a 30-hour training course is already being designed by Funenseg) and certify their qualifications. Fenacor would do the licensing on behalf of SUSEP as they do for the current brokers. Supervision of microinsurance brokers would also be delegated to Fenacor.

Microinsurance correspondents. Article 4 allows an authorised microinsurance provider to enter into an agreement with any legal entity or microentrepreneur. This provision is aimed specifically at opening the distribution space to alternative channels (as explained in the Legal Basis).. Correspondents may collect and transfer premiums “and promote any acts required for the commercialisation and operation” of microinsurance. Once a premium is paid to the correspondent, it is deemed to be paid to the insurance company. Each insurer and correspondent can agree on the level of remuneration to the correspondent in the agreement between them. The employees or service providers of the microinsurance correspondents who are engaged in the intermediation of microinsurance must be registered as microinsurance brokers.

Funeral assistance. Article 5 in the July 2009 Draft Bill held that any contracts for burial care of any nature may only be provided by authorised insurance companies. It therefore brought funeral assistance into the ambit of insurance regulation in recognition of the need for formalisation and stated that SUSEP should determine the formalisation path (the “terms and conditions” for the “[adaption] to the legal requirements”). *Congress has however since removed this provision from the Bill.*

Creating a direct relationship between the insurers and group policy holders. Article 6 strengthens the position of the insurers vis-a-vis the insured as well as the third party/microinsurance correspondent who structures the group policy and sells the insurance to the clients. It provides that, irrespective of the group nature of the policy and the fact that it was sold via a third party, the insurer relationship should be deemed individual and directly between the insurance company and the insured.

Tax regime. From Article 7 onwards, the Bill gives quite detailed consideration to the tax regime applicable to microinsurance. It sets the Tax on Financial Transactions (IOF) at a

maximum of 1% of the premium (this is higher than the 0.38% currently levied on life insurance, but significantly lower than the 2.38% on health and 7.38% on all other insurance).

Furthermore, it formalises a Special Taxation Regime for microinsurance operations, referred to as the RET-Ms (Article 8). The RET-Ms draws directly on the tax dispensation granted to the “Minha Casa Minha Vida” (my house, my life) program. As this will be a voluntary regime, the Legal Basis explains that insurers will have to apply to be included under it. The Legal Basis furthermore argues that the RET-Ms will not imply an increase or decrease in current public income generated from insurance, as it relates to a new product category.

Under the RET-Ms, authorised microinsurers (dedicated microinsurers as well as existing insurers with microinsurance divisions) may opt to pay a combined tax equivalent to 1% of the monthly income earned from microinsurance operations (microinsurance premium income as well as financial/investment income on microinsurance) (Articles 9 & 10). This combined monthly tax will incorporate all the taxes currently applicable to insurers, to be allocated as follows:

- the Corporate Income tax (IRPJ) – 0.31%
- Social Integration Program/Civil Servants Savings Program Contribution (PIS/PASEP) – 0.09%;
- the Social Contribution on Net Income (CSLL) – 0.16%; and
- the Tax for Social Security Financing (COFINS) – 0.44%

In total, microinsurers will therefore pay up to 1% IOF plus 1% in other taxes.

In the case of “full” insurers with a microinsurance business line, the RET-Ms shall only apply to the income earned from microinsurance activities. A traditional insurer with a microinsurance division may only allocate indirect costs and expenses to microinsurance in proportion to the contribution of microinsurance to total premiums of the insurer.

Insurers are not the only beneficiaries of the RET-Ms:

- Under Article 12, **employers** that *fully* finance microinsurance premiums on behalf of all their employees may deduct it as an expense from the IRPJ and the CSLL taxes it pays, according to the calculation basis for those taxes. In the case of the IRPJ, deductions may only be made up to the fiscal year 2015 and will be limited to 1% of the IRPJ of the employer.
- Furthermore, premium contributions by employers on behalf of employees shall not be added to the gross taxable income of **employees** for the purpose of Individual Income Tax (IRPF).

Article 14 extends the employer treatment to employers of domestic servants. Such employers can deduct microinsurance contributions on behalf of domestic workers from their individual income tax (IRPF), but also only up to the fiscal year 2015 (calendar year 2014). In this case, the tax benefit is limited to one domestic servant only and may not exceed 10% of twelve minimum wages as in force on 31st December of the calendar year for which annual income tax is assessed. These provisions are conditional upon the employer

being registered as an individual taxpayer, as well as to compliance with the social security regime.

Conclusion. The proposed Microinsurance Bill establishes a microinsurance regulatory regime, but without fleshing out the details. It formalises two new players in the insurance value chain, namely the microinsurance broker and the microinsurance correspondent. It regularises microinsurance provision. The proposed tax regime can only be established by law. Therefore it forms a core part of the bill. Overall, the actual impact that the regime will have is unknown. It will depend on the content given to it in subordinate legislation by SUSEP.

7. Microinsurance market development: towards a strategy

7.1. Public policy objectives

The development of the microinsurance market in Brazil is not simply a matter of the development of private insurance provision. The mitigation of household risk through private insurance also goes to the heart of the government's social protection obligations. In this regard, Brazil is different from most other emerging markets since, through the establishment of its broad covering Bolsa Familia social transfer programme, the government has already taken ultimate responsibility for the risk mitigation and social protection needs of its population. The extent to which Brazilian households provide for their primary risk mitigation needs or not will thus ultimately impact the fiscal obligations of the state. **In short: the more risks provided for by private insurance, the lower the contingent fiscal responsibilities of the state and vice versa.** The current state subsidy to 3 million small farmers illustrates to some extent the level of public commitment required to mitigate major household risks. The development of a sound microinsurance regime should therefore be seen as an essential pillar in the government's social protection policy.

From this perspective the market analysis reveals a number of public policy imperatives that should influence the approach that the state takes to microinsurance:

- *Large uncovered risks for poor households.* Our estimate of 23-33m microinsurance clients does not mean that all the core risk needs of these clients are covered. Some of them may only have purchased an extended warranty on an appliance, a funeral policy for the funeral expenses of a family member, or credit life covering the outstanding loan amount. However, if these households are hit by major risks, notably health risks or the death or disability of a breadwinner, leading to the cessation of household income or unmanageable increases in household expenditure, they are uncovered and likely to become the responsibility of the state if they cannot meet their needs in any other manner.
- *Income risk produced by the new reality.* The significant growth of credit but not savings in income categories C, D and E creates large areas of vulnerability among the recently upwardly mobile. In the absence of formal employment (the bulk of the economically active population), formal pension provision or savings, the upwardly mobile households are heading for dependency on the state when they retire or lose their income stream. This presents a risk to the state as the safety net of last resort. But more important, the gains of social inclusion are at stake.
- *Low value to clients.* Low claims ratios mean low value to clients. This situation is exacerbated by the fact that this market generally consists of first-time insurance users unfamiliar with the best or selective usage of insurance to mitigate household risks and safeguard incomes and wealth. Insurance products that deliver low value to clients raise consumer protection issues and place a question mark over the sustainability of these schemes.

7.2. Defining the target market

In an upper-middle income country such as Brazil that has seen remarkable upward income and social mobility over recent years, microinsurance expansion has a much broader meaning than just focusing on the poorest of the poor. This study therefore considers the scope for the expansion of the insurance sector as a whole, instead of defining microinsurance as targeting only that part of the population that falls below a certain poverty line. This can be explained at the hand of the access frontier methodology as set out in the box below.

Box 13. The access frontier as analytical tool

The access frontier is an analytical tool that forms a core part of the Finmark Trust and Cenfri methodology. Developed by Porteous (2005), it maps the current and potential reach of the market, as well as the areas where the market is unlikely to ever reach and where state social welfare is therefore called for. The access frontier can be pushed out by technological innovation to bring down cost or facilitate innovation, or by a more facilitative regulatory framework. In the end, it will however be constrained by the income profile of the target market.

The access frontier can be represented as follows:

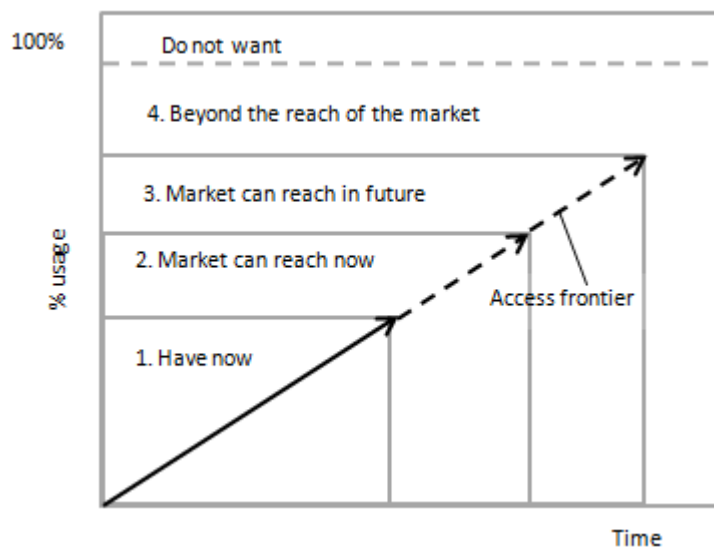


Figure 38. Access frontier map

Source: Porteous, 2005

The various blocks in Figure 38 can be explained as follows:

- **“Have now”**: The *current market* is defined people who are currently using the product, i.e. a measure of usage or effective access.
- **“Market can reach now”**: The *market enablement zone* comprises all the people who have access to the product but are not using it. As there are no explicit access barriers, this group is the most susceptible to improving the levels of inclusion for financial products. They could be incorporated into the market by addressing usage factors, without any regulatory changes needed.

- **“Market can reach in future”:** The *market development zone* includes all the people who do not currently have access to the product because of reasons such as proximity, affordability, eligibility, terms of the product or knowledge of the product. Regulatory changes, as well as product and distribution innovation, can be used to extend the reach of the market to this segment.
- **“Beyond the reach of the market”:** The *market redistribution zone* is made up of all the people who are outside the scope of the market because they are simply too poor. These people cannot sustainably be reached by the market without support from government and may remain dependent on social security. It can however not just be assumed that government will provide social protection to these people. Often, it calls for innovative partnerships between government, donors, community-based organisations and private insurers to find a solution to the social protection needs of this market.

The access frontier is represented by the diagonal line on the diagram and represents the frontier beyond which market provision can sustainably reach. A proportion of the market is left, with people in this group dependent on social security and other government support. The diagram also shows the natural progression of market provision from block one, to block two and eventually to block three. The logical process of market extension is therefore to move along the access frontier rather than to jump over the next most profitable market segment to the very poor.

Nevertheless, income levels do give an indication of the potential market for microinsurance. Generally, the target audience of government’s social programs (including Bolsa Familia and other subsidised schemes) are regarded as not corresponding to the microinsurance target market, “as the former would be aimed at segments of the population on the brink of destitution” (Relatorio Parcial IV, 2009). We agree with this position. Should we therefore crudely define the E class¹³⁵, which includes the Bolsa Familia market, as those too poor to afford insurance (though the CrediAmigo experience with insurance sales, where 2/3 of CrediAmigo customers are on Bolsa Familia, suggests that this may be too strict a cut-off) and the AB market as those who can be served by the conventional insurance market, this leaves the following “middle” market of relevance to microinsurance:

¹³⁵ The A-E socio-economic classes, as well as the “SM” (the Portuguese abbreviation for minimum salary or wage) classification will be explained in Section 2.1.

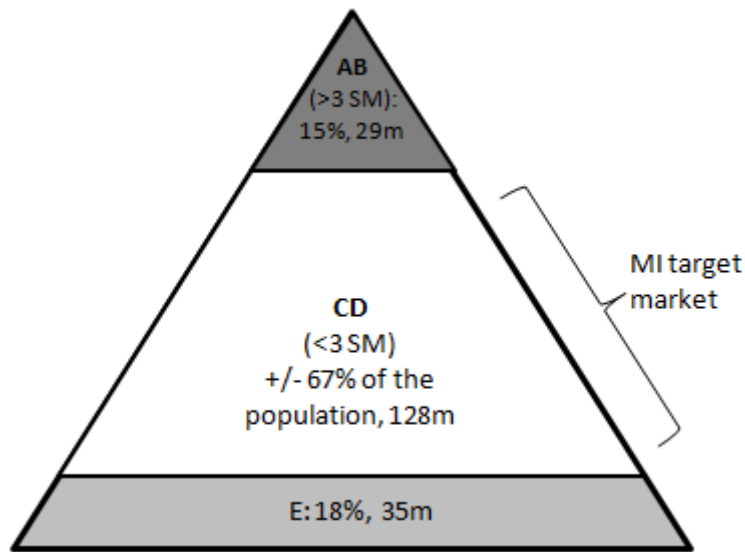


Figure 39. The microinsurance target audience.

Source: authors' representation based on Neri (2009) and Galiza (2009)

The CD market represents 128 million people. As the usage discussion showed, only around 23 million to 33 million of them could be considered as current microinsurance clients.

7.3. Potential market: size and touch points

In this section, we bring together the data and discussions in the previous sections to map the Brazilian population in terms of current insurance usage and other features. Though it is not an exact representation, the figure below gives an impression of the Brazilian income distribution and where insurance usage, microcredit, bank account usage and the Bolsa Familia scheme stand vis-a-vis it:

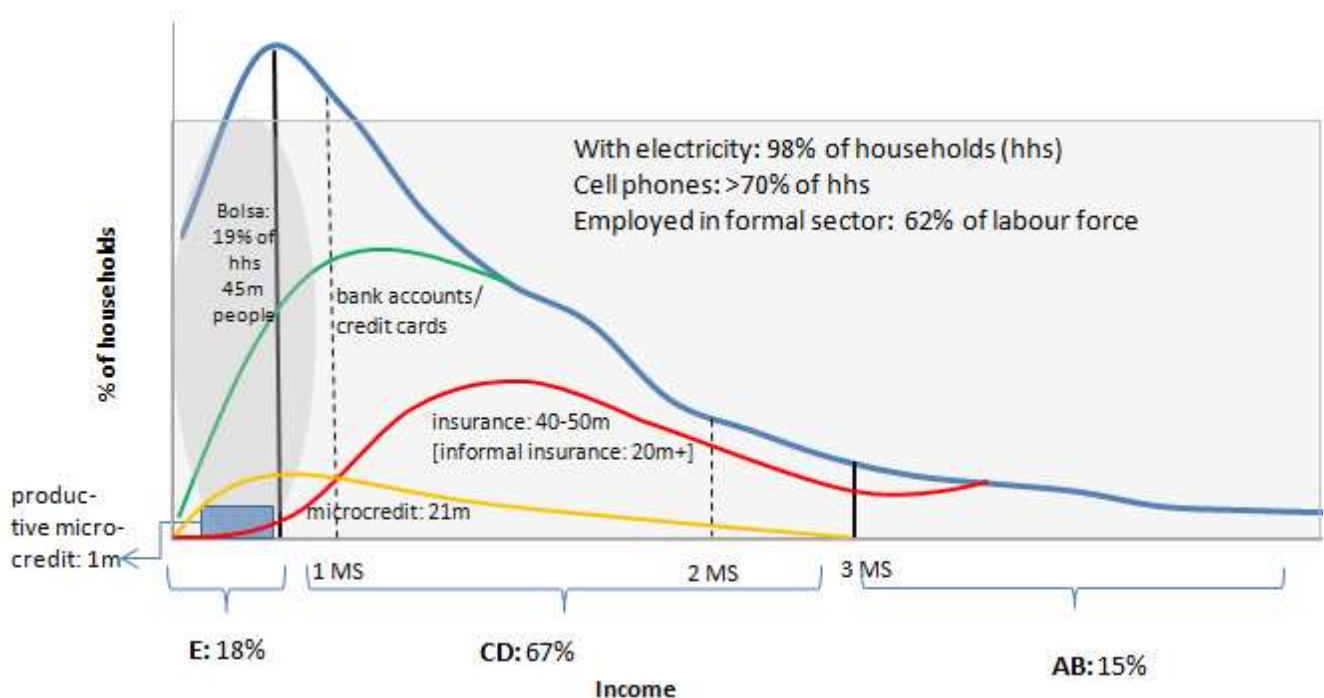


Figure 40. Brazilian population mapping

Source: authors, based on various information sources

Note: this is an approximation only and does not reflect actual sizes. Actual household income distribution data was used from the PNAD (2007) survey, but unless otherwise stated usage figures relate to individuals rather than households. Further note that we have excluded health insurance figures from the estimate of the total insurance market.

