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MICROINSURANCE IN BRAZIL: CURRENT SITUATION AND OUTLOOK

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Dissertação apresentada à Escola de
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Paulo da Fundação Getulio Vargas
como requisito para obtenção do
título de Mestre em Gestão
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The reason I chose this topic for my master's thesis is due to a combination of factors, but mainly to my personal experience in Brazil, as a student and as a volunteer.

During my first year at Sciences Po, I had the opportunity to get in touch with theoretical subjects linked to development, whether it was on the political, economic or social side.

But I got really involved with microfinance in Brazil and more particularly in São Paulo, thanks to my activities with the association Conexão Social, but also thanks to meetings I had with microfinance professionals such as Roberto Vilela a former FGV student or Claudia Cisneiros from CEAPE Maranhão, Jerônimo Ramos from Banco Santander (former Real Microcrédito) or even Nina Valentini, a young manager of Aliança Empreendedora.

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Besides, I believe my travelling in various states of the Northeast region such as Bahia, Piauí, Maranhão and Ceará but also in the North region in the states of Pará and Amazonas have clearly reinforced my willing to contribute to the research on microfinance, as a tool to fight poverty and financial instability.

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Resumo

O trabalho aqui apresentado teve como objetivo investigar as oportunidades do microseguro no Brasil levando em conta o atual contexto de microfinanças no país e as potenciais sinergias que poderiam facilitar a implementação e o desenvolvimento do conceito. Cumpre lembrar que o microseguro não pode ser um substituto do microcrédito, mas ; é um necessário complemento para continuar no caminho da inclusão social e financeira.

A primeira parte desse trabalho aborda o tema de microfinanças no mundo e depois no Brasil, para poder entender o papel do microseguro como uma das ferramentas de microfinanças.

A segunda parte é dedicada ao microseguro, com uma apresentação do conceito geral e de algumas iniciativas no mundo antes de se focar sobre o microseguro no Brasil. Apresentamos o quadro legal e os incentivos, juntos com o mercado potencial e os canais de distribuição no Brasil.

A última parte apresenta o estudo de caso do Banco Bradesco e do órgão regulatório Susep, realizado através de entrevistas.

Palavras-chave: Bancos comunitários; Correspondente bancário; Corretor de seguros; Educação financeira; Fatores-chave de sucesso; Microcrédito; Microfinanças; Microseguro; Mobile banking; Mudança climática; Prêmio de seguro

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List of abbreviations

AIDS: Acquired immune deficiency syndrome

AIG: American International Group

BNDES: Banco Nacional de Desenvolvimento Econômico e Social

BRAC: Bangladesh Rural Advancement Committee

CEAPE: Centro de Apoio ao Pequeno Empreendedor

Cepam: Centro de Estudos e Pesquisas de Administração Municipal

CGAP: Consultative Group to Assist the Poor

CIA: Central Intelligence Agency

CNSeg: Confederação Nacional das Empresas de Seguros Gerais

FU: Finca Uganda

GPA: Group Personal Accident

GTZ: Deutsche Gesellschaft für Technische Zusammenarbeit

IBGE: Instituto Brasileiro de Geografia e Estatística

ILO: International Labor Organization

IPEA: Instituto de Pesquisa Econômica Aplicada

KSF: Key Success Factors

MFI: Microfinance Institution

MIA: Micro Insurance Agency

NGO: Non-Governmental Organizations

Oscip: Organização da Sociedade Civil de Interesse Público

PASI: Plano de Amparo Social Imediato

PNMPO: Programa Nacional de Microcrédito Produtivo Orientado

Rosca: Rotating Savings and Credit Association

Susep: Superintendência de Seguros Privados

UNDP: United Nations Development Programme

UNO: União Nordestina de Assistência a Pequenas Organizações

USAID: United States Agency for International Development

Introduction

“The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit, or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector....Together, we can and must build inclusive financial sectors that help people improve their lives. “

—Kofi Annan, United Nations Secretary General, 2003

“To argue that banking cannot be done with the poor because they do not have collateral is the same as arguing that men cannot fly because they do not have wings.”

—Muhammad Yunus

Financial inclusion – how to provide access to financial services for everyone – has been the leitmotiv of microfinance throughout the world, for over 30 years now (Isern and de Koker, 2009). “Building inclusive financial systems” was even part of the goals set up by the United Nations, when they declared 2005, the International Year of Microcredit.

Since then, government policymakers, Non-Governmental Organisations (NGOs) operating in the field of development and sustainability and multilateral institutions are seeking innovative channels and ways to reach this goal in order to fight poverty (Saxena Amitabh, 2009). Indeed, thanks to the work done by C.K Prahalad, we are now aware of the fact that there is more than one sixth of the world population living with less than 1\$ a day. In the same extent, more than four billion people on Earth only reach an annual per capita income of approximately US\$ 1 500!

Those people need microfinance services in order to run their businesses, but also to secure their family needs, whether it concerns savings or insurance. (Prahalad and Hart, 2002). Thus, the focus of this work will be one of microfinance services, that-is-to-say, microinsurance applied to the case of Brazil. To be more specific, the problematic here is: what are the prospects of microinsurance in Brazil?

To respond to that question, we will first give an overview of microfinance, as a whole, and then the use of microfinance in Brazil. We will then describe the concept of microinsurance, along with their advantages and drawbacks, before to study microinsurance in Brazil, as far as the legislative side is concerned, and its application in the country mentioned.

During the study, we will try to understand the current situation and to identify the key success factors in order to successfully implement the concept of microinsurance in Brazil.