The figure summarises the information in the earlier sections, namely that:

- The bulk of the Brazilian population resorts in the CDE social classes, with the size of specifically C having grown significantly in recent years (see Section 2.1).
- 163m people earn less than 3 minimum wages, classifying them as low-income in the Brazilian context (Section 2.1).
- The Bolsa Familia Program covers the poorest segment of the population: 11.2m (19% of all) households, covering 45m individuals (likewise discussed in Section 2.1). With some exceptions¹³⁶ it can be regarded as largely outside of the current reach or potential of the microinsurance market.
- 21m people are estimated to be microloan clients (including consigned credit) (Galiza, 2009, quoted in Section 2.2). A large proportion, but not all of them, is likely to have credit life insurance on their loans.
- Out of the total microloan market, only around 1m people have productive microcredit, a significant proportion of whom are likely to have insurance on their loans. CrediAmigo is a notable example. Currently around a quarter of its loan clients are covered by insurance, a figure that is growing rapidly (refer to Section 2.2).

¹³⁶ For example, while two thirds of CrediAmigo clients receive Bolsa Familia grants, 25% (and growing) of them have insurance.

- As explained in Section 3.7, we estimate the total current potential insurance market to amount to 40-50m individuals (for the purposes of this discussion excluding the health insurance market, which alone reaches 51m beneficiaries). Up to 30m of these may be microinsurance clients (classes C, D and E).
- Though no definite estimates are available of the number of bank account holders, BACEN data on the number of bank and credit cards in circulation (see Section 2.2) suggests that the bank and credit card market is currently still much larger than the insured market.
- A substantial proportion (62% or 44%¹³⁷, depending on how “formal” is defined) of the labour force of 95.5m individuals is formally employed. More than 70% of Brazilian households have a cell phone and access to utilities on an account basis is near-universal. Furthermore, Brazil has an urbanisation rate of 85% (Section 2.1).

This population map provides a strategic tool for market expansion. The potential insurance market (or the “insurance frontier”) would include:

- All those with microloans
- All those with bank accounts
- All those who are employed in the formal sector

These are “touch points” or aggregation channels through which particularly group insurance can be sold. To do so, partnerships with such aggregators will be crucial.

Another opportunity would be to market insurance to all those with utility accounts, as is already practiced in Brazil through so-called “affinity” channels. Here, the chances of success are however smaller in relative terms. Consultations revealed that some models achieve conversion rates of as low as 6% of utility clients. Even 10% of all utility clients¹³⁸ would present just around 18m individuals and there is therefore room for growth by increasing penetration, assuming that people who buy insurance through utilities do not yet have it through other channels.

The insurance frontier can therefore move up from its current position (the red line) to at least the green line and possibly beyond without having to do “greenfields” marketing to individuals for whom there are no existing touch points or channels into which insurers can tap for marketing purposes.

Another important touch point is those with credit purchases at retailer stores. Though we do not have a direct estimate of the number of people served in this way, indications are that it is a substantial market.

Total potential microinsurance market? It is very difficult to triangulate an actual total figure from the above “opportunity” estimates, as it is not clear what the current penetration of insurance in each of the opportunity areas is and what the degree of duplication of clients is between them. However, it is possible to make a crude approximation of the total potential market size. If we define the potential client base as the whole of C and D (128m people) and we assume a maximum potential penetration of 50-60% (as the whole market will not

¹³⁷ Should we assume a 50% rate, this amounts to 44m people.

¹³⁸ Calculated as 98% of households in 2007 PNAD survey, multiplied by the average number of members per household in the survey. This renders 177m individuals with electricity coverage.

always want insurance), it implies a potential market of 64-77 million people. If we then superimpose our scenario of the size of the current microinsurance market (23 to 33m people covered) on this figure, it means that there are still **in excess of 40m potential microinsurance clients** that are not yet covered. This figure would grow if one were to add those in A and B not yet covered as well as a proportion of E that will also be likely to take up insurance.

Incremental gains from various pockets of opportunity. Below, we attempt to show the potential by indicating likely overlaps and incremental gains from each opportunity. Note that this is a “guesstimate” rather than an estimate. It is also not mutually exclusive and the discussion in Section 3.6 showed that there are various other channels through which microinsurance penetration can also be grown. Here, however, we attempt to show those potential touch points where we have some indication of people currently reached:

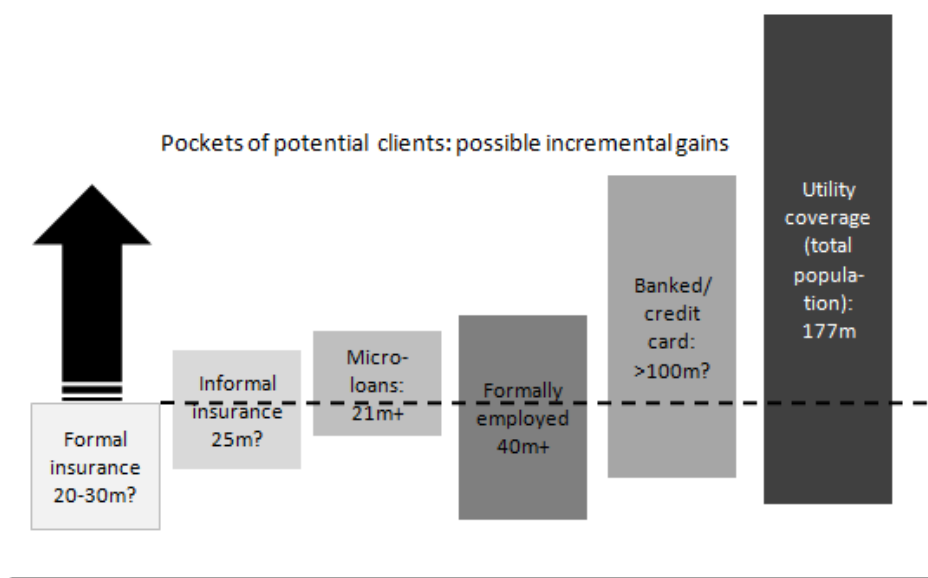


Figure 41. Triangulation of the total potential microinsurance market

Source: authors' representation based on various data sources

The figure above attempts to sketch the incremental gains to be had from focusing on these “pockets of opportunity” for microinsurance market expansion. The one large channel not indicated here is the retailer channel, as it was not possible to gauge the total client base.

7.4. Potential leading channels going forward

If this is the target market, how will they be reached?

In this section we take a view on the main distribution channels *going forward* for breaking open the large potential Brazilian microinsurance market. Figure 42 summarises the main current distribution channels and their expected or potential relative sizes going forward in Brazil. Note that it does not reflect actual data, but is our hypothesis based on the analysis above and the various in-country consultations:

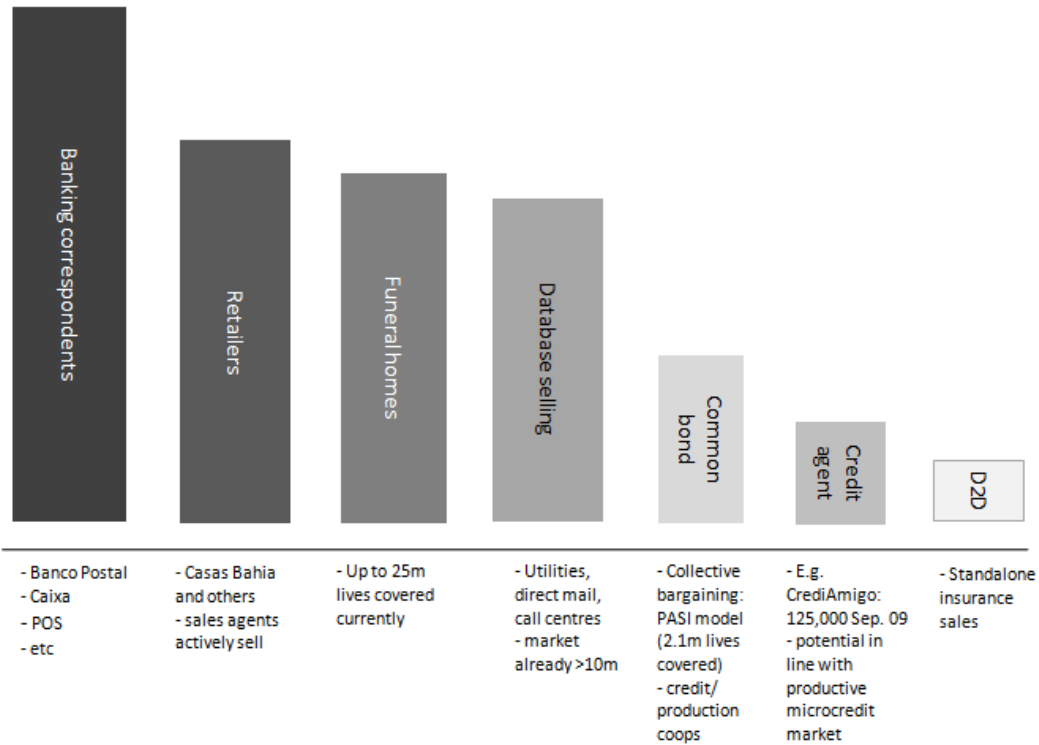


Figure 42. The potential reach of main distribution channels (in terms of lives covered) going forward

Source: authors' representation based on various data sources and consultations

The **banking** channel poses the biggest potential for scale should banking correspondents be allowed to sell microinsurance. Not only are there 130,000 banking correspondents, but the more than 3m POS devices present additional points of sale for microinsurance.. The size of the banking sector footprint and the fact that many of the large banks have insurance subsidiaries makes this the single biggest channel going forward.

Next in line, in our view, is the **retailer channel**. As discussed above, this channel can capitalise on the brand power of the retailer and the existing customer footfall. It has the advantage of a large existing sales force requiring only marginal additional training to extend their services to insurance sales. Though the absolute number of customers in large retail chains is not necessarily higher than those who receive monthly utility or telecoms bills (the database selling channel), current experience is that proportional penetration is much higher with the active sales of the retail channel (up to 50% or more) than in the case of utilities (10% or below). Some insurers and some large broker firms are already entrenched in the retailer market. There are however also still many untapped opportunities. In a sense, the "race is therefore on" to secure market position going forward. Should there be large-scale competition between insurers for this business, it puts retailers as owners of the client base in a very favourable market position.

Number three and four in our ranking may be interchangeable, as no exact numbers are available on the scope for either:

Currently, we would rank the funeral (and potentially other) insurance provided through **funeral homes** in the third position. If the industry conventional wisdom that the market

covers up to 25m lives can be accepted, this makes it a significant channel. The fact that it currently operates informally makes this channel of strategic importance. The scope for formalisation in this industry and the implications thereof will be considered below.

Of equal if not more importance is the **database selling** channel. Like the retailer channel, this channel already has a number of entrenched players, having been the focus of the popular or affinity insurance market for a number of years. Large broker firms play the most important role and act as “gatekeepers” to the sponsors (the utility or telecoms companies). More than 20 insurers are already involved in underwriting in this market. With virtually all Brazilians now “on the grid” and receiving monthly utility statements, the potential market is very large and there is still scope for insurers and brokers to position themselves to tap this potential. The channel relies on high volume marketing (outbound direct mail or call centres), but with the expectation of limited take-up as it relies largely on passive sales. Even should only 10% of utility clients buy insurance, this presents a large market. However, should this model achieve higher penetration rates¹³⁹, the scale could increase greatly.

Though it plays a smaller role currently, the “**common bond**” or “**group endorsement**” model, which we place fifth in the diagram, remains important and still presents significant room for growth on three fronts:

- The PASI model can be extended further. PASI sees itself growing strongly over the next few years.
- Furthermore, there may be room for greater distribution of insurance through credit cooperatives with their almost 3m members (OCB, 2009). Where agricultural cooperatives are concerned, the scope is less pronounced. Not only may cooperatives underwrite their own agricultural insurance, but this is an area where government plays a direct role through the PROAGRO and PROAGRO-MAIS agricultural insurance schemes. Agricultural cooperatives can however serve as distribution channel for other types of insurance.
- Our analysis did not render any current examples of insurance distributed through other affinity groups such as churches. However, more than one player revealed plans in this regard during the consultations. This channel, while ranked second-to-last at the moment, is therefore a channel to watch going forward.

Another important channel that we place sixth in our ranking is the **credit agent** channel. The experience of CrediAmigo shows that this channel has much scope for insurance penetration, provided that there is an established credit agent force trusted in the community. Credit agents can use existing relationships with borrowers to cross-sell insurance. The limitation of this model lies in the still limited reach of the traditional productive microcredit market. When moving beyond this model to consumer and payroll lending by commercial banks and others, the credit agent is no longer present and more traditional bancassurance techniques of cross-selling credit life and other insurance becomes

¹³⁹ Here, lessons can be learned from other Latin American markets. The highest uptake that we are aware of has been achieved by the electricity company Codensa, operating in Bogota, Colombia with around 200,000 clients. It sells funeral insurance underwritten by Mapfre. Three years after it was launched, it had achieved a funeral insurance penetration rate of 90% of electricity clients. The main success factors include that a funeral service is offered rather than a monetary pay-out, that fliers included with the electricity account are enhanced by door to door sales agents, and that the premiums are low. Given its initial success with basic funeral assistance, Mapfre has extended the offering to include an option for “preferential funeral aid insurance”, personal accident as well as some life insurance directed at small business owners (Cáceres & Zuluaga, 2008).

relevant (it would therefore become part of channel one). Nevertheless, there is broad agreement that there is still significant scope for growth in this market.

Last on the list is the **door to door (D2D) standalone insurance sales** model. This model currently has the most limited scale among the channels. It is traditionally the most challenging channel as it requires dedicated microinsurance salespeople and hence high origination costs that may not be feasible for small-premium products. However, this reasoning is challenged by the fact that this channel requires a shorter value chain (there are fewer players that have to receive remuneration, thereby pushing down distribution cost). Furthermore, this model presents the most in-depth interaction with customers, allows for some individual risk underwriting and for the establishment of long-term client relationships. It can therefore be a high-value model for those it serves, even if it does not achieve the scale of the other channels. At least one insurer in Brazil has shown that this can be feasible given the unique characteristics of the target market and should it be combined with effective marketing and a sound reputation linked to service delivery.

7.5. Strategic issues for regulation

Regulatory changes will be required to reach the target market defined above and ensure optimal utilisation of the available and developing distribution channels. This section addresses the most critical issues for the regulation of microinsurance going forward. It certainly does not attempt to address all the issues. The section sets out by asking the question “is regulatory change really necessary?” We then define a broad approach to regulatory change before setting out the individual regulatory issues.

7.5.1. Is a microinsurance regime necessary?

Our analysis shows that microinsurance in Brazil already comprises a market in the order of 23 – 33 million people. This was achieved in the absence of any specific regulatory regime for microinsurance. Moreover, it was achieved in a relatively short time – more or less since 2001. Why should it now be necessary to make any specific regulatory provision for microinsurance? There are three main reasons:

- *High costs limit outreach and client value:* The distribution costs for microinsurance relevant product lines are higher and the claims ratios lower than would be expected from a large sophisticated insurance sector like that of Brazil and certainly compared to other emerging markets. This occurs despite the fact that Brazil has probably the most ubiquitous and cash-friendly financial infrastructure of any emerging market – a fact that should lower distribution costs significantly. This means that higher than necessary costs are caused by either the market structure (including competitive forces) or the insurance regulatory compliance burden or other costs imposed by legislation. These costs could be lowered by regulatory intervention while the competitive dynamics can similarly be improved by regulation.
- *Sub-optimal distribution system:* Brazil does not have a system of insurance agents. This is the result of its strong labour legislation as well as the protective regime for insurance brokers. Since the system of traditional insurance brokers is generally too expensive for the selling of insurance to low-income clients (not only in Brazil, but also in other emerging markets), insurers had to find alternative means of selling insurance to low income clients. As section 3.6 showed, insurers have generally opted either to sell

microinsurance products through existing sales forces employed by retailers or other large scale distribution channels, or to market group policies via institutions with established membership, such as labour unions or cooperatives. In each case the client (insured) has its primary relationship not with the insurer, but with the retailer or other third party and the primary content of that relationship does not relate to insurance, but to the business of the third party, whether that is retail, microcredit or banking. The market analysis shows that insurance products sold through these channels often serve the risk mitigation interests of the distributor more than they meet the risk mitigation needs of the client. Moreover, the sales persons used to sell the policies do not necessarily contribute to the development of a general insurance culture amongst the client base. For the growth of a mature insurance market, it is essential to balance the interests of the insurer, third party distributor (and its employees) and the client. Experience shows that regulatory intervention is required to achieve this.

- *Utilising microinsurance as a social protection tool:* Growing private risk mitigation by all households reduces the social protection obligations of the state. There is thus a sound rationale for the state to provide fiscal incentives for the growth of microinsurance. For such incentives to hit the intended target market will require a clear delineation of qualifying products as well as measures to prevent abuse and/or regulatory arbitrage.

7.5.2. An approach to microinsurance regulation

The previous section argued that dedicated microinsurance regulation is indeed necessary if the insurance market is to expand optimally and the other public policy objectives with microinsurance are to be achieved. How should this be approached?

Different insurance sub-sectors require different incentives: The first, and perhaps primary consideration, is that different sub-sectors of the Brazilian insurance market will respond to different regulatory incentives simply because they serve different markets, are at different levels of development and sophistication and have different levels of resources. Thus, whereas changes to distribution regulation, for example the creation of the microinsurance broker (as proposed in the draft Microinsurance Bill), are likely to be of similar interest to the entire sector, other changes such as reduced capital requirements as well as reductions in the compliance burden are likely to have a differential impact between different categories of companies.

For purposes of microinsurance regulation and differentiated incentives, the Brazilian industry can be divided into 3 sub-sectors:

- *Large traditional insurers:* These are the large capital intensive and sophisticated insurance firms (often linked to banking groups) with their primary markets in traditional insurance categories. The primary interest of large traditional insurers in a microinsurance regulatory regime would be to reduce the costs of selling microinsurance and to increase the margins of what are generally small value products with low margins. For these insurers, the introduction of the Microinsurance Tax Regime would be a major incentive. They would also benefit from the reduced compliance burden. However, reduced capital requirements would be less of an incentive to them.

- *Smaller insurers:* These are the smaller formally registered insurers who specialize in the microinsurance market. Although they are currently few in number, they form a separate category from the large traditional insurers. For smaller microinsurers, not only the Microinsurance Tax Regime, but reductions in the general compliance burden, including minimum capital and solvency requirements, would serve as incentives to enter the market or expand their activities. This sub-sector is likely to spawn some of the most innovative business models that will in due course be replicated by larger insurers.
- *Assistance business providers:* These are the unregistered providers of funeral assistance, normally operating as funeral homes, but increasingly also providing ancillary benefits to their clients. They operate under the special regime exempting them from being licensed as insurers or complying with other insurance regulation. Accordingly, they follow a low cost model with a very short distribution channel. Their primary incentive is to remain outside of the insurance regulatory regime – a goal they also seem to have achieved in the process of the current Microinsurance Bill. However, as formally registered business enterprises they would be subject to the normal tax burden. From that perspective, they may find the Microinsurance Tax Regime very attractive – to the point of wanting to opt into the microinsurance regulatory regime. At the same time both large traditional insurers and smaller microinsurers have a strong interest in the formalisation of assistance business providers since these sub-sectors are increasingly forced to compete with assistance business providers on an unlevel playing field.

In designing microinsurance regulation, it is therefore necessary to address or respond to the differentiated incentives of the various insurance sub-sectors relevant to microinsurance.

Keep regulation as facilitative as possible: The general approach to regulation in Brazil (keeping laws of Congress at the level of general principle and leaving the details to be regulated in subordinate legislation) provides maximum flexibility to facilitate market development. The regulator (CNSP and SUSEP) should therefore refrain from writing detailed and too prescriptive regulation. The experience with the two popular insurance circulars showed that such an approach is likely to be counter-productive. Rather, the broadest parameters – for example where sum insured levels are concerned – should be dealt with in regulation, allowing the market to develop. Furthermore, the framework should be as facilitative as possible. If abuses occur and undesirable practices develop, the regulation can be adjusted. For example, simplified policies that do not rely on individual risk underwriting can be provided at lower cost. However, such policies rely on the imposition of a waiting period to prevent fraud. Should regulation for example not allow waiting periods, it can undermine low-cost policies.

7.5.3. Defining microinsurance

The definition of microinsurance is at the core of the microinsurance regulatory regime. Three factors should determine the definition: (1) market behaviour, (2) public policy and (3) risk.

Market behaviour: The definition of separate microinsurance product categories must in the first instance be based on current usage as well as potential demand within the

microinsurance target market. The Consultative Commission identified three potential microinsurance products in its final report: (a) credit life insurance, (b) group life insurance and personal accident cover, and (c) funeral insurance. As the market analysis showed, this narrow definition would exclude a large proportion of the current microinsurance market, if only because bundled products that include some form of risk cover not included in these three product categories are so prevalent. Secondly, existing products sold to the C, D and E income categories give some indication of the benefit levels desired by the market. These vary from R\$ 400 for income replacement to R\$48 000 and R\$ 50 000 respectively for life cover and asset insurance. The other overwhelming characteristic of the Brazilian insurance market is the dominance of VGBL. VGBL is a long term savings product used by persons who want to provide for their retirement. It is particularly useful to self-employed persons and those who do not benefit from employer-based pension plans. The demand-side analysis shows that savings is particularly low in the microinsurance target market, including at the higher end of this target market. There is thus a great need for long-term savings products (a micro VGBL so to speak) to be offered as part of the microinsurance regime.

Public policy: The public policy considerations that come into play with microinsurance were discussed above. The overriding policy objective (also articulated by the CNSP Consultative Commission) is to *increase access to insurance*, rather than merely to grow microinsurance or even popular insurance. The microinsurance definition must therefore serve the purpose of greater access to financial services, rather than access to financial services being tailored to a specific definition of microinsurance. This consideration would dictate as broad a definition of microinsurance as possible.

Risk: Whereas market behaviour and public policy would dictate an expansive microinsurance definition, the necessity to reduce costs, especially compliance costs, would require a narrower definition limiting microinsurance to lower risk products requiring less supervision and lower capital. The question then is: how do you systematically define lower risk? The product risk is driven by two factors: the uncertainty over the claim event and the size of those claims. These are, in turn, directly linked to the nature of the insurance products written. The following product features are key drivers of risk¹⁴⁰:

- **Nature of risk event covered.** Some insured events happen with more predictability than others. For example, mortality rates in a given population of large enough size tend to be more predictable than disability or critical illness events, which tend to be less frequent and more subject to claims management and definitional uncertainties. As a result, it is easier for the insurer to predict the overall incidence of death claims and there is thus a reduced risk of underestimating the claims for any specific period. Restricting microinsurance products to events that are more easily predictable or for which more incidence data is available will reduce prudential risk.
- **Indemnity basis.** Indemnity products (e.g. asset insurance) tend to pay out relative to the value of the loss suffered, rather than a fixed sum assured (e.g. for life and funeral insurance). There is, therefore, less certainty over the total amount of benefit which will be payable under such a policy relative to a simple life insurance policy paying a defined death benefit. This risk could be managed by setting a limit on total value of claims allowed within a specific period. However, this type of product remains more costly to

¹⁴⁰ This explanation draws directly from South African National Treasury Discussion Paper on the Future of Microinsurance Regulation (authored by Bester, Chamberlain, et al, 2008).

manage and more susceptible to moral hazard (e.g. it can be harder to verify that an actual loss has taken place and to quantify the extent of the loss).

- **Term of the contract.** The term of the contract defines the time span over which the insurer needs to predict the risk experience. The longer the term, the more difficult it becomes to predict the claims and investment experience and the more likely it is that the claims experience will be affected by external factors beyond the control of the insurer. For example, under a 20 year life insurance policy the insurer needs to project two decades worth of mortality experience, investment returns and its own expenses to make sure it has sufficient available funds to pay claims. All other things being equal, under a one year policy there is a reduced chance that the insurer will get their pricing wrong and be unable to meet claims which fall in that year.
- **Benefit value.** Products with a lower benefit value will result in a lower liability to the insurer and will reduce the size of the potential mismatch between the liability that the product creates and the assets held to cover that liability. The fact that micro-insurance products tend to offer lower benefit values, will reduce the prudential risk of writing such products.
- **Product complexity.** Insurance contracts with numerous options and complex features will be harder for the insurer to price correctly and it will be more difficult to set aside appropriate funds to meet future claims. Complex product structures will also be difficult for customers to understand, possibly leading to the purchase of inappropriate products and misunderstandings at the point of claim. It can also increase the chance that there will be legal or operational problems, for example in respect of systems or fraud.
- **Extent of savings component.** Insurance products incorporating a savings component tend to be longer term and introduce additional risks associated with the investment returns achieved, market value fluctuations and liquidity. These products tend to be rare in the low-income market, and the investment risks they generate make them inappropriate for more lightly regulated providers.

Various permutations of the above-mentioned risk drivers are possible within any specific insurance product. These risk drivers generate a set of requirements which the regulator imposes on the insurer to control them, particularly around the minimum capacities the organisation must have in place to quantify and manage the risk, and the capital base it must have to absorb deviations in experience from what it expects.

From the above it should be clear that limiting the microinsurance product categories to only those products that can be classified as systematically low risk, would not achieve the larger policy objectives essential for social inclusion in Brazil, neither would it capitalise on the capacity and opportunities offered by the Brazilian market. On the other hand, not defining lower risk product categories that permit a lower compliance burden would limit outreach substantially and in all likelihood increase the fiscal responsibilities of the state.

It is therefore recommended that under the overall microinsurance regime, at least two categories of risk are permitted. Whereas certain aspects of the regime would apply to both categories of products, other aspects would apply to only one of the categories. Table 17 below illustrates how this could be structured at a principle level.

Concession provided by microinsurance regulatory regime	Higher risk products, e.g. savings products	Lower risk products, e.g. funeral insurance
Intermediation benefits, including use of microinsurance broker and microinsurance correspondent	Yes	Yes
Reduced compliance requirements	No (although this could be differentiated between product classes)	Yes
Reduced capital requirements	No	Yes
Microinsurance Tax Regime	Yes	Yes

Table 15: Applicability of microinsurance regulatory concessions to different product categories

Source: authors

The draft Microinsurance Bill works with a generic definition of microinsurance operating at the purpose level. Whether the bill is passed into law or not, **the actual regulatory definition of microinsurance will have to be done by product category based on risk**. Of particular importance will be the benefit limits defined. The exact levels of the benefit limits for the different product categories should be set based on actuarial modelling to determine the risk implications for different benefit levels for insurers, with different insurer size scenarios. It is important that a balance be found between limiting the risk and therefore the benefit levels allowed for a particular product category, while not making the limit too low to meet the requirements of the market. Should the benefit be lower than the products the market wants to offer or the level of cover the target market wants, it will simply not achieve take-up.

Bundled products: In defining microinsurance product categories, particular attention must be paid to bundled products. These products dominate the low-income market and will continue to be the mainstay of microinsurance in Brazil. Before this issue is dealt with in regulation, careful actuarial analysis of existing bundled products and how they are underwritten is required.

Product standards: To facilitate marketing, client communication and take-up of microinsurance products, they should be as simple as possible, with standardised policy wording, limited exclusions and minimum documentation. These standards should in the first instance be set by the industry. Further branding of microinsurance product categories can then be facilitated by regulating these standards and allowing insurers to market their products as complying with these standards¹⁴¹. Commoditising insurance products in this manner can facilitate a common understanding of product features in the market place and a general growth of the insurance culture. In addition, products complying with these standards can effectively be approved by SUSEP through a file and use system rather than a full product approval process, further reducing regulatory costs.

Lapsed premium payments: A crucial issue to consider as part of product standards is that of lapsed payments. A characteristic of the microinsurance target market is their irregular income. The current regulatory provision stipulating that a policy lapses if the policy holder fails to pay a premium is therefore antithetical or in direct opposition to the interests of the microinsurance target market. Insurers in other countries have resolved this issue by designing products that pay for full cover in for example 10 monthly premiums rather than

¹⁴¹ Such standards are often referred to as CAT standards, referring to products with fair Charges, easy Access and decent Terms.

12, allowing for 2 lapsed premiums. If the full premiums are paid, the client can receive a bonus. However, such products can only be marketed in Brazil if the regulation is changed.