1. Microfinance

1.1 Overview

First of all, we believe it is quite relevant to remind what microfinance is, or at least, what it should be, according to specialists and mainly based on definitions published by the Consultative Group to Assist the Poor, a consortium of 33 public and private development agencies working together to expand access to financial services for the poor in developing countries.

Microfinance offers access to basic financial services aimed at poor people, like money transfers from one country to another, loans, savings, microinsurance, mobile banking services, means of payment etc...

According to a study led by Deutsche Bank Research in 2007 and according to Robert Cull, Asli Demirgüç-Kunt and Jonathan Morduch in their paper “Microfinance meets the market”, worldwide microfinance represents US\$ 25 billion credits, through circa 100 million clients, with a total demand of 1 billion clients, and 10 000 institutions of microfinance, very heterogeneous in terms of quality (Deutsch Bank Research, 2007; Cull R., Kunt A., Morduch J., 2009). It is considered by many as an extremely powerful tool to fight poverty, since like everybody, low-income populations need those financial services for health purposes, business purposes, consumption, to build assets in order to protect themselves from any external shocks or any internal crisis (within the household) such as a disease or loss of an employment (Armendariz, de Aghion, Murdoch, 2005).

On top of that, microfinance is a way for those people to untie themselves from moneylenders who usually live within their community and happen to be the only borrowing channel! Unfortunately, moneylenders being informal and in a dominant situation, they charge high interest rates, leaving the borrower, in a

complicated financial situation. As far as the savings are concerned, informal relationships are also the answer: we can mention mutual savings societies, credit associations, rotating services or even savings clubs. Experts see all of them as erratic and insecure solutions!

Traditionally, banks do not consider poor as interesting and reliable clients. This is why non-government organizations such as Accion, workers cooperatives or other types of institutions working closely with local communities have started to provide their own financial range of services (Armendariz, de Aghion, Murdoch, 2005). The most successful international example happened in one of the poorest countries of the world, Bangladesh. This great initiative was led by the 2006 Nobel Price Winner, Muhammad Yunus, for its contribution to alleviate poverty through the so-called Grameen Bank (Yunus, 2003).

It began with a simple \$27 loan. After witnessing the cycle of poverty that kept many poor women enslaved to high-interest loan sharks in Bangladesh, Dr. Muhammad Yunus lent money to 42 women so they could purchase bamboo to make and sell stools. In a short time, the women were able to repay the loans while continuing to support themselves and their families. With that initial eye-opening success, the seeds of the Grameen Bank, and the concept of microcredit, were planted.

As a matter of fact, microfinance is very innovative in a way that it tries to find solutions to market imperfections that exclude poor people from the traditional financial system and thus from the legal economy. Indeed, according to the traditional commercial bankers, poor clients are not bankable because of the following characteristics: they correspond to a high risk; their transactions imply low amounts, which are a synonymous of high costs on the bank side. On top of that, they usually do not have any guarantees in case of non-payment (Littlefield E., Rosenberg R., 2004). In order to fight those stereotypes, Yunus decided to create a bank that mainly lends to women, since they tend to increase the benefits for the entire family, with a special care to the children as far as health and education are concerned (Mayoux L, 2003). And the results were outstanding: it enabled millions of Bangladesh women to create their own businesses and sustain their own families. So far, the Grameen Bank lent almost five billion US dollars, operating in over 50 000 villages with 24 000 employees and an extraordinary repayment rate of 98% (Harper and Sukhwinder, 2005).

The idea behind the Grameen Bank is ingeniously simple: extend credit to poor people and they will help themselves. This concept strikes at the root of poverty by specifically targeting the poorest of the poor, providing small loans (usually less than \$300) to those unable to obtain credit from traditional banks. At Grameen, loans are administered to groups of five people, with only two receiving their money up front. As soon as these two make a few regular payments, loans are gradually extended to the rest of the group. In this way, the program builds a sense of community as well as individual self-reliance. Most of the Grameen Bank's loans are to women, and since its inception, there has been an astonishing loan repayment rate of over 98 percent.

On top of that, Grameen Bank has experienced a rapid growth since 2000, which enabled it to create a range of new services, all related more or less to microfinance. For instance, there is the Village Phone Program, enabling women entrepreneurs to create a business whose objective is to provide wireless payphone service in some isolated rural areas of Bangladesh.

The Development Gateway Foundation has even awarded this initiative for its contribution to the empowerment of women in Bangladesh and for improving the lives of over 80 million farmers thanks to the implementation of 55 000 phones, in more than 28 000 villages that used to be totally disconnected from the news of their country and their relatives (Development Gateway Foundation, 2004). In the same way, Grameen Bank developed various programs such as Housing for the Poor, scholarships granted to the high performing children of Grameen borrowers, with priority on girls, education loans, as well as many partnerships formed with companies belonging to diverse sectors of the economy. We can mention Grameen Danone, which fights malnutrition, or Grameen Veolia, whose current objective is to bring drinkable water to over 100 000 habitants from Bangladesh by 2012.¹ All those initiatives respect the Grameen Bank's social development manifesto, as followed:²

¹ <http://www.veolia.com/fr/medias/dossiers/eau-pour-tous.htm>

² Source : Muhammad Yunus, *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*, New York: Public Affairs, p. 135-136

Table 1 Grameen Bank's social development manifesto

1. We shall follow and advance the four principles of the Grameen Bank – discipline, unity, courage, and hard work – in all walks of our lives.
2. Prosperity we shall bring to our families.
3. We shall not live in a dilapidated house. We shall repair our houses and work toward constructing new houses at the earlier opportunity.
4. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
5. During the plantation seasons, we shall plant as many seedlings as possible.
6. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
7. We shall educate our children and ensure that they can earn to pay for their education.
8. We shall always keep our children and the environment clean.
9. We shall build and use pit latrines.
10. We shall drink water from tube wells. If they are not available, we shall boil water or use alum to purify it.
11. We shall not take any dowry at our son's weddings; neither shall we give any dowry at our daughters' wedding. We shall keep the center free from the curse of dowry. We shall not practice child marriage.
12. We shall not commit any injustice, and we will oppose anyone who tries to do so.
13. We shall collectively undertake larger investments for higher incomes.
14. We shall always be ready to help each other. If anyone is in difficulty, we shall always help him or her.
15. If we come to know of any breach of discipline in any center, we shall all go there and help restore discipline.
16. We shall introduce physical exercises in all our centers. We shall take part in all social activities collectively.