Dealing with regulatory arbitrage. The risk of a broad definition of microinsurance is that products that should not qualify as microinsurance and are not really targeted at insurance inclusion or lower-income customers, will take advantage of the regulatory concessions to market traditional insurance products aimed at higher income categories. For example, instead of selling one life policy with a high benefit level to one high income client, the insurer could sell multiple microinsurance life policies to that client up to the higher level of cover required by the client.

One way of dealing with regulatory arbitrage is to limit the benefit levels of microinsurance products to such an extent that the transaction costs of smurfing¹⁴² are simply too high. For the reasons set out above, such an approach would defeat many of the policy objectives for introducing a microinsurance regime. An alternative approach would be to limit the usage of microinsurance products to one product per category per user. Should clients require higher cover, they should migrate to traditional insurance. To enforce such a regime would necessitate the creation (or adaptation) of a database containing records of all microinsurance products identifying the policy holders with their CPF or another appropriate identification number.

7.5.4. Dedicated microinsurers

The implication of regulatory concessions for a dedicated microinsurance regime is that either all the operations of a licensed insurer must relate to microinsurance (a dedicated microinsurer), or the microinsurance operations of an insurer that also offers traditional insurance must be clearly separated from its other operations and accounted for separately. This would imply that SUSEP needs to create a separate microinsurance license setting out the specific capital requirements and other reduced compliance requirements applicable to that license.

A specific option to consider would be that dedicated microinsurers qualifying for lower capital requirements are limited to lower risk microinsurance products (as set out in table 17 above), while larger insurers who already meet SUSEP's standard capital and solvency requirements are allowed to offer products falling within the higher risk microinsurance product categories.

For the long term strength of the industry it would be necessary not to tailor the compliance requirements for dedicated microinsurers to the profile of existing insurers. The requirements should be designed to encourage new entry. Such new entrants could be small operators wishing to experiment with new technology or product combinations. But, if the incentives are right, one could also imagine a scenario where funeral homes are enticed to register as microinsurers. This would open up substantial new distribution channels for non-funeral microinsurance products.

¹⁴² A term used to describe the breaking up of one large policy into a number of smaller ones.

7.5.5. Microinsurance intermediation

Facilitating active sales by non-brokers: The market analysis shows that the Brazilian industry has developed a number of innovative mass distribution models utilising third party client aggregators, such as retailers, financial institutions and utility companies, and their sales forces. However, these models are more expensive than should be the case and they often sell products that favour the interests of the client aggregators. This development is to a large extent caused by the particular Brazilian labour regime that imputes employment relationships in situations where other countries would see agency relationships. The regime makes it virtually impossible to pay commission to arms length representatives without incurring the obligations of an employer. The labour regime cannot be changed through insurance regulation. Neither is it likely to be amended by the Brazilian Congress anytime soon.

The situation is exacerbated by the fact that the Broker Law allows brokerage (commission) to be paid only to registered brokers (section 13). In those situations where insurance proposals are sourced via the representatives of the insured (*estipulantes*) rather than through a broker – which is the case in most of the mass distribution models that do not utilise the services of brokers to sell the insurance – the equivalent of the brokerage should be paid by law to Funenseg. A strict interpretation of the law would therefore require double payment of brokerage by an insurer using mass distribution models: the first payment to Funenseg, and the second incentive payment to the third party aggregator (and *estipulante*) who uses most of it to incentivise its sales force. The way in which this situation is dealt with in practice, is to involve a broker in mediating the relationship between the insurer and the client aggregator (probably at a lower brokerage depending on the services rendered by the broker), while also paying incentive-based remuneration to the client aggregator (who passes this on to individual sales persons employed by it). Whereas this situation would seem to comply nominally with insurance regulation, it is not certain whether it would stand up in a court of law.

The regulatory challenge is to facilitate continued sales of microinsurance products by the sales forces of third parties (noting that the primary income of these sales people are not derived from selling insurance) **while at the same time strengthening the position of insurers to promote greater insurance awareness, an improved insurance culture and sales of a larger variety of insurance products through these channels.** Resolving this situation cannot be achieved via subordinate legislation since, at the very least, the current broker regime was established by a law of Congress. A Law of Congress is thus required to amend or qualify it.

The draft Microinsurance Bill provides a potential solution (in the absence of changes to the labour regime) to this problem. Firstly, it creates a new statutory figure, the **microinsurance broker**. Microinsurance brokers will be allowed to intermediate microinsurance products only. The other requirements relating to the microinsurance broker will be regulated by SUSEP. There is, however, one major area of uncertainty: is the intention for these microinsurance brokers, who will undergo a minimum level of training (about 30 hours is proposed) to be dedicated to the selling of insurance only, or would all the current sales persons of third party aggregators also be able to qualify as microinsurance brokers? It is difficult to estimate the potential size of this sales force but, assuming that banking correspondents (of which there are in the order of 130 000 in Brazil) will also be allowed to

intermediate microinsurance, a vast number of microinsurance brokers can be envisaged (in the order of hundreds of thousands). How such a vast number of microinsurance brokers are to be trained and licensed could become a matter of logistical difficulty, requiring the function potentially to be delegated to insurers (as is the case for example in Colombia). Assuming this wider interpretation of what a microinsurance broker will be (which is supported by section 4 of the bill), it will remove the uncertainty about whether “brokerage” can be paid to the sales forces of third party aggregators.

The other innovation provided by the Microinsurance Bill is the creation of the **microinsurance correspondent**. Microinsurance correspondents will largely fulfil the roles currently played by the *estipulante*. However, the bill goes further than current legislation by providing for specific agreements between the insurer and the microinsurance correspondent to govern their relationship. These agreements must deal, amongst others, with the remuneration to be paid by the insurer to the correspondent. The bill does not go as far as banking regulation which places full responsibility for all the actions of the banking correspondent (that relate to banking) on the bank. However, the statutory recognition of the agreement between the insurer and the correspondent strengthens the position of the insurer vis-à-vis the third party client aggregators used in the mass distribution channels¹⁴³.

Banking correspondents: An important issue for the future of microinsurance intermediation relates to banking correspondents. Banking correspondents are potentially the single largest distribution channel for microinsurance in Brazil. Whereas a number of retail chains (such as Casas Bahia) that currently act as banking correspondents for banks also have entirely separate distribution relationships with insurers, the bulk of banking correspondents have no such relationship. Banking correspondents are currently not allowed by banking regulation to sell insurance¹⁴⁴. Neither are they allowed by insurance regulation to intermediate insurance unless they are registered as brokers. Moreover, the transaction costs of signing up and administering thousands of individual banking correspondents as *estipulantes* for their clients who may buy insurance policies are prohibitively high for insurance companies. Unlocking this distribution channel requires two regulatory changes: firstly, banking correspondents must be allowed (as banking correspondents and not as normal enterprises) to intermediate insurance. Such a change will allow various groupings of banking correspondents to be contracted by an insurer to intermediate insurance. To effect

¹⁴³ It is worth noting that South Africa recently introduced similar statutory changes regarding client ownership. The Insurance Laws Amendment Act of 2008 has as one of its objectives “to regulate binder agreements”, including the remuneration payable under binder agreements. “Binder agreements” is the term used for the agreement between an insurer and a third party who may enter into policies with policy holders on behalf of an insurer. It is therefore close to the equivalent of the *estipulante*, referred to as the administrator or underwriting manager in South Africa. The legislation provides that an insurer may allow another person to enter into, vary or renew a policy other than a reinsurance policy on its behalf. This includes changing the premium, determining the value of the policy benefit, settling or paying claims.

The administrator subject to the binder agreement must disclose the name of the insurer and the remuneration it receives from the insurer to the policy holder, keep accurate accounts and make available any information required to the insurer. An important stipulation from a client ownership point of view is that:

“(5) Despite any term to the contrary contained in an agreement contemplated in subsection (1) the long-term insurer that entered into the agreement remains the owner of the policies and any information relating thereto, which policies and information, upon termination of the agreement, must be returned to the long-term insurer”

This was included based on industry concerns that too much power rests in the hands of the administrator and that it acts as gatekeeper to the client base, in some instances not even sharing customer information with the insurer. The statutory changes are therefore a direct result of a move to shift client ownership away from third party administrators and to the insurer.

¹⁴⁴ Resolution 3110 of the National Monetary Council dated 31 July 2003 sets out the functions that can be performed by banking correspondents. Currently these functions are restricted to banking functions. The Central Bank of Brazil can also, in its full discretion, authorise banking correspondents to perform “other activities”. To date, the distribution of insurance has not been authorised by the Central Bank as a function to be performed by banking correspondents.

this change will require a decision from the Central Bank. Secondly, the staff members of banking correspondents must be allowed to sell insurance – a change that will be facilitated if the Microinsurance Bill is passed and they can be classified as microinsurance brokers. With these two changes, a vast distribution channel for microinsurance in Brazil will be unlocked.

Payment of premiums via banks: The statutory provision that insurance premiums must be paid via banks¹⁴⁵ also restricts the intermediation options available to insurers as well as increases the cost of distribution. Assuming premium values of as low as R\$2 – 7, a bank transaction fee of R\$1 or R\$1.50 for payments via a banking correspondent or bank branch can be very onerous, especially if the particular distribution channel (for example a cooperative or church society) is well geared for cash collections. However, SUSEP has a statutory discretion to dispense with this obligation when the value of the premium is equivalent to or lower than 25% of the minimum wage as well as in the case of policies for individual life cover. Given this discretion consideration should be given to exempting most if not all microinsurance categories that fall below the 25% ceiling from this statutory requirement.

7.5.6. Microinsurance tax regime

The need for tax impact modelling. Given the current tax burden on insurance business, the proposed RET-Ms tax regime is potentially one of the most important elements of the Microinsurance Bill. At the same time, it is also likely to be one of the most contentious aspects of the proposed new regime. Changes to the tax regime would have to be carefully considered and reasoned. As basis for any decision on the future tax regime for microinsurance it is important to consider the respective impacts of the current and proposed tax regimes on the industry as well as on the state's revenue. Below, we set out a first attempt at such a "tax model" that explores the orders of magnitude of impacts that could be expected.

Sensitivity to assumptions and data. Note that the model is quite sensitive to the input data and the assumptions made. We therefore recommend that SUSEP test and verify the model, where possible replacing assumptions with more accurate data (or, if not available, running different scenarios under different assumptions) to arrive at a model that will be broadly acceptable. The representation below is therefore an input into that analysis rather than the final solution.

Methodology. The current tax regime as set out in Section 6.1.3.7 was used as the basis for the calculation of the current tax impact. As different taxes apply to different components (profit after tax, gross income, net income, etc), we developed a model that provides a breakdown of premium and investment income into commission (sales expenses), management expenses, claims, investment income and reinsurance premiums. These components allow us to calculate gross premium, net (direct) premium and profit before tax, as indicated in the diagram below. These are then used to calculate the impact of specific taxes. As the composition of premium and income varies significantly across product categories and across companies we modelled the tax impact for five of the product categories under which most microinsurance is likely to be written (group life, group personal accident, credit life, extended warranties and multi-peril). This allows us to use the

¹⁴⁵ Article 8 of Law 5.627 of 1970.

average premium breakdowns for those product lines captured in the SUSEP regulatory database to get to a more realistic tax impact calculation. While more realistic, this does not give an exact answer as not all insurance written under those lines would be microinsurance and there may be microinsurance products that are not included in these categories.

		2008	2008	2008	2008	2008
		Group PA	Extended warranty	Group life	Multi peril	Credit life
Premium breakdown						
Profit	Gross premium (Earned premium)					
	Direct premium (retained earned)					
	Re-insurance premiums paid*	3	3	3	3	3
	Admin expenses*	12	12	12	12	12
	Claims	16	13	51	22	25
	Commission	20	50	21	52	37
		52	25	16	14	26
	Underwriting profit/loss					
	Investment return*	10	10	10	10	10
Gross premium		103	103	103	103	103
Net premium (direct premium)		100	100	100	100	100
Profit (before tax)		62	35	26	24	36

Figure 43. Premium composition across selected product lines in Brazil (premium elements indicated with an asterisk are estimates based on available industry information)

Source: SUSEP database (for claims and commissions), assumptions based on large insurer experience for administrative expenses, reinsurance premiums and investment returns. Underwriting profit calculated as 100 minus total expenses and claims paid.

The premium breakdown shown in Figure 43 is based on a combination of actual data and reasonable assumptions. To illustrate proportional composition, direct premiums were used as basis for the calculations and assumed to be equal to 100. The various components of premium are then expressed as proportion of that. For example, the figure of 52 for claims ratio under Group Personal Accident means that this products line has a claims ratio of 52% of direct premiums. The claims and commission figures were taken from the product data provided in the SUSEP database. Administrative expenses are not recorded by product line in this database but are available at company level. In the modelling we used the cost ratios for different categories of companies to explore the impact under different cost scenarios. In the table above we have used the administrative cost ratio for a large insurer, which may present an optimistic view of efficiencies and profit as the smaller insurers will have a higher cost ratio. Investment return and reinsurance premiums are also not available by product line in the SUSEP database and we used estimates based on the information provided in individual insurers' annual reports. These assumptions need to be evaluated and adapted to more closely correspond to the actual situation for each category.

Using the calculated premium composition, the tax burden can be calculated by applying the current tax regime:

- IOF is calculated at 0.38% of gross premium for life-related lines and 7.38% of gross premium for asset lines. For example: this renders a tax of 0.39 units per gross premium for group personal accident (see Table 16 below).
- COFINS is calculated at 4.65% of gross premiums minus claims.
- CSLL is calculated at 15% of profit after tax. To calculate profit after tax, we deducted IRPJ from the profit figure.
- IRPJ is calculated at 25% of profit before tax (net income).
- PIS/PASEP is calculated as 1.65% of gross revenue (including investment income)

High current tax burden. The above calculations allow us to express the impact of different taxes relative to direct premium as follows:

Current tax implication (units)	Group personal accident	Extended warranty	Group life	Multi peril	Credit life
IOF	0.39	7.60	0.39	7.60	0.39
COFINS	4.05	4.19	2.42	3.77	3.63
CSLL	6.98	3.94	2.93	2.70	4.05
IRPJ	15.50	8.75	6.50	6.00	9.00
PIS/PASEP	1.86	1.86	1.86	1.86	1.86
Total tax	28.78	26.34	14.10	21.93	18.93

Table 16. Current insurance tax burden for selected products lines expressed relative to direct premiums.

Source: authors, based on current tax regime and assumptions.

To explore the impact of tax it can be expressed as proportion of other components of premium and of certain performance indicators (see Table 17).

Impact of current tax regime	Group personal accident	Extended warranty	Group life	Multi-peril	Credit life
% of gross premium	28%	26%	14%	21%	18%
% of direct premium	29%	26%	14%	22%	19%
% of before-tax profit	46%	75%	54%	91%	53%
% of underwriting profit	55%	105%	88%	157%	73%
% of claims	180%	203%	28%	100%	76%

Table 17. Current insurance tax burden for selected products lines expressed relative to premium, profit and claims

Source: authors

The first ratio shows what proportion of the *gross premium* is in effect dedicated to taxes for each line. It ranges from 14% for group life to 28% for group personal accident. The second

ratio shows what proportion taxes make up of direct premium (gross premium minus reinsurance premium), which is roughly in line with the gross premium ratios.

The third and fourth ratios express the tax burden relative to before-tax profit and underwriting profit, respectively. This shows the income of the tax authorities relative to the gains of the owners/investors in the insurance firm. Expressed relative to before-tax profit the tax burden ranges from 46% for group personal accident to 91% for multi-peril. For multi-peril insurance, tax is almost 1.5 times more than underwriting profit and for extended warranties it is about equal to it.

Lastly, and very relevant for microinsurance, the proportion of claims shows that the fiscus (government) often receives more out of each premium than the clients get back in the form of claims. Expressed relative to claims paid, the tax burden ranges from 28% for group life to 203% for extended warranty. This is driven particularly by the low claims ratios paid under these product lines.

Proposed microinsurance regime significantly reduces the tax burden. For the new regime, we used the tax proposals as contained in the Microinsurance Bill, namely a maximum of 1% of gross premiums for IOF (equating to 0.38% for life and 1% for non-life), as well as a combined tax of 1% of gross premiums plus investment income generated from microinsurance. The second set of ratios (to gross premium, net premium, profit and claims) indicated below is the result of these calculations. They show the drastic decrease in the tax impact under the proposed new regime:

Impact of proposed RET-Ms tax regime	Group personal accident	Extended warranty	Group life	Multi-peril	Credit life
% of gross premium	1.5%	2.1%	1.5%	2.1%	1.5%
% of direct premium	1.5%	2.2%	1.5%	2.2%	1.5%
% of before-tax profit	2.5%	6.2%	5.9%	9.0%	4.2%
% of underwriting profit	2.9%	8.6%	9.5%	15.4%	5.9%
% of claims	9.5%	16.6%	3.0%	9.8%	6.1%

Table 18. Impact of proposed microinsurance tax regime expressed relative to premiums, profit and claims for selected product lines.

Source: authors, based on proposed RET-Ms tax structure

As is apparent from the table, the tax burden on microinsurers would be much lower than is currently levied on insurers providing microinsurance. For example, for group personal accident the impact on gross premium reduces from almost 28% to only 1.5%. The percentage of before tax profit decreases from between 46% and 91% (depending on the line), to between 2.5% and 9%. The percentage of underwriting profit decreases from a high of 157% (for multi-peril), to 15.4%. Tax burden as percentage of claims would range between 3% and 16.6% under the RET-Ms, as compared to between 28% and 203% (for extended warranties) under the current regime.

This will provide a significant incentive for low-income market insurance expansion, particularly if it will be passed on to consumers in the form of lower premiums (which will have to be monitored). In terms of the public policy objective of decreasing costs and

increasing risk coverage in the low-income market, the proposed tax reduction will therefore present a significant gain.

Towards an assessment of the fiscal impact. Ultimately, it will also be important to consider the overall impact on the state's revenue from the proposed tax concession. This analysis falls beyond the scope of this document but we outline a potential approach below.

Step one is to calculate the impact of the microinsurance tax regime on government revenue. To do this, assumptions have to be made about the proportion of the total premium in these product lines that could be categorised as microinsurance as well as the average management cost structure that could be applied in the calculation¹⁴⁶. On this basis, the current versus proposed tax revenue can be calculated. This can be done by using total annual premiums for these five product categories, multiplied by the percentage that would be microinsurance. The RET-Ms tax regime can then be applied to the microinsurance premiums. The difference between the revenue that would have been generated on the microinsurance premiums according to the current tax regime and the revenue that would be generated under the proposed new tax regime would be the revenue sacrificed. As no data is available (microinsurance is not reported separately to SUSEP), we recommend that different scenarios be sketched for the proportion of the market that could be regarded as microinsurance (e.g. 5%, 10% or 20%).

On the other hand, the RET-Ms regime will stimulate the market and incorporate more customers into the microinsurance net, i.e. will lead to additional policies sold and new premiums to be generated. **Step two** would be to calculate this additional revenue. Once again, different scenarios are called for on how many new policies will be generated and what the total premium is that will be generated through them. This renders a total additional microinsurance premium estimate that will form the basis for the calculation of the RET-Ms tax to be generated. As the IOF included in the RET-Ms will differ between life and non-life lines, a further assumption is needed on what proportion of the additional microinsurance market will be life versus asset-based.

In addition to these additional premiums, it can also be assumed that the microinsurance regime will lead to the formalisation of some proportion of the funeral assistance market that currently operates outside of the tax net. To calculate this (**step three**) an assumption needs to be made on the number of informal funeral policies that will be formalised. The same RET-Ms calculations should then be applied to that.

The net impact on fiscal revenue of the RET-Ms regime would therefore be:

- The revenue sacrificed as calculated in step one
- Minus the revenue gained as calculated in steps two and three

The value of protecting social gains. The calculation outlined above will estimate the direct impact of the proposed tax change on fiscal revenue. However, it will not reflect the full impact on government finances. To assess the full impact on government finances will

¹⁴⁶ As noted above the analysis presented in this section is based on the management cost structure of a large insurer. To get to accurate estimates of overall impact an estimate of average management cost structure would have to be used. Alternatively a low and high cost structure scenario could be used to calculate a range of impacts.

require not only an assessment of the impact on revenue, but also an assessment of the impact on government expenditure. Inadequate risk coverage in the low-income market may threaten the gains of social inclusion and may cause individuals to become the responsibility of the state via the Bolsa Familia scheme. This means that the microinsurance tax concessions may lead to significant expenditure savings in future that are likely to exceed any tax revenue sacrifices. Again, certain assumptions – based on the current coverage of Bolsa Familia and its patterns of usage – can be made to calculate expenditure savings.

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Meeting list

Organisation	Person(s) met
ANS (Agencia Nacional de Saude Suplementar)	Fausto Pereira dos Santos (President-Director)
AON Affinity and Mass Distribution	Rogério Alves (Vice President, Affinity Brazil), Evandro Baptistini (Vice President, Affinity Latin America)
Banco Bradesco S/A, Retail Department	Anderson Andre Silva (Strategic Projects – Banco Postal)
Banco Central do Brasil	Alexandre Martins Bastos (Technical Manager), Elvira Cruvinel Ferreira Ventura (Advisor), Alessandra von Borowski Dodl (Analyst)
Banco Central do Brasil – Executive Office for the regulation and control of rural operations and Proagro	Deoclecio Pereira de Souza (Executive Manager)
Banco do Nordeste, CrediAmigo	Stelio Gama Lyra Jr, Anadete Apoliano Albuquerque Torres (Superintendente), Marcelo Azevedo Teixeira (Gerente)
Bradesco Auto/Re Cia. De Seguros S.A.	Rodolfo Francisco Ern (Superintendente)
Bradesco Vida e Previdencia and Bradesco Affinity	Eugenio Liberatori Velasques (Director)
Caixa Economica Federal	Representatives at MDS meeting
Chubb do Brasil Life and Accident	Acacio Rosa de Queiroz Filho (President & CEO), Hosannah M. Santos Filho (Latin America Underwriting Officer, Chubb Life & Accident), Francisco A.C. Toledo Neto (Director, personal insurance)
CNSeg	Salvador Cicero velloso Pinto, Maria da Gloria Faria (legal advisors), Maria Elena Bidino
FENACOR	Robert Bittar (President), Paolo Thomaz (Executive Director)
FenaSaude	Solange Beatriz Palheiro Mendes (Executive Director), Sandro Leal Alves (Executive Manager)
FGV (Rio de Janeiro)	Marcelo Neri (Professor)
FGV (Sao Paulo)	Lauro Gonzalez (Professor), Eduardo Diniz (Professor)
FUNENSEG	Prof Claudio Contador (Diretor de pesquisa e desenvolvimento)
FunSeg Servicos (Mapfre)	Manuel Antonio Barradas do Souto (Director)
Group of funeral schemes and private cemeteries (15 attendants)	Jose Eduardo Vila (President, Grupo Vila) and others
IFC	Terence Gallagher
Independent	Fernando Ximenes (labour lawyer)
Inter-American Development Bank	Mark D. Wenner (Senior Financial Specialist), Maria Victoria Saenz S. (Senior Project Specialist), Susan Olsen (Private Sector Specialist, Opportunities for the Majority)

Mapfre Seguros	Antonio Cassio dos Santos (President & President of FenaPrevi), Bento Aparicio Zanzini (Director), Francisco Wakebe (Retail Director), Caio Valli (Executive Director), Valmir Alves da Silva (Director), Glaucio Nogueira Toyama (Director: Agricultural insurance)
MDS – Ministerio do Desenvolvimento Social e Combate a Fome – Programa Bolsa Familia	Rafael Barreto (Coordinator CcaPE CGB/SENARC), Anderson Jorge Lopes Brandao (General Coordinator)
Ministerio da Agricultura, Pecuaria e Abastecimento	Eustaquio Mesquita de Sant’ana (Coordinator-General of Agricultural Insurance), Ana Carolina Mera (Coordenadora), Wellington Soares de Almeida (Director)
Ministerio da Fazenda	Leonardo Paixao (General Coordinator for Insurance and Private Pensions), Fernando Ligiero (Specialist in public policy and government management), Adriana da Silva Pereira (Specialist in public policy and government management)
Ministerio do Desenvolvimento Agrario	
PASI	Alaor Silva Junior (founder), Fabiana Resende Silva
QBE	Helio Fernando L. Solina (Diretor de Administracao e Financas – CFO), Raphael A Swierczynski (Diretor Comercial), Alessandro Jarzynski (Presidente)
SINAF Seguros	Pedro Bulcao (Executive Director) and management and sales teams
SulAmerica Seguros e Previdencia	Oswaldo Mario de Azevedo
SUSEP	Alexandre Penner (Director), Regina Lidia Giordano Simoes (Coordinator of International Affairs), Glenda Mendes Cruz de Oliveira, Simone Knust Thuler Candido, Annibal Vasconcellos, Christine de Faria Zettel, Joao Vieira, Marcelo Teixeira Bittencourt (Procurador Coordenador da Procuradoria Federal – SUSEP)

In addition, we benefited from various interactions during the *Workshop de Microseguros* hosted by SUSEP/CNSeg and Funenseg on 10 and 11 September 2009.

Appendix 1: Overview of productive microcredit market

History of government involvement in “traditional MFI” market. To better understand the role of the various institutions providing microcredit, whether regulated by BACEN or not, it is important to consider the regulatory framework for and government initiatives for microcredit development. According to Federal Law 10,735 of 2003, commercial banks and the Federal Savings Bank (Caixa Economica Federal) have to dedicate 2% of all cash deposits to microcredit – or keep these funds as additional reserves. Our consultations revealed that most banks in fact choose the latter option. These microcredit funds are channelled to the microcredit sector through the National Programme for Oriented Productive Microcredit (PNMPO). It was set up by Federal Law 11,110 of 2005 under the Ministry of Labour and Employment (MTE). Its target clients are microentrepreneurs, defined as any natural or legal person engaged in productive activities with an annual turnover of less than R\$120,000 (Gonzalez et al, 2009). The following microcredit providers qualify for operating with PNMPO resources, should they register with the MTE:

- Independent credit cooperatives;
- OSCIPs (Civil Society Organisations of Public Interest);
- SCMEPPs (credit societies for microentrepreneurs); and
- Development agencies.

These entities therefore exist to channel state-mandated funds to microentrepreneurs.

Total size of the productive microcredit sector unknown. The most comprehensive survey of microcredit supply thus far was conducted by Soares & Melo Sobrinho in 2008, as quoted in Gonzalez et al (2009). It maps the productive microcredit market at December 2007 as follows:

Type	Entities	Clients	Average loan value	Total loans (R\$ million)
SCMEPPs	53	20145	2531.92	51.01
NGOs, OSCIPs & public funds	143	94856	724.47	68.72
CrediAmigo	1	299975	782.07	234.60
Microentrepreneurs' cooperatives	27	64637	3921.06	253.45
Private banks	4	65587	1680	78.80
Foreordained funds ¹⁴⁷	--	518182	970.74	503.02
Total	228	1063383	1768.38	1189.49

Table 19. Microcredit market composition, December 2007

Source: Soares & Melo Sobrinho (2008), quoted in Gonzalez et al (2009)

Two years on, these figures are however underestimated on at least two fronts: according to BACEN (2009), the credit cooperatives now have a membership base of more than 4 million.

¹⁴⁷ Foreordained funds are the funds that stem from the 2% of call deposits received by various financial entities. It therefore overlaps with other categories and should not be counted in the total oriented productive microcredit supply (Gonzalez et al, 2009).

Furthermore, CrediAmigo is approaching the 500,000 client mark and will continue to grow (CrediAmigo consultation, 2009).

Appendix 2: International debate on active versus passive distribution

Internationally, there has for some time been debate on the merits of “passive” versus “active” sales of insurance in overcoming the distribution challenges in the microinsurance market. The rationale is that active sales, while desirable as it allows better explanation of the product, enabling the consumer to make an informed choice, is often expensive. The traditional broker or agent business model of high-effort individual sales will simply not be viable in a market with as low premiums as microinsurance. In response, innovative alternative distribution models have emerged that reduce the degree of “activity” in insurance sales. These include utility distribution, retailer distribution and a number of cell phone distribution pilots that have been launched in a number of Latin-American, Asian and African countries (with South Africa being the most notable example). But do passive models really reduce cost and can it solve the dual distribution challenge?

The preliminary finding of ongoing research Cenfri is conducting in this regard in South Africa and globally (the latter commissioned by the ILO Microinsurance Innovation Facility) is that:

- **Passive models work**, especially where income levels are higher, where there is high existing awareness of the particular product (for example, in South Africa funeral insurance is the only type of insurance that has achieved success through passive channels) and where the retail or utility network is well developed (retailer distribution just does not work in low-income countries like Uganda, Tanzania or Zambia where there are no large retailer chains).
- However, **active models work better**. They can work where there is a shared cost platform (with insurance sales piggy backing on the sale of other goods, especially where such goods are sold on credit). Here, Brazil’s retail-insurer partnerships are the prime examples.
- Thirdly, **technology is an important efficiency factor, but not the heart of the microinsurance distribution model**. Where cell phone and other innovative technology pilots have been launched, the experience has been that technology is a facilitator but not a driver of model success. South Africa is once again an example:
 - One insurer found that, despite intensive marketing of a product that they thought was near-perfectly tailored to the target market’s needs and was activated via SMS, with premiums being deducted from the airtime balance, consumers simply did not buy it. They preferred a written policy document and did not trust a completely mobile technology-based model. Part of the reason for the low take-up may be that potential customers did not interact with actual salespeople or persons that could explain the merits of the product to them. Rather, the insurer relied on “passive” marketing techniques such as adverts, posters at transport hubs, etc. Another lesson was that cheaper is not always better. If insurance products are “too cheap”, potential customers may become suspicious, or think that it does not offer them enough value without being informed of the true value or coverage.