1.2 Key Success Factors to Microfinance

Experts from the CGAP such as Alexia Latortue, Aude de Montesquiou or Rafe Mazer believe that to be totally successful, microfinance has to be fully integrated to a country financial system and even be part of the national economic and social agenda. This is the case for Morocco, whose government set up a legal framework favourable to microfinance, as it is part of its strategy to fight against poverty. As incentives, we would like to mention the fiscal advantages attributed by the Moroccan government to microfinance associations, as well as a governmental fund created in 2006, with 8 million Euros, in order to sustain the microcredit activity and the innovation within the institutions involved in microfinance operations (Agence Française de Développement Etude de Cas Maroc Microfinance, 2008).

As a matter of fact, governments are a key-element in microfinance, by implementing a legislative framework in order to protect clients from over-indebtedness for instance, but also by maintaining the country's macroeconomic stability. Other measures range from incentive schemes, priority sector lending requirements or even special mandates attributed to private banks. Nevertheless, even if a few countries have adopted solid regulation in favour of microfinance, they remain an exception, which proves that the government's role in microfinance is absolutely not a prerequisite, as it has been shown in Bangladesh, Bolivia or Indonesia, pioneers of financial services directed to the poor (Rosenberg R., Lyman T., Ledgerwood J., 2003).

Furthermore, according to the institutionalist trend, microfinance has to be an auto-sustainable medium-term to long-term initiative and microfinance institutions cannot afford to highly depend on subsidies coming from governments and donors (Conning J., 1999). To avoid this, they have to cover their costs by sufficiently charging their services (CGAP Good Practice Guidelines 2006). On the other hand, there is another stream, supported by the Grameen Bank, the welfarist trend, which believes that even if sustainability is important, it is not mandatory and the most important is to improve social conditions of their clients (Woller, Dunford, Warner,

1999).

Besides, **transparency** is a key word in microfinance; as a matter of fact, this tool has to measure and then disclose its performances for a number of reasons.

First of all, it is an investing tool for stakeholders, donors and governments, which can influence them positively in their investments. On top of that, providing financial reports on a regular basis, such as pricing or loan repayment enable to improve MFIs performance (Waterfield, 2009). In this respect, it is a way for MFIs and NGOs to measure the access of financial services in developing countries, along with the social performance of their actions, in order to determine, for example, the number and poverty level of clients being served. Thanks to that kind of work, CGAP experts suggested, in their latest report on financial access, that rules had to be implemented to protect consumers because of the complexity of credit products and the increase in the number of clients entering the microcredit market (CGAP Financial Access, 2009).

Furthermore, to be efficient, microfinance has to – not only – understand but also adapt itself to the needs of its clients. As a matter of fact, in its most recent guideline, the CGAP suggests that microfinance services be **market-driven** instead of being supply driven, in order to actually respond to clients needs.

In the same way, those experts think it is high time we stopped replicating methodologies and started **building new approaches**, based on the customers. This position is justified by the fact that microfinance clients are not a homogeneous group; as a matter of fact, the first level of differences has to deal with poverty. For instance, in Bangladesh 65 % of BRAC's clients sustain themselves with less than one dollar per day, thanks the BRAC Ultra-Poor Program. This figure is even higher as far as SHARE's operations in India are concerned (Littlefield, Morduch, Hashemi, 2003).

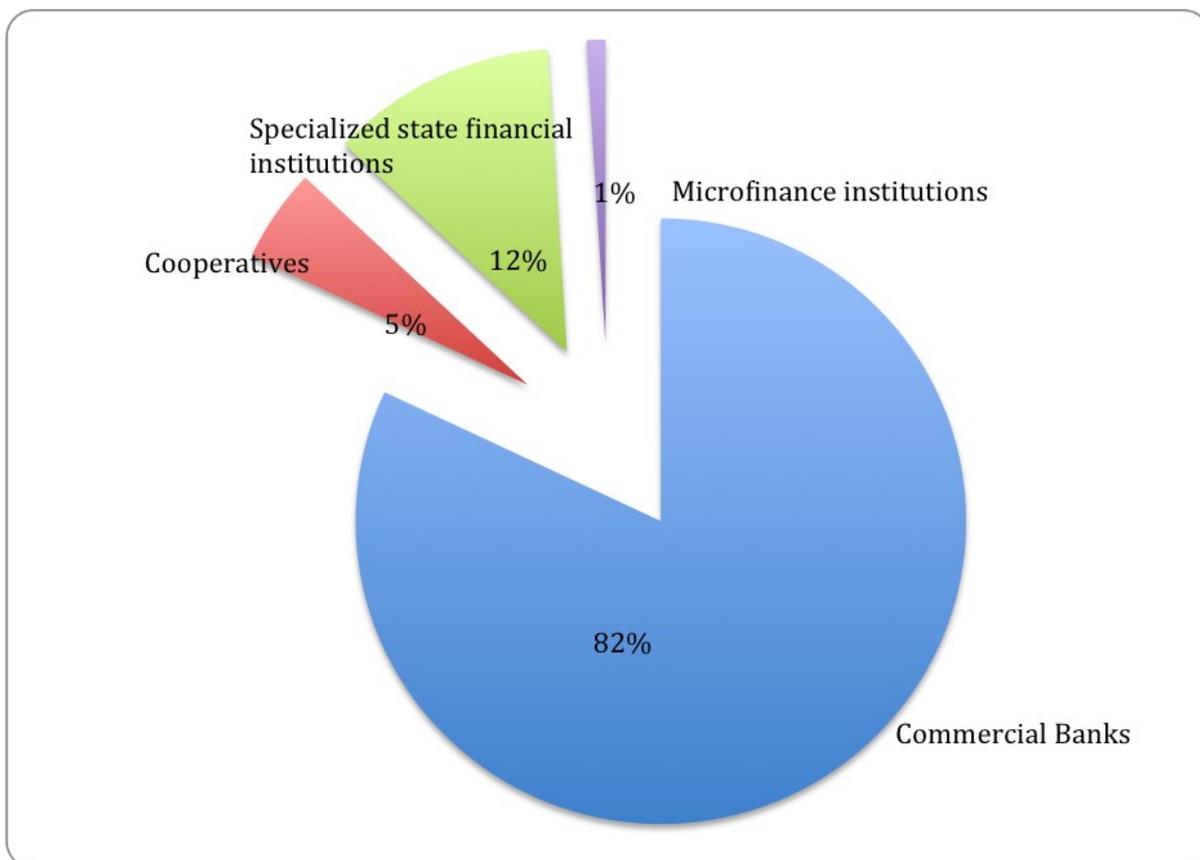
In the same extent, some clients are farmers coming from isolated rural areas while others are business owners operating within huge cities such as São Paulo.

Furthermore, while some enjoy creating and being their own boss, others become micro entrepreneurs by necessity, as the only means they found to help and provide for their family. Individual loans vary from US\$50 to US\$5 000, depending on the

country. Also, even if generally speaking, women represent a majority of clients, especially in Asian countries, according to recent studies, about one third of microfinance clients are men, which means that needs are different and the demand for services varies too. As an example, most of the fishermen using microcredit for their businesses are men, while women tend to work with textile more than men do (Barua, Sulaiman, 2007).

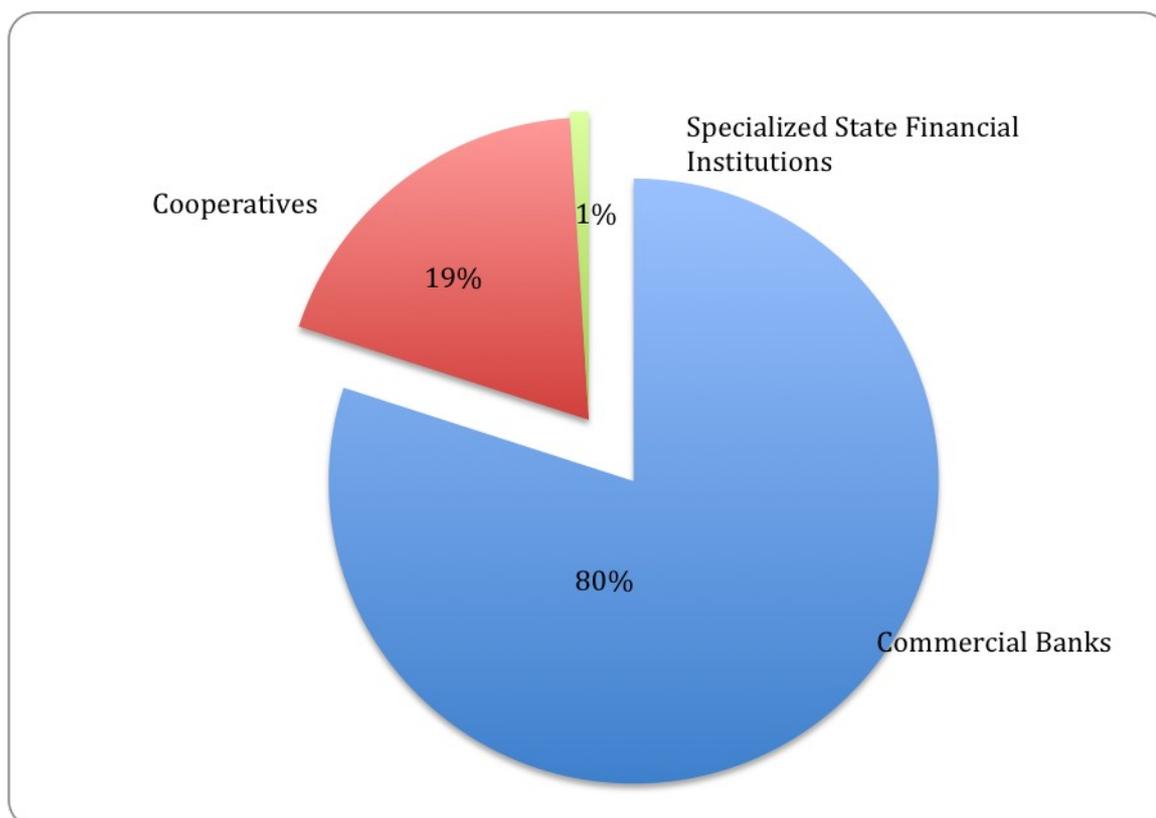
On top of that, the microfinance community along with its partners, such as governments for instance, cannot forget that microfinance does not only mean microcredit and that many clients expect other types of services that are not credit related. As a matter of fact, according to the survey led by the CGAP in 2009, entitled “Measuring access to financial services around the world”, on average an adult has 3,2 bank accounts in developed countries, while there is only 0,9 accounts per adult in the developing world (CGAP Financial Access, 2009).³ There is also a slight structural difference in bank accounts between developed and developing nations.