- In another model, the most successful case of passive retailer sales in South Africa, SMS technology has helped contribute to persistency. Funeral insurance policies are sold off the shelf in a large low-income clothing retailer store with a presence throughout the country without prompting or active sales by store personnel. Though clients have to go to the store each month to pay their premiums in cash, they are sent an SMS reminder a day or two before the premium is due. This has reduced turnover significantly.

Appendix 3: Lessons from international examples on the regulation of microinsurance

Brazil is not the first country to embark on a microinsurance regulatory process and there is much to be learned from how other countries are going about it, which of the various elements of microinsurance regulation are covered and in what way. At the same time, other countries can already learn a lot from the Brazilian process thus far. The following table summarises international precedents in the definition of microinsurance to ensure low-income targeting, as well as key aspects of the applicable regulatory regimes:

	India	Philippines	South Africa (proposed)	Peru	Mexico
Max. premium	n/a	\$25.5 per month (set as max. % of daily minimum wage)	n/a	2007 Resolution: A monthly premium of up to US\$3,300 <i>Monetary def. removed by Oct 2009 resolution.</i>	For asset insurance: monthly premium up to 1.5 times the minimum salary
Benefit limits	<u>Non-life</u> : max. \$740; min. \$123 (exception family health & accident: \$247) <u>Life</u> : max. \$1230 (exception endowment & health: \$740) ; \$123 min. (family health & accident: \$247)	\$4256 (set as max. % of daily minimum wage) - limit defined <u>for life only</u>	Current: US\$2,400 funeral US\$900 friendly societies Recommended: US\$6,226 all MI	2007 Resolution: Up to US\$3,300 <i>Monetary def. removed by Oct 2009 resolution.</i>	For personal insurance: amount up to 1.5 times per month (groups insurance: annual minimum which amount 6,840 (groups)
Age of entry	Life: >18, <60 Non-life: n/a (exception personal accident: >5, <17)	n/a	n/a	n/a	n/a
Term limits	Non-life: 1 year Life: >5, <15 years (exception health insurance: >1, <7)	n/a	maximum 1 year	n/a	One year renewal except where credit
Product features	Simplicity, available in vernacular language	Product must clearly set out details, be easy to understand, with simple documentation requirements. Premium collection must coincide with cash flow/not be onerous to target market	Simplicity & disclosure requirements, including need for a recourse channel	For individual policies: a simplified policy For group coverage: certificates or summary policies No deductibles & exclusions 30 day grace period Claims to be paid within 10 days	Contracts must be precise and simple Certain mandatory protection clauses included in the policy Simple premium mechanisms Limited exclusions 30 days grace
Demarcation	Composite life & non-life MI products allowed, but separate insurers must underwrite the risk.	Life and non-life MI policies possible; only life has max. benefit limits	Life/non-life demarcation removed for MI	Applies to any type insurance	Applies to life, accident, asset health.
Market conduct aspects	Commission cap of 10-20% of premium, depending on premium payment method. This is higher than the 60% (over 5 years) for full insurers. Reduced training requirements for MI agents.	No concessions	Uncapped commissions for microinsurance, paid on an "as & when" basis. Reduced training/qualification for those selling only	Insurer-agent model for MI, with MFIs, cooperatives and other groups as agents, versus broker model.	Range of intermediaries expanded beyond agents.

	India	Philippines	South Africa (proposed)	Peru	Mexico
			MI.		
Institutional/prudential aspects	No prudential tier for MI; distribution through qualifying non-profit MI agents	MI concessions only apply to registered Mutual Benefit Associations with more than 5,000 members and that provide exclusively microinsurance	Public companies, cooperatives and friendly societies may become micro-insurers	No concessions	No concessions

Table 20. Microinsurance definitions and regimes in selected countries¹⁴⁸

Sources: IAIS/MIN JWGMI, 2008; SBS, 2007; GTZ, 2008; Aguilera Verduzco, 2007

Below, we discuss the microinsurance regulatory framework in each country in more detail before drawing out cross-cutting lessons for Brazil.

India. India has made no concessions in terms of capital or operational requirements for entities wishing to offer micro-insurance. However, it represents one of the clearest examples of where regulatory requirements around intermediation have been relaxed for microinsurance products.

In order to promote the penetration of insurance products within the low-income market, India in 2002 implemented a quota system for rural and social sector¹⁴⁹ reach. The quotas are phased up over time (IAIS/MIN JWGMI, 2008, based on M-Cril, 2008) and require that:

- 5% of all life insurers' policies must be from rural areas in year 1, phasing up to 16% in year 5.
- For non-life insurers, 2% of total gross premiums underwritten must be from rural areas in year one, phasing up to 5% in year 5.
- In the social sectors, each insurer has to maintain at least 5,000 policies in year 1 rising to 20,000 in year 5, for both life and general insurance.

Recognising the distribution challenges this posed for insurers, who are being forced to enter rural, under-serviced markets, microinsurance products were defined in regulation and were subjected to streamlined distribution rules.

Microinsurance regulations, 2005. These regulations embody the Indian Insurance Regulatory and Development Authority (IRDA)'s commitment to extending the reach of the insurance sector. They create a specific category of microinsurance agents to distribute microinsurance products on behalf of registered insurers. As the table indicated, microinsurance products are defined to comprise both life and general insurance products.

¹⁴⁸ Levels valid for 2008 and based on exchange rates at the time. Actual dollar values are therefore subject to change.

¹⁴⁹ Defined as "unorganised workers, (and) economically vulnerable or backward classes in urban and rural areas".

The definition is set according to minimum and maximum benefits, the minimum/maximum term of the insurance policy and minimum/maximum age of entry, as well as certain simplicity requirements. As set out in the table above, the specifications vary according to the type of cover provided (IAIS/MIN JWGMI, 2008, based on M-Cril, 2008).

All sales of microinsurance products will count towards insurers' rural and social sector obligations (though rural and social insurance do not necessarily constitute microinsurance). Providers of such products do not receive any prudential or institutional concessions. The demarcation requirement between life and non-life insurance is relaxed for microinsurance in that the regulations allow for the bundling of life and non-life elements in one single product, provided that a life and non-life insurer must respectively underwrite the life and non-life risks underlying the product (IAIS/MIN JWGMI, 2008, based on M-Cril, 2008).

Microinsurance agent category. Microinsurance agents must enter into a "deed of agreement" with one life and/or one non-life insurer. Only non-profit organisations (such as self-help groups, NGOs or MFIs) may register as microinsurance agents. For-profit entities such as rural banks and for-profit MFIs remain excluded. A microinsurance agent cannot distribute any product other than a microinsurance product (IAIS/MIN JWGMI, 2008, based on M-Cril, 2008).

Concessions for microinsurance agents. While all types of intermediaries may distribute microinsurance, only microinsurance agents are granted certain concessions in doing so. Once registered as a microinsurance agent, lower training requirements apply (25 rather than 50 hours of mandatory training and no requirement for an examination). Microinsurance agents may levy higher commissions than the rest of the industry (where upfront structuring of commissions is however allowed). Nevertheless, the general market sentiment is that commissions are still too low to make microinsurance sales viable (IAIS/MIN JWGMI, 2008, based on M-Cril, 2008).

Philippines. The Philippines opened the institutional and prudential space for the provision of insurance beyond traditional insurance companies to also include community-based entities. An important characteristic of prudential and institutional regulation in the Philippines is that it allows for a tiered minimum capital regime. As early as 1974 a second tier of microinsurance providers which traditionally focus on the lower-income market was introduced by regulation. So-called Mutual Benefit Associations or MBAs are allowed to offer insurance products to their members under a reduced regulatory burden and with lower capital requirements. More recently, the tiering regime was extended to include the following tiers (IAIS/MIN JWGMI, 2008, based on Rimansi, 2008):

- *Commercial insurance.* Under Circular 2-2006, minimum capital requirements were raised to \$24m (Php 1bn) for new life and non-life insurers and double that for composite insurers. This is up sharply from the \$1.2m previously required of commercial insurers.
- *Cooperatives.* The Insurance Commission has the discretion to reduce this requirement by up to half for cooperatives, but thus far no cooperatives have applied for registration under this condition, as specific guidelines for the implementation of this provision of the cooperative code have not yet been formulated.
- *Existing MBAs.* Existing MBAs must hold capital of \$305,000 (Php12.5m), a very sharp increase from the minimal capital requirement previously in place (Php10,000).

- *New MBAs.* This increase is even more pronounced for new MBAs. They must now hold capital of about \$3m (Php125m).
- *Microinsurance MBAs.* Microinsurance MBAs (see below) must hold capital of \$122,000 (Php5m) that must be phased up over time to the level of existing MBAs. It is the only category for which such graduation is allowed.

Microinsurance definition. In line with government's financial inclusion objective, the Insurance Commission in 2006 issued Memorandum Circular No. 9-2006 to encourage the provision of microinsurance. It defines microinsurance as insurance (life and non-life) aimed at mitigating the risks of the poor and disadvantaged. It is defined in terms of a maximum premium (of about \$25.5 per month) and maximum benefits (of approximately \$4000) for life insurance only (no benefit caps apply to non-life microinsurance policies that are included in the microinsurance category). It also stipulates that policies must clearly set out all relevant details, must be easy to understand and must have simple documentation requirements. Premium collection must coincide with the cash flow of/not be onerous to the target market.

Institutional space. Although any registered insurer can offer microinsurance products, the regulatory concessions created in the circular apply only to microinsurance MBAs. An MBA can be recognised as microinsurance MBA if it only provides microinsurance and has more than 5,000 member-clients.

Concessions. As described above, microinsurance MBAs are allowed to hold reduced minimum capital vis-à-vis new MBAs (the same as existing MBAs). If they are unable to comply with this, an even lower amount is allowed, but they must increase their capital at a rate of 5% of gross premium collections per year until they reach the required minimum capital. Furthermore, the Circular requires the establishment of a set of performance standards, tailored to the capacity and activities of microinsurance MBAs, to evaluate, amongst others, their solvency, governance and risk management (IAIS/MIN JWGMI, 2008, based on Rimansi, 2008).

South Africa *currently devising microinsurance regulatory framework.* Concerns about potential consumer abuse in the low-income market, combined with government's commitment to remove regulatory barriers to market development, have prompted the National Treasury (the policy-making body for the financial sector) to reconsider the insurance regulatory framework in South Africa. The aim is to create a microinsurance regulatory space to: (i) bring down regulatory unit costs in order to facilitate outreach into the lower income market by formal insurers and (ii) provide formalisation and graduation options for the currently large informal market.

Drawing on lessons from the Philippines and India. The proposed regulatory framework for South Africa carefully considered the Indian and Philippines examples and was designed to try and achieve the "best of both" by making explicit provision for both insurance provision and intermediation. It is only by addressing the full range of steps to provide insurance to the poor that the market can be developed without being undermined on another front. The suggested regulatory framework for South Africa resembles that of the Philippines in that it sets out reduced capital and compliance costs for entities wishing to offer micro-insurance products, thus extending the scope for micro-insurance provision beyond traditional insurers. Within the micro-insurance category no differences in capital requirements are however proposed, that is: capital requirement differentiation is based on product category

offered, rather than institutional form per se. It resembles that of India in that it includes market conduct aspects. It however sought to overcome the restrictions in the Indian system by not limiting microinsurance distribution to specific entities.

Risk-based microinsurance space proposed. The chosen route for creating such a dedicated microinsurance framework has been to tailor regulation to the risk associated with microinsurance provision.

Elements of the framework. Proposals for such a microinsurance regulatory framework are contained in a Discussion Paper released by National Treasury for public comment during 2008. These proposals have been widely debated through public consultations and submissions and now need to be finalised and refined into a set of parameters that can be enacted. The proposed **definition** to limit market conduct and prudential risk is:

- Benefits capped at R50,000 (~\$6,000) per policy (or per risk in the case of asset insurance)
- Contract term of less than 12 months, but with contracts being renewable without the imposition of new waiting periods.
- Cover is limited to risk only (no long-term contractual savings)
- Simple terms and conditions (details still to be defined)

The proposed **regulatory regime** applicable to microinsurance is:

- *Demarcation.* Both life and non-life underwriting is allowed by a single entity. This relaxes the strict demarcation between life and non-life insurance for microinsurance purposes, in recognition of the fact that microinsurance is written on a short-term risk basis, whether life or non-life in nature

Concessions. The concessions granted to microinsurance relate to:

- *Institutional space and corporate governance.* In contrast to the conventional insurance regime, where only registered public companies may provide insurance, the institutional space for microinsurance is opened up to friendly societies (the legal form for community-based risk pooling groups in South Africa) and cooperatives. All entities will be subject to a cross-cutting set of corporate governance requirements. The details of these requirements must still be defined.
- *Prudential requirements for dedicated microinsurers.* Microinsurers will be limited to providing only the microinsurance products as defined. A file and use product approval system is proposed. Microinsurers will be subject to a minimum upfront capital requirement of R3m (~\$0.4m). This is significantly lower than the current minimum upfront capital requirements of R10m (~\$1.2m) for life and R5m (~\$600,000) for non-life insurers. Reserving will be done on a simplified standard model similar to that currently applicable to the non-life insurance industry (as a percentage of the previous year's turnover). While the details of the regime are still to be determined, it will also entail reduced organisational capability requirements (such as doing away with the life insurance requirement of having an actuary), as well as restricted investments (once again more or less in line with that required of non-life/short-term insurers). These figures were arrived at through actuarial modelling, but need to be refined further to ensure that they will ensure acceptable levels of risk to the system.

- *Market conduct requirements for microinsurance products.* A similar intermediation regulation regime is proposed to that currently in place for funeral insurance intermediaries, namely:
 - Uncapped commissions, payable on an “as and when” basis (i.e. no upfront structuring)
 - Reduced minimum skills level in favour of training requirements
 - No advice required (but the provision of advice and active face to face sales will be incentivised through the uncapped commissions)
 - Simplified and clear language disclosure requirements

Dedicated microinsurers as well as conventional insurers providing microinsurance will be required to report statistical information on their microinsurance portfolio to the regulator to enable effective monitoring.

Microinsurance regulation as part of a broader process. In parallel to the implementation of the microinsurance regulatory framework, an improved consumer protection, recourse and enforcement regime will be created, with compliance support provided to funeral homes to formalise their insurance business.

Peru. In Peru, the target market for microinsurance is the 8.9m low-income people who do not live in abject poverty but are nevertheless poor. Of these, the regulator estimates the potential microinsurance client base at 1.1 million people, comprised of MFI clients, people that use money transfer agencies, cooperative members, and members of associations and social groups. It is therefore quite a narrow definition of the microinsurance market (SBS, 2007).

Outline of the framework. Microinsurance regulations were first passed in March 2007 through SBS¹⁵⁰ Resolution 215-2007. It covers **life** and **asset** insurance, but not medical insurance apart from telephonic medical consultations and a second medical opinion. It is focused on an insurer-agent model where retailers, MFIs, financial institutions, savings and credit cooperatives, money transfer operators, social organisations or others act as collective distribution channel (as opposed to the traditional insurer-broker channel). The agent has the official mandate to act as mediator between the insurer and the clients and can make claims payments on behalf of the insurer. The main features of the regime are (SBS, 2007)¹⁵¹:

- Cover must be provided by an authorised insurer.
- The regime distinguishes between group and individual policies.
- The ratio between maximum premium and maximum cover is 1000 (maximum premium of US\$3.3, maximum cover of US\$3,300).
- It requires microinsurance firms to “focus on simplicity”, but without setting detailed guidelines for what simplicity needs to entail, apart from the fact that, for individual policies a simplified policy is required and for group coverage, certificates or summary policies. This would seem to be in line with the proposal versus tickets distinction in Brazil.
- Furthermore, no deductibles are allowed and no exclusion of policy holders or special conditions may be built into insurance contracts.