³ These data have been obtained thanks to 17 comparable household surveys conducted in both developed and developing countries since 2003.

Figure N°1 Deposit Accounts in Developing Countries

Source: Financial Access Report 2009: Measuring Access to Financial Services

Figure N°2 Deposit Accounts in Developed Countries



Source: Financial Access Report 2009: Measuring Access to Financial Services

Indeed, as we can see it on those two charts, public institutions represent 12% in developing countries and 1% in developed ones; they refer to institutions like postal banks or banking correspondents and have to be taken into account when implementing microfinance in those countries.

The other interesting figure corresponds to the microfinance institutions, that only hold 1% of deposits and is only representative in the developing world. We can assume that there is a potential market raise for those institutions. This tiny proportion is due to the market structure but also to legal restrictions. Indeed, in most countries, microfinance institutions are not legally allowed to take deposits and thus to run savings operations. But when they do, experiences proved to be successful in countries such as Bolivia, Ethiopia or Madagascar, where IMFs managed approximately half of the commercial bank deposits!

Moreover, thanks to recent literature, it is now proved that poor people are

willing to save money and do save whether it is by formal or informal means. Like everyone, they want to be able to face any sudden situation and are even interested in getting a return on their placements (Hirschland, 2003). However, commercial banks regulations usually impede them to adapt their savings services to the poorest population because of minimum deposit requirements or identification requirements (Druschel, 2005).

2. Microfinance in Brazil

2.1 Figures, facts and actors

First expressed in 1912, by the Italian statistician Corrado Gini, the Gini coefficient is a measure of statistical dispersion aimed at evaluating the inequality of income and wealth, a value of 0 expressing total equality and a value of 1 maximal inequality. A Gini coefficient equals to 0 would correspond to a State where each individual receives the same income, and a Gini coefficient equals to 1 would correspond to a nation, where only one person is getting all the incomes generated in this same country.

For many years, Brazil has had the highest Gini coefficient in the world, which means that the gap between the wealthiest individual and the poorest was tremendous. According to CIA Data, Brazil had in 2010 a Gini coefficient of 0,57, which puts the country at the tenth row of the most unequal countries on Earth, the other nine being Namibia, Lesotho, Sierra Leone, Central African Republic, Botswana, Bolivia, Haïti, Colombia, Paraguay and South Africa.⁴ However, some figures are encouraging as far as the poorest part of the Brazilian population is concerned; according to the Instituto de Pesquisa Econômica Aplicada (IPEA), 13 million Brazilians managed to extract themselves out of poverty from 1995 and 2008.⁵ Before that time, many experts estimated that this gap was partly due to the fact that Brazilian belonging to the bottom of the pyramid had almost no access to financial services, and among them credits services.

Thus, it is now clear that the credit democratization has highly contributed to reduce

⁴ CIA The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/>

⁵ Instituto de Pesquisa Econômica Aplicada (IPEA): <http://www.ipea.gov.br/portal/>

this gap and thanks to microcredit operations, among other services, many low-class people managed to extract themselves out of poverty, by running their own microenterprise, for instance.

In 2008, the Economist Intelligence Unit worked in partnership with the Inter American Bank of Development and the Corporacion Andina de Fomento to come up with a ranking of the IMFs in Latin America and the Caribbean, according to various criteria, such as legislative structure, investing environment, institutional development. Brazil ranked 14th out of 20 countries, Peru and Bolivia having the most favourable environments to microfinance. Today, 35 million Brazilians are using microfinance services, but if we look at the revenues figures, there are 70 millions potential clients, which shows that there is a long way to go and many development opportunities in this sector (Soares, Melo Sobrinho, 2008).

The first microcredit initiative occurred in 1973, with the União Nordestina de Assistência a Pequenas Organizações, also known as UNO Program, in the state of Pernambuco, thanks to the help of the NGO Acción International. Currently, according to the Brazilian Central Bank, 347 761 microcredit operations were realized during the first quarter 2009, for a total amount of 479,8 million Brazilian reais and more than 89% of the microcredit activity took place in the Northeast region. The main leaders of the sector are Banco do Nordeste, through its CrediAmigo program, with more than 738 000 active clients and a gross portfolio at the end of 2010 of BRL\$ 742.6 millions. Then, we have the Spanish Bank Santander, through its Real Microcredito (former led by Banco Real), whose operations are more located in the State of São Paulo, unlike Banco do Nordeste, which is very present in the Northeast region. Both of them had a combined market share in 2008 of 63%, in Brazil (MIX Market, 2008). As far as Real Microcrédito is concerned, (nowadays Banco Santander) 98% of their credits are group oriented. (Banco Central do Brasil, “Relatorio de Inclusao Financeira”, 2010).

However, some public funds have been created in 14 states out of 27, only dedicated to microcredit. That is the case of the Banco do Povo Paulista in São Paulo since 1998, that operates thanks to subsidies from the State and offers a very low interest rate of 1% to its potential customers, in order to incentive microcredit operations in

the state of São Paulo.⁶

Community bank and social currency

Community banks offer financial services in a network of an associative and communitarian nature. They correspond to the legal version of the “Fundos Rotativos Solidários ou Comunitários” that operate in a total informality, within very poor communities. The main principle of those community banks is to be auto sustainable, which means that the shareholders are the members of the community and they are the people who take all the management and business decisions, in a democratic way or by consensus (Singer Paul, 2009, Projeto Inclusao Financeira).

The most successful example comes from Fortaleza, in the State of Céara, where was inaugurated the Banco Palmas in 1998, within the Conjunto Palmeiras, a 33-year old neighbourhood, with a population of 33 000 residents of an uprooted fishing community. For many years, this neighbourhood was a dormitory neighbourhood, which implies that most of the goods were bought outside the Conjunto Palmeiras; there was no economic activity. The Banco Palmas was created, in the first place, in order to generate employment within the neighbourhood, as there was a high unemployment rate in the nineties. On top of that, since the inhabitants did not have access to credit and could not sell their products outside the neighbourhood, the bank created an exchange club in 2000, where about 40 producers met each other every two weeks to exchange the goods produced in exchange of Palmares, the social currency of the neighbourhood. Two years later, a new social currency was born, the Palmas, extended to every individual living in the neighbourhood, produced with a bar code and a serial number to avoid any falsification and indexed on the Brazilian real.

This developed competitiveness, since producers and clients coming from another neighbourhood could accept the currency (Melo Neto Segundo, Magalhaes 2005).

⁶Banco do Povo Paulista : <http://www.bancodopovo.sp.gov.br/>

A Palmas Note



Source: Banco Palmas www.bancopalmas.org.br

In order to anchor this initiative and to develop its use within the Conjunto Palmeiras, the administrators managed to negotiate discounts on various products if the clients were paying in Palmas: 2% for aliments, 6% concerning kitchen gas supply, 9% with the bus company that goes from the Conjunto Palmeiras to the city centre and even 2% with a local gas station.

Thus, the objective of this *Local Employment and Trade System* is to promote economic activity in the neighbourhood as a way of development for the entire community on an economic point of view but also on a social point of view. As a matter of fact, the Instituto Palma developed many social projects such as the Academia de Moda Periferia, a formation centre aimed at young women interested in fashion. It offers classes about fashion, business management, and leadership as well as a tailored microcredit and an incubator in order to develop the entire business plan, and to successfully commercialize the products.

The other social projects are the Bairro Escola de Trabalho, the Incubadora Feminina

whose aim is to secure family's alimentation, the Projeto Bate Palmas (art and culture), the Palma Tech, specialized in teaching business and fair trade, as well as the Escola Popular Cooperativa Palmas aimed at the Palmeiras Youth in order to prepare them to enter the university.



Source: Banco Palmas www.bancopalmas.org.br

Besides, Banco Palmas also has a microcredit division; according to their official website, for the years 2007, 2008 and 2009, they realized over 3 100 credit operations, for an amount of approximately 4 million Brazilian reais, helping over 2 500 families. So far, the main entrepreneurial initiatives are Palma Fashion, working with textile, Palma Natus that manufactures artisanal soaps and Palma Limpe, founded by five young individuals and manufacturing cleaning products. All those products and many more can be bought on a weekly basis at the Feira do Banco Palmas, a public space where are traded all the products made within the community.

Nowadays, 51 Brazilian community banks are part of the Rede Brasileira de

Bancos Comunitários, which corresponds to an organized network that gives certifications and trainings to all the community banks that are associate, and meet each other once a year (Faces do Brasil, 2009). So far, they have been responsible for the flows of 40 million Brazilian reais. We can mention the Banco Bassa from the community of Santana do Acaraú or the Banco Comunitário de Irauçúba, also named Banco Amizade, both located in the State of Céara (Melo, 2009). Another achievement of the Banco Palmas and this network was the signature of an agreement to create a partnership with the National Secretariat of Solidarity Economy and the Banco Popular do Brasil, that allows them to have access to credit and to act as banking correspondents of Banco Popular do Brasil.

Finally, in March 2008, the Instituto Palmas signed a memorandum of understanding with the government of Venezuela in order to train 30 Venezuelan government officials in community banking methodology. This partnership led to the foundation of 3 600 community banks in different states of Venezuela (Silva Jr, 2008).

Banco Comunitário de Santana do Acara



Source: Banco Palmas www.bancopalmas.org.br

2.2 Microfinance and legal measures

One of the key factors that drive microfinance is regulation (Martins P.H., Winograd A., de Carvalho Salles R., 2002). In this fashion, the Brazilian market has been affected by a set of legal measures that must be mentioned. In December 2003⁷ the Brazilian Central Bank enabled any financial institutions to use the banking correspondents. This innovation transformed the banking system and thus the access to financial services for any isolated community (Banco Central do Brasil, 2010: "Relatorio de Inclusao Financeira").

The process is very simple: the majority of low-income people in Brazil do not have access to a bank account, due to barriers created by poverty, geography, and social exclusion. Thanks to this innovative model, known as correspondent banking, banks can extend their network into communities that are too poor or too remote to support a full bank branch. By allowing banks to license shops, post offices, etc. as their agents, people can open accounts and make transactions in their own communities and do not need to travel hours or even days to access the closest banking branch anymore. Nowadays, approximately 80% of the banking correspondents worldwide are located in Brazil and they represent a higher number of transaction centres than banking agencies.

In the same way, in June 2003, the Brazilian Central Bank implemented the simplified current and savings accounts.⁸ Those accounts are only aimed at micro entrepreneurs, usually from the informal sector, and offer a facilitated process of administration, along with lower credit limits⁹.

Furthermore, in the same year, it was implemented a law to stimulate microfinance in the country, obliging all the commercial banks to use at least 2% of

⁷ Com a Resolução nº 3.156, de 17 de dezembro de 2003, todas as instituições autorizadas pelo Banco Central passaram a ter a possibilidade de contratar correspondentes.

⁸ Resolução nº 3.104, de 25 de junho de 2003 (conta de depósito), e Resolução nº 3.113, de 31 de julho de 2003 (conta-poupança).