¹⁵⁰ The Peruvian Superintendence of Banking, Insurance and Private Pension Funds Administrators

¹⁵¹ http://www.sbs.gob.pe/portalSBS/Seguros/MIC2007_P1_Presentation_Gomez.pdf

- There is a thirty day grace period for late premiums, after which cover automatically ceases.
- Claims should be paid within 10 days of submission of the necessary documentation.
- Claims may be paid through the agent or directly to the policy holder.
- Policy holders can submit complaints to the agent (e.g. on late payment of claims), which must then be addressed by the insurer within 15 days.
- While the insurer is responsible for underwriting and claims payment and in the final instance remains liable for any misguided information provided by the agent to the client, there is an obligation on the staff or members of the agent (MFI, cooperative, etc) to inform the client about microinsurance related to other financial operations as well as the benefits and costs in general.
- Detailed record-keeping and reporting requirements apply:
 - Insurers must keep a register of all policies, certificates and simplified policies and agents and sales clerks should keep records of all the documents.
 - Before launching a product, details of such product should be sent to the SBS and microinsurance policies should then be registered with them (it does not state whether this works on a pre-approval or a file and use basis). Upon registration, general information on the policy is uploaded on the SBS website.
 - Policy holders who only have certificates (summary policies) should nevertheless have access to the full policy document on request.
 - Microinsurers are required to report detailed statistical information to the SBS.

Concessions. The only concession that our desktop review revealed in response to these stipulations is the opening up of the distribution channel beyond the traditional insurer-agent model.

Revised regulations to take on board lessons. By the end of 2007 only two MFIs had signed up for microinsurance products, totalling 6,300 clients (only 0.5% of the target client base). This was regarded as problematic by the SBS, highlighting the need for microinsurance products to be “better designed according to basic necessities of low-income households”. Coverage should target the most basic risks and products should be as simple as possible as a first step, evolving into more complex products over time (SBS, 2008). Some aspects of the requirements, such as that there must be no limits on contract terms and no prior-condition exclusions or individual risk assessment, also proved challenging. The limits set in the definition were also identified as unrealistic and had to be revised (Wiedmaier, 2009¹⁵²). The need for further market research and awareness creation among the target audience was emphasised (SBS, 2008).

New microinsurance regulations. At the end of October 2009, a new microinsurance resolution (Resolution 14283-2009¹⁵³) was passed to improve the framework. Microinsurance is simply defined as “insurance that provides protection for the low-income population” provided as group or individual policies by authorised insurance companies. The main change introduced is the fact that the monetary limits were removed as part of the definition of microinsurance. Furthermore, the requirement that “no prior checks may be made in relation to persons or insurable property”, that is, that there may be no individual

¹⁵² Presentation by Martina Wiedmaier, GTZ, at the policy seminar as part of the annual Munich Re conference, held in Dakar, Senegal from 3-5 November 2009.

¹⁵³ Note that we have used a web-based translation of the microinsurance resolution and may therefore miss some of the details of the framework.

risk rating, was relaxed to say that such checks may be included “if necessary”, but must then be in accordance “with the cover afforded by microinsurance.” The same holds for the requirement that there may be no restrictions.

More detailed specifications were also included on what a simplified policy document for microinsurance should entail. It should be a simple document that contains:

- the insurer’s name and address;
- the name, identity number, date of birth and address of the insured;
- details of what is covered and what is excluded;
- the procedure for claiming;
- the deadline for payment of the claim;
- the complaints procedure; and that
- states the right of the policy holder to request a full policy document, to be delivered by to them by the intermediary within 15 days of the request being made.

Mexico. In Mexico, 20% of the population live on less than \$2/day and 45% if the employed population earn less than two minimum salaries per month. This, in the eyes of the insurance regulator, the CNSF, makes microinsurance particularly relevant, as this part of the population does not have access to conventional insurance (Aguilera, 2007). Microinsurance expansion will therefore serve both a social goal (risk mitigation for the poor) and a financial goal (increasing insurance market penetration).

A number of further specifications apply (as summarised in GTZ, 2008; Aguilera Verduzco, 2007):

- Microinsurance should have a contract term of one year, automatically renewable, unless it is linked to credit, in which case the insurance covers the term of the loan.
- Contracts must be clear, easy to understand and simple (simplicity is not defined further)
- The premium payment structure should be simplified and take account of the target market’s irregular income flows. Premiums may be paid in cash, deducted from a bank account, or deducted from interest earned on bank accounts.
- The sums insured must be small, with clearly defined benefits.
- Claims should be paid within five working days and can be paid through a variety of channels, including the banking system, microfinance networks, commercial networks, through utility companies, or distribution networks of traditional intermediaries.
- Exclusions can only be set in general and should not relate to the individual’s risk profile
- There is a compulsory grace period of 30 days for late premiums
- The receipt of a premium signifies that the contract has been activated
- The unabbreviated policy document (as registered with the CNSF) should be made available to policy holders on request in the case of a simplified microinsurance policy document.

Intermediation concessions. Microinsurance products meeting the above specifications may (unlike other insurance products, who may only be sold by authorised agents or brokers), be

distributed by non-traditional marketing channels with low transaction costs (CNSF S-2.1¹⁵⁴, as summarised in GTZ, 2008, Aguilera Verduzco, 2007):

- Insurance brokers and agents
- Financial intermediaries
- Other legal persons whose representatives meet the requirements of brokers or agents
- Other legal and natural persons who participated in capacity building programmes offered by the government

No prudential concessions or second tier. As is the case in Peru and India, reserve and capital requirements do not differ from those established for traditional insurance products. Microinsurance is provided by the same companies that are selling the other type of insurance products and is subject to the same prudential rules as all insurance products (GTZ, 2008).

From the above, it is not clear that insurers will have the incentive to register their products as microinsurance products. The definition prescriptions are quite strict and it is only on the intermediation side that there is some relaxation of requirements. It is not clear to what extent this relaxation addresses a real barrier in the industry.

Lessons for Brazil

Quotas are not effective. We do not subscribe to the quota system instituted in India. It has proven unrealistic and has resulted in loss-leading initiatives by insurers simply to meet the quota with limited efforts to pursue further market development beyond the quota.

There has to be a “carrot”. Organisations respond to incentives. The Mexican and Peruvian country experience suggest that a strict definition without any notable incentives in the form of concessions is unlikely to lead to uptake by insurers. Without concessions, insurers will not be lured into the specific space, but will instead choose to write their low-income market products outside of the defined regime. Should this happen, all the efforts of the regulator to define the regulatory framework would have been in vain. This is also borne out by the Brazilian example of the Popular Life and Auto insurance products created in regulation a few years ago. These product categories were subject to quite stringent definitions, yet did not offer specific concessions in return. Though it served to trigger interest and debate in microinsurance, no insurer chose to register products under this category.

“Regulator, know thy market”. Another lesson is that regulation should be aligned with market realities. As will be discussed below, India created a microinsurance regime that had virtually no take-up as it did not take into account market realities. In the Philippines, the MBA vehicle has proven effective. Yet by restricting the regime to MBAs, important opportunities for scale have been missed as the space is not available to commercial players and the regime has not been extended to distribution. Based on an assessment of market realities, the proposed South African framework seeks to create a level playing field by opening it up to all who can meet the requirements – on the institutional as well as on the distribution side. As the framework has not yet been implemented, it is not possible to know

¹⁵⁴ http://www.svs.cl/sitio/publicaciones/doc/Seminario_%20Assal/Presentacion_Manuel_Aguilera.pps#815,2,Microseguros:experiencia_regulatoria_en_México

whether it will succeed in this goal yet. In Brazil the Consultative Commission has ensured, through Funenseg's research process, that the Microinsurance Bill takes market realities into account. It is important that this alignment with market realities be pulled through to the details of the proposed framework.

Caution on excluding particular legal entities. Although the Indian microinsurance space holds several benefits for microinsurance intermediaries, it has been defined to exclude MFIs operating as trusts or non-profit companies as well as commercial intermediaries. As a result, the largest providers of micro-insurance currently are not able to benefit from the regulation. No clear reasons have been provided by the regulator for excluding these entities from the definition. Furthermore, intermediaries may only work with one life and one non-life insurer. As not all insurers are offering all products in the microinsurance space, the result is to limit to products on offer through these intermediaries. In Brazil, the fact that entities other than registered companies (and cooperatives, but only for health, agricultural and workers' compensation insurance) are excluded from providing insurance was identified by the SUSEP Working Group's *Relatorio Parcial II* as one of the main legislative barriers.

A prudential microinsurance regime can assist formalisation efforts. Brazil (and South Africa) shares its drive for formalisation in the microinsurance sphere with the Philippines. The CNSP can learn from the Philippine experience in accommodating Mutual Benefit Associations within the prudential framework by submitting them, based on the principle of mutuality, to lower capital requirements, but then limiting their product offering to limited benefit products (with regulated premiums in the case of the Philippines). The proposed South African system, similarly, proposes to define a lower-risk microinsurance product group. Organisations providing only such products and adhering to the product requirements are then subject to lower minimum capital requirements. This "lowers the bar" for entities who need to formalise without increasing risk unduly.

Specific lessons from South Africa. Though the broad outline is in place, South Africa is now in the same position as Brazil in that it needs to define the details of the regime and draft that into legislation. South African regulators are now evaluating the critical questions of: does the proposed framework meet its objectives? How to define the exact parameters? How to ensure take-up? All the efforts of creating a new regulatory regime will come to naught if there are no "takers", i.e. if no microinsurers register and if the regime does not prove an effective vehicle for formalisation and enforcement and does not present real decreases in regulatory transaction costs that enable low-income market innovation and distribution. In finalising the regime, the regulators are experiencing the following challenges:

Ensuring a simple product definition that does not lead to a growing number of categories to administer and that facilitates innovation. The benefit limit of R50,000 has proved particularly challenging. While it is accepted as a limit for life insurance, non-life insurers have queried how it will be applied to for example house structure insurance where low-income houses may be worth more than R50,000 and may be subject to different types of risk. Questions that have been raised include whether theft will be included, whether the R50,000 cover will be per year or per claim event, etc.

How does one regulate for simplification? Simply stating that policies should be "simple" will not provide any results. But as soon as government starts stipulating what simplicity should

entail, it becomes a complex process that will have to take account of the different realities of different types of cover and of the changing nature over time. The risk is that by specifying a long list of simplicity requirements, regulation in the end makes the policy more complex. This has also been experienced in Brazil, where some insurers indicated that the requirement for using a certain font in insurance proposals as onerous and expensive. An alternative would be for industry to develop its own standards of simplification through the industry association. In South Africa, this is however by default illegal under anti-trust legislation (as it would be regarded as collusion) and would require a special exemption from the Minister.

Furthermore experience has shown that, even should such an exemption for industry standards be obtained, simplification requirements may lead to added costs for insurers. For example, standards that require that exclusions be removed from insurance policies push up costs. Likewise, costs may be pushed up, should it be insisted that certain types of cover of relevance to the low-income market be included, such as theft. Furthermore, conditions such as the imposition of a waiting period may be the only protection against fraud. Product standards should therefore resist the temptation to be prescriptive on the types of cover and conditions of cover to be provided.

Another option would be to “keep simplification really simple” and to for example say that there should be a policy summary of no more than half a page, in bulleted form, using easily understandable language and stating:

- Who the policy covers
- The amount of cover
- The premium and payment terms
- When and how a person can claim
- The number of a call centre that a person can phone for further explanation
- The number of a central complaints line

To facilitate enforcement, the regulator could then decide not to review each policy for simplification before it is launched, but to require filing of policy examples with them and then to do spot-checks. The details of if and how this will work however still need to be determined.

How to deal with informal funeral insurance? This is one of the biggest challenges facing the South African regulators. Concerns of abuse or a lack of adequate cover according to insurance principles in the informal funeral insurance industry was one of the main reasons for the regulatory review in the first place. Should effective formalisation of funeral insurance not be achieved, much regulatory effort and resources would have been in vain. South African regulators are learning that four elements are needed to achieve formalisation:

- Provide an option for informal entities to “graduate” from informal underwriters to microinsurers. That is: it would be unrealistic to expect that hundreds if not thousands of funeral homes will suddenly register as microinsurers. Rather, facilitate their formalisation path to first obtain underwriting from a regulated insurer, or to simply act as intermediary for the policies of a range of insurers, while they build up the expertise

and capital to register as microinsurers or even full insurers. Another option (as followed in the Philippines) is to allow graduation of capital over time. Microinsurance MBAs are allowed to increase their capital holdings by 5% per year as their business grows and until they reached the required minimum level.

- Furthermore, it must be recognised that individual funeral homes may need to come together and form associations or networks, with a single microinsurance license that can then serve the individual members. The scope for this should be investigated and facilitated.
- Compliance support will be needed. Businesses that have thus far conducted insurance informally may find insurance compliance requirements daunting. Furthermore, they are often also likely not to be tax compliant. Formalising for insurance purposes would require formalising their entire businesses. This may mean that some tax amnesty will be required to encourage formalisation, as well as business support in formalising their systems.
- As funeral insurance is directly linked to the provision of funeral services and, as noted above, often informal businesses, interdepartmental coordination would be needed between the authorities responsible for tax, health, trade and industry (this is the ministry where small business development support resorts in South Africa) and financial and insurance regulation to ensure effective enforcement. For example: a funeral home may be registered with the department of health for the provision of funeral services. This can be used as a means of tracking them down and as a lever to ensure compliance. In South Africa, the proposed way to achieve this is through an interdepartmental committee on funeral insurance.
- To ensure that the “stick” of enforcement is effective, the South African insurance supervisor, the Financial Services Board, would need enhanced powers to impose administrative penalties, also for unregulated insurers.

What will the regulatory capacity implications be and what model of supervision is needed? Creating a new insurance category will potentially lead to a number of new entrants. The supervisor needs to have the capacity to cope with this increased load. Furthermore, once supervisors move away from regulation aiming purely at stability to regulation also of market conduct and consumer protection, and from regulating a few large insurers to a model focused on the transaction level, covering a large number of small transactions, a new mindset is required.