⁹ Banco Popular do Brasil Website

<http://www.bb.com.br/portalbb/page34,8900,2668,0,0,1,0.bb?codigoMenu=5417&codigoRet=5498&bread=2>

the deposits for microcredit purposes.¹⁰ If the bank does not use those 2% for microcredit purposes, the amount that should be used is frozen at the Central Bank, without receiving any interest.

Two years later, in 2005, the Work and Employment Ministry (Ministério do Trabalho e Emprego) implemented the Programa Nacional de Microcrédito Produtivo Orientado (PNMPO) in order to incentive the use of productive microcredit, based on the assumption made by the Instituto Brasileiro de Geografia e Estatística (IBGE), that there are about 23 million entrepreneurs in Brazil, and 500 000 of them belong to the lower class (Pereira, 2007). Those measures were financed by the Helping Fund of the Workers¹¹, the banking system and the Caixa Econômica Federal.

The SCM (Credit Society for Microentrepreneurs) status ¹² was also created to operate for microcredit; it is regulated by the Brazilian Central Bank and is a for profit institution.

¹⁰ Lei nº 10.735, de 11 de setembro de 2003, com a regulamentação dada pela Resolução nº 3.422, de 30 de novembro de 2006, alterada pela Resolução nº3.706, de 27 de março de 2009, instituiu a destinação obrigatória de parcela dos depósitos a vista dos bancos para operações de microcrédito.

¹¹ Fundo de Amparo do Trabalhador

¹² Sociedade de Crédito ao Microempreendedor

3. Microinsurance overview

3.1 Definition

We decided to focus on microinsurance as we believe it is the product that has a relevant potential to contribute to the reduction of poverty in Brazil. On top of that, microinsurance is quite new in Brazil and we thought it would be interesting to work on a recent topic. Nevertheless, we will mention other products in this study, whether they are considered as substitutes to microinsurance or more appropriate answers to a specific need.

Microinsurance concept came out with a single purpose: to reduce risks that poor people have to face on a daily basis. Risk is defined as “the chance of a loss or the loss itself.” According to CGAP and a study by Alexia Latortue entitled “*Microinsurance: what can donors do?*” nowadays there are over 2 billion people without any kind of formal and regulated social security protection. Yet, for many reasons, populations belonging to the bottom of the pyramid are the most likely to face a situation of emergency or any economic stress (CGAP Brief on Microinsurance, 2008). Thus, we can assert that micro-insurance is one of many financial services whose objective is to manage risk.

Poor people in developing countries enjoy few safeguards against the numerous perils of life—illness or injury, natural disasters, and loss of property. Microinsurance is growing in popularity among donors as one means of helping the poor manage risks and reduce their vulnerability.

We believe Craig Churchill’s microinsurance definition is quite relevant: “microinsurance is the protection of low-income people against specific perils in exchange for regular monetary payments (premiums) proportionate to the likelihood and cost of the risk

involved.”¹³

Therefore, when compared to traditional insurance, microinsurance only differs from the fact that the population targeted is quite different: in our case, the product is aimed at low-income people.

Most microinsurance products are related to health, accidental death, accidental disability, life and property (Tomchinsky, 2009). Nowadays, over 78 million low-income people in the 100 poorest countries are accessing microinsurance in some way, whether it is institutionalized or totally informal (McCord J. Michael 2008). Even if this field is still at an experimental stage, the challenge of this product is very clear: to find the right balance between adequate protection and affordability.

In Africa, the number of microinsurance policies rose by 80% between 2005 and 2009 according to ILO figures and there are currently over 1 million people insured in India (Morelli E., Onnis G.A., Ammann W.J., Sutter C). While microfinance as a whole has been around for approximately 30 years, microinsurance is still a 5 to 6 years old “baby”. Moreover, between 2007 and 2008, microinsurance schemes grew on average at 30%, especially concerning life and credit life insurances, unlike health, agricultural and property insurances, whose growth has been very low.

In the same extent, a survey led in Ghana among rural households discovered that two out of three households did not use any financial services and only one out of twenty used an insurance product. This proved the market potential for microinsurers, knowing that many African countries are in the same position (Steiner S. 2009).

¹³ Churchill, Craig (2006). “Protecting the Poor: A Microinsurance Compendium”

3.1.1 The elaboration of the product

To be useful to the poor, the microinsurance product has **to satisfy basic needs** linked to medical, automobile or death insurances. On top of that, the offer has to be **easily understandable and affordable**. In this respect, we can imagine the use of small benefit packages, supplementing insurance premiums with governments' subsidies and the spread of premium payments depending on families' cash flows. This means that microinsurance products have to be relevant to the risks that poor people are likely to be confronted to in their daily life, at work for instance, but also on a long-term basis.

Besides, insurance companies could replicate some of the microcredit principles that made its success. We are thinking about group and/or village loans. As a matter of fact, group lending is a very successful and efficient business model, used by well-known institutions operating in microcredit such as Grameen Bank or CrediAmigo, the main Brazilian microcredit operator. Its success is due to one major obvious reason: group monitoring is clearly less costly than individual coverage, especially because the members of the group take care of the monitoring. Other groups already formed could also be used such as informal savings groups, cooperatives and neighbourhoods associations (Gonzalez L, Piza Toledo C, Garcia Bruno D, 2009).

In the same extent, microinsurance products have to be as much inclusive as possible, which is quite opposed to regular insurance, whose business model tends to exclude high-risk persons.