How to protect the poor without protecting them out of the market? South Africa is fairly unique in that it has very detailed consumer protection regulation specifically for financial services. Contained in the Financial Advisory and Intermediary Services (FAIS) Act of 2003, it requires all people involved in the intermediation of financial services to be authorised by the Financial Services Board and to meet certain training, experience and fit and proper requirements. Furthermore, it places specific provisions on what type of information needs to be disclosed to clients, especially should advice be provided, in which case detailed specifications apply on what to take into account and what to advise on. Detailed record-keeping and reporting requirements also apply. While this legislation is very laudable in principle, it has imposed additional transaction-based regulatory costs. The upshot has been to discourage advice to low-income clients, with insurers rather opting for passive sales than running the risk of FAIS digressions in the active sales transaction. An important lesson from the SA experience is therefore that it is very important to find a balance on how to protect

the poor through market conduct requirements without increasing transaction costs to such an extent that insurers and intermediaries no longer find the low-income market viable. This is an issue that the South African regulators are still grappling with.

Appendix 4: Focus group summary statistics

	Location	Participants	Male	Female	Age	Class C	Class D	Household members (range)	Own their own house	With bank account	With insurance
1	Rio	7	7	0	40-60	5	3	2,8	5	6	2
2	Rio	8	0	8	25-35	5	3	3,7	4	7	4
3	Rio	8	8	0	25-35	5	3	4,0	3	6	0
4	Rio	10	0	10	40-60	5	5	2,6	7	9	2
5	Rio*	10	10	0	30-55	6	4	3,2	7	9	10
6	Sao Paulo	9	0	9	40-60	6	3	3,0	9	9	3
7	Sao Paulo	8	8	0	40-60	4	4	5,2	8	9	1
8	Sao Paulo	7	0	7	25-35	4	3	4,5	5	7	3
9	Sao Paulo	7	7	0	25-35	4	3	3,0	4	4	2
10	Fortaleza	9	0	9	40-60	5	4	2,8	6	5	7
11	Fortaleza	9	9	0	40-60	4	5	3,2	6	6	7
12	Fortaleza	9	0	9	25-35	5	4	3,1	6	7	7
13	Fortaleza	9	9	0	25-35	5	4	2,1	3	9	8
<i>Sub-total</i>		n/a							73	93	56
14	Semi-rural	9	2	7	not assessed						
15	Semi-rural	6	1	5	not assessed						
Total		125	61	64	n/a	63	63				

Table 21. Focus group summary statistics

Source: Mr Joao Fortuna

Appendix 5: International learning on the viability of agricultural microinsurance

Index insurance as response to challenges of multi-peril insurance. Agriculture and development are intricately linked. Crop insurance can theoretically play an important role in stabilising the incomes of the rural poor. The multi-peril agricultural insurance models applied in developed countries are however ill-suited to the developing country context, where many farmers are likely to be small-scale. This does not mean that small-scale farmers are not vulnerable to weather risks. Indeed, it can be argued that they are even more vulnerable than large commercial farmers. This has prompted a move away from insuring against poor crop yields on an individual farm basis, in favour of insuring against adverse weather in the area as a whole – in the form of the development and testing of different, innovative *weather index insurance* for the smallholder market (Roth, McCord et al, 2007; Devereux et al, 2008). Examples include two drought insurance products with a rainfall trigger in Ethiopia, drought and flood index insurance linked to lending in India and Bangladesh, as well as an ongoing pilot in Malawi (see Roth, McCord, et al, 2007, for a full list of case studies).

There are no existing programs or pilots that we are aware of in Brazil. As the international learning discussed in the Box below highlights, this is also likely not to be a market that will work as a first-order priority for microinsurance expansion.

Box 14. Weather index insurance as response to the challenges facing multi-peril agricultural insurance: international evidence

Multi-peril insurance unsuitable for smallholder agriculture. Traditional crop insurance is expensive to underwrite: in determining the sum assured based on the projected value of the crops, but importantly also in assessing the damage at claims stage (individual farm-level loss adjustment). The latter is often simply not feasible in a smallholder farmer model and particularly not if the farmer is not well networked within the agricultural value chain. Furthermore, trying to provide financial services to small unit households can be inefficient and moral hazard, fraud and adverse selection are common in traditional crop insurance (Roth, McCord et al, 2007). It is also an insurance product subject to covariant risks (drought affects a whole region), calling for reinsurance or participation in catastrophe (CAT) pools¹⁵⁵. Furthermore, transaction costs are high and delayed payouts may undermine the value of the product for the smallholders. For these and other reasons, traditional crop insurance for smallholders has failed (Devereux et al, 2008).

Index insurance to overcome multi-peril limitations. In response to the failure of multi-peril agricultural insurance, a number of weather index pilots have been launched. Under an index approach, certain parametric triggers are defined upon which fixed payouts will be made. Therefore the insurance contract is written not against harvest failure, but against a local index (e.g. rainfall) that is correlated with harvest outcomes. For example, a rainfall index that uses measurements taken from secure weather stations is commonly used as an indicator of crop performance. Too little rainfall and too much rainfall can both result in poor production outcomes. Indices can also be constructed from aggregate statistics such as area yields (Devereux et al, 2008; Roth, McCord et al, 2007).

Index insurance has a defined threshold and a limit that establishes the range of values over which indemnity payments can be made. The threshold marks the point at which payments begin. Once the threshold is reached, the payment increases incrementally until the value of the index reaches

¹⁵⁵ "CAT bonds are marketable securities with earnings tied to specific catastrophic events. Investors receive favorable rates of return if the catastrophic event does not occur or they stand to lose earnings or even up to 100 percent of the principal if the event does occur. The funds are used by the seller of the CAT Bonds to fund payments to insureds. Some CAT bonds have been structured using parametric indexes such as the Richter scale for earthquakes" (Roth, McCord, et al 2007).

the pre-defined limit. The payment rate for an index insurance contract is the same for each policyholder who has the same contract, regardless of the actual losses sustained by the policyholder. The amount of indemnity payment received will depend on the sum assured (Roth, McCord et al, 2007¹⁵⁶).

Advantages to index insurance. Because the index is exogenous to policyholders, index insurance removes any moral hazard or adverse selection concerns. It also greatly reduces administration costs: it is easy to administer as it entails standard contracts and monitoring costs can be greatly reduced. Most importantly, no individual farm-level loss adjustments/claims assessments have to be made. This provides the scope for quicker payouts. This is often of utmost importance for smallscale farming in helping them to smooth income and to prevent expensive coping strategies such as selling of assets. By lowering transaction costs, index insurance can therefore bring agricultural insurance within affordable reach of small-scale farmers (Roth, McCord et al, 2007; Devereux et al, 2008).

Limited viability on a purely private basis. Despite these advantages, it is not clear that index insurance is a viable private insurance product. Where such models have been introduced, this has mostly been on a subsidised/public private partnership basis, or with financial support or technical assistance from donors or NGOs. On a commercial basis, premiums would be too high for smallholders (Devereux et al, 2008). Though intrinsically an attractive model for smallholder agriculture, index insurance poses significant cost-raising market challenges. It is best suited for correlated risks (severe, widespread events such as droughts and floods) and may not be an appropriate tool in all circumstances (Roth, McCord et al, 2007).

Susceptibility to basis risk imposes data requirements. The most notable disadvantage is that there will always be some variance between the index and the actual losses incurred – a phenomenon that is called basis risk. When designing a product, it is crucial to minimise basis risk by finding one or more indices whose movements correspond as closely as possible to changes in the value at risk. This requires long-term, accurate data on both changes in the value at risk, e.g., changes in crop yields, and changes in the index, e.g., rainfall. Only with accurate data can accurate pricing be achieved, which is in turn crucial to ensure solvency. The data requirements for developing a weather index product include (Roth, McCord et al, 2007):

- Preferably more than 30 years of weather data
- Limited missing and out of range values, with preferably less than 1% of weather data missing
- Data integrity
- Availability of a nearby station for verification
- Consistency of observation techniques: manual vs. automated
- Limited changes of instrumentation/orientation/configuration
- Integrity of recording procedures
- Little potential for measurement tampering

Obtaining this data may be fairly difficult – and expensive – in developing countries.

Credit-related agricultural insurance as one possibility. Nevertheless, index insurance remains a first step in creating an enabling environment for market-based financial services in rural areas. Should one want to pursue agricultural insurance for family farmers, it may be most efficient to start with a product that covers the portfolio risk of rural lenders (and hence indirectly of their clients), should crop failure lead to an inability to repay loans. By targeting the aggregate portfolio of e.g. credit cooperative or MFI, lower administration and product delivery costs are achieved than by providing direct coverage to smallholder households. Furthermore, reducing the portfolio risk of rural and agricultural lenders is one way to ease the constraints to greater and more efficient complementary rural financial services (Roth, McCord et al, 2007).

¹⁵⁶ Selectively quoted directly.

Scope for mitigation of non-agricultural risks in the agricultural sector. There may also be concrete opportunities to support agricultural development through *other types* of insurance. This is likely to be a need for insurance products such as life and health among the farming community that can be translated into willingness to pay for insurance premiums if the distribution, premium payment and claims mechanisms are tailored to the particular needs of farmers. For example, as many farmers only earn a cash income once or twice a year (at harvest time), premiums would have to be tailored accordingly. The various production cooperatives would form the most viable channels or aggregators for reaching farmers in this way.

Appendix 6: Breakdown of the largest insurance players

Bradesco dominant market player. Bradesco operates seven registered insurance licenses¹⁵⁷. It is actively involved in the life, asset, auto and capitalisation market and accounts for 20% of the total insurance market (excluding private pensions) and 19% of the capitalisation market.

- *Bradesco Vida e Previdencia largest players in the insurance market.* Bradesco Vida is the largest player in the life insurance market (28%), and overall insurance market (15.2%). Its largest insurance line, measured as contribution to total premiums, are Individual VGBL (71%), Group life (10%), Group VGBL (8%), Individual life (3%), Credit life (2%), DPVAT (2%), Group Personal Accident (2%), Individual Personal Accident (1%) and Random Events (1%). The remaining product line, Educational Insurance makes up less than 1%.
 - *Decreasing claims ratios and selling expenses*¹⁵⁸. Bradesco Vida's selling expenses¹⁵⁹ as percentage of gross premiums decreased from 26% in 2001 to 13.8% in 2008. Claims ratio¹⁶⁰ in 2008, even though similar to 2001 figures, is down from its highest levels of 67% in 2006.
- *Bradesco Auto/Re Companhia de Seguros second largest player in the Auto insurance market.* Bradesco Auto, the fifth largest overall insurer, with 4.4% of total gross written premiums, and the second largest auto insurer with 11% of total written premiums in that market. Bradesco Auto's largest insurance line is auto insurance (54.4%), followed by Auto Civil Liability (15.44%), Operation Risk (5.14%), Comprehensive Residential (3.2%) and Comprehensive Business (3.1%). Various, non-life insurance lines only, make up the remainder of total premiums written.
 - *Bradesco Auto/Re Companhia de Seguros experienced fluctuating claims ratios and decreasing sales expenses.* Bradesco Auto, in-line with industry wide trend, experienced large fluctuations in claims ratio. Claims ratios in 2001 at 63%, compared to 87% in 2004 and 72% in 2008. Selling expenses as a percentage of gross premiums have decreased significantly from 21% in 2001 to a mere 7% in 2008.

Itaú merging with Unibanco to form Itaú Unibanco Holdings cementing position of second largest market player. Itaú has five registered insurance lines¹⁶¹ and Unibanco Seguros two registered insurance lines¹⁶², and is actively involved in life, asset, auto and capitalisation business. Itaú and Unibanco Seguros accounts for 12.2% of the insurance market (excluding medical and open market pension) and 13.3% of the total capitalisation market.

- *Itaú Vida E Previdência and Itaú Seguros large players in life and asset markets.* Itaú Vida, a life insurance company, and Itaú Seguros, a composite insurance company,

¹⁵⁷ Registered licences as listed on August 2009 (SUSEP)- Atlantica Companhia De Seguros, Bradesco Seguros S.A, Bradesco Capitalização S.A, Atalantica Capitalização S.A, Bradesco Vida E Previdencia S.A., Alvorada Vida S.A and Bradesco Auto/RE Companhia De Seguros

¹⁵⁸ Selling expenses include commission and cost of policy inception (e.g. printing of policy document etc.,)

¹⁵⁹ Excluding VGBL

¹⁶⁰ Excluding VGBL

¹⁶¹ Registered licences as listed on August 2009 (SUSEP)- Itaú XL Seguros Corporativos S.A., Itaú Seguros S/A, Parana Companhia De Seguros, Companhia De Seguros Galha Azul and Cia Itaú de Capitalização.

¹⁶² Uaseg seguros S/A and Itaú Vida E Previdencia S/A

account for over 11% of the total insurance market and for 14% and 16% of life and asset market respectively. Largest contributors to total premiums of Itaú Vida are Individual VGBL (83%), Group Life (7%), Group VGBL (5%) and Group Personal Accident (2.84%). The remaining product lines; DPVAT, Credit life and Individual Personal Accident contributed 1.7%, 0.5% and 0.27% respectively. Largest contributors to total premiums of Itaú Seguros were Auto (34%), Auto Civil Liability (11%), Residential (9%), Group Life (9%), Group Personal Accident (8%) and Multiple Peril (7%).

It should be noted that in August 2009 Itaú and Porto Seguro disclosed that they had an alliance aimed to combine their residential and automobile insurance operations and includes an operating agreement under which the alliance will have exclusive access to offer homeowner and auto insurance products to clients of Itaú Unibanco's branch network in Brazil and Uruguay¹⁶³.

Brazil Prev third largest insurer by gross premiums. Brasil Prev trades under three insurance licences¹⁶⁴ and is involved in the life, asset and capitalisation markets, accounting for 7% of the insurance market¹⁶⁵ and 21% of the capitalisation market.

- BrasilPrev Seguros e Previdência S/A is the six largest overall insurance market contributor (4.2%) and third largest Life insurance contributor (8%) specialising only in Individual VGBL.

Porto Seguro fourth largest insurance company by gross premiums written. Porto Seguro, operating under three insurance licences,¹⁶⁶ is actively involved in life, auto and asset insurance and accounts for 6%¹⁶⁷ of the insurance market in Brazil.

- *Porto Seguro Cia de Seguros Gerais largest auto insurer.* Porto Seguro is a composite insurer with 5% of the total insurance market share and 14% of the total auto insurance market, making it the largest player in that sector. Porto Seguro's largest business line is auto insurance (59%) followed by Auto Civil Liability (13.85%), Bond insurance (4.4%), Comprehensive Business insurance (4.1%), Group life (2.9%), Comprehensive Residential (2.1%) and Individual Life (2%). Various other business lines made up the remaining gross premiums written.

¹⁶³ Info obtained from Wikipedia, Itua Unibanco, 27 November 2009, source:

http://en.wikipedia.org/wiki/Ita%C3%BA_Unibanco

¹⁶⁴ Registered licences as listed on August 2009 (SUSEP)- BRASILPREV SEGUROS E PREVIDÊNCIA S/A, Companhia de Seguros Aliança do Brasil and BRASILCAP CAPITALIZAÇÃO S/A

¹⁶⁵ Excluding private pension and capitalisation

¹⁶⁶ Registered licences as listed on August 2009 (SUSEP)- Port seguros Vide e Previdencia S/A, Azul Companhia De Seguros Gerais and Porto Seguros CIA de Seguros Gerais

¹⁶⁷ Excluding capitalization, private pension and medical



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