Moreover, when organizations involve themselves in that kind of products, they need to evaluate the risk and its predictability in a very efficient way. Thus, some experts believe that risks resulting in small losses, or those that are highly predictable or occurring with a relatively high frequency should have another answer than microinsurance. In those cases, the use of savings and emergency loans seem way more appropriate. In the same way, according to Michal Matul, some research has to be carried out in order to identify the size of a potential market for a specific product

of microinsurance (Matul, 2004). To do so, the market has to be segmented depending on the geographic location of the households targeted, the kind of risks they are facing, within a certain period of time. For instance, the probability to be hit by a tsunami is not the same for a Bangladeshi living in the interior than a Bangladeshi living by the coast in the Bay of Bengal.

On top of that, in doing so, microinsurers could be able to estimate the numbers of customers needed for a product to be profitable, they would also be able to calculate the pricing and along with this, the promotion policy to be adopted.

The entry point

Here, two options are to be discussed:

- In case we use the MFI channel, is it better to insure the lender, which corresponds to the MFI, microcredit institution, NGO?
- Or shall we directly insure the final customer?

As a matter of fact, this is a real issue, especially because some final customers do not understand the benefits from being insured and, most of the times, are not capable of managing their risk, using figures and probabilities.

The development of linkages

One smart initiative of microinsurance is to link companies operating in this area with other actors, to compensate its weaknesses and find some synergies.

The sharing of functions, data, best practices and structure may create complementariness and economies of scale that cannot be ignored on a market where every penny counts.

MFIs, working directly with the low- income market, conducting financial transactions,

managing financial controls, and marketing specialized financial products, can be perfect intermediaries for insurers to reach the low-income market. According to Michael J. McCord and Jim Roth from the The MicroInsurance Centre for the U.S. Agency for International Development, “a critical component of successful microinsurance is efficiency in transactions and operations.” And one of the best ways to achieve this is if the insurer manages an effective means of linking to the low-income market, such as MFIs.

Thus, MFIs willing to develop insurance services have four possibilities:

- **Self-insurance:** this option can only be adapted for basic products and within large MFIs having technical expertise to be able to deal with natural disasters.
- **Partner-agent model:** this is a win-win option, as the two parties will benefit from this partnership.

Indeed, this is the opportunity for the insurance company to access a new market; for the MFI, it is a way to generate revenue from insurance schemes sales and to protect their loan portfolio.

However, like any merger or joint venture, it is a very risky initiative in terms of corporate culture and competencies differences’.

- **Microinsurance broker:** it is a good alternative between the two options listed above as it takes care of the delivery channel and the risk responsibility.
- **Creation of an insurance company:** it is the most complicated one, as it requires quite a lot of financial investment and technical expertise from the MFI.

One issue here is that it is sometimes hard to differentiate brokers from agents; as a matter of fact, those two terms are often used interchangeably, but they do have different roles. An agent works with an insurance company through a contract to provide insurance to a client, as an independent contractor.

Like the agent, the broker is not an employee of the insurance company, but he represents a client in his search of the most-suited insurance policy. When the client made his choice, upon the recommendations of the broker, the insurer usually takes care of the clients.

Microfinance and microinsurance can provide a good complementary package of financial and risk management schemes. This theme will be discussed further in the part dedicated to microinsurance in Brazil.

An example of partnership between an MFI and an insurance company: AIG Uganda

Microinsurance does not necessarily refer to the size of the company carrying the risk; even if, some providers are small and even sometimes informal, there are nowadays a few examples of big insurance companies, in some cases multinational, that operate in this market. We can mention AIG Uganda, Delta Life in Bangladesh and because of the legislation, every insurance company in India¹⁴ (McCord, Botero, 2005). In the mid nineties, Uganda with a population of approximately 30 million inhabitants had four life insurance companies, eighteen non-life insurers, and twenty-six insurance brokers, but none of them offered a product to the poor.

The explanation to this very limited insurance activity can be found in the constant devaluation of the money from the eighties to the nineties, which made savings and life insurance benefits basically valueless. Everything started in 1996, when the microfinance institution Finca Uganda (FU) decided to approach the American International Group (AIG) Uganda, in order to elaborate insurance products for their low-income clients. The first product was a life insurance and it was launched in 1997, and was improved in 1999, creating a product including the wife and four kids: it was entitled the group personal accident (GPA) product.

Throughout the years, it appeared that this initiative turned out to be the first generator of revenue and profits for AIG Uganda and this success was quickly expanded at a macro-economic level for both the country and the entire microfinance community of East Africa (McCord, Botero 2005). In 2003, the same product was

¹⁴ As a matter of fact, the Indian legislation requires from insurance groups to allocate a certain percentage of their portfolio to clients from the “rural and social sectors”, which in practice always implies low-income households. Since all Indian insurers are involved in microinsurance, we can notice that a high number of interesting microinsurance innovations come from India.

responsible for nearly 17% of all of AIG Uganda's profits.

This great initiative, one of the pioneer in the world of microfinance and insurance has opened some doors, but also enabled to learn a few lessons, that proved to be right after all: first of all, external funding is not a pre-requisite to the well functioning of that kind of product. Moreover, as long as it is possible, MFIs should represent their clients in negotiations related to the insurance product and be an interface between low-income clients and insurance companies, in order to lobby for constant improvements. The objective here is to make sure products are understandable for their clients, and to follow-up, at some degree, the transaction process. On top of that, MFIs need to keep on educating their clients, on a mid-term to long-term basis. The aim is not to provide them with a sophisticated product without any instructions, but to take advantage of this opportunity to teach them the basics of risk management.

Since then, the microinsurance market in Uganda has changed a lot; the Government of Uganda has even taken healthcare measures, in cooperation with the International Air Ambulance, to offer free anti-retroviral drugs to people living with AIDS. New actors have emerged in this country, such as Microcare Ltd., specialised in micro health insurance programmes; a few years later, even the government started to use property insurance for its crop. In the same extent, AIG Uganda quickly exported its product to Tanzania in 2000 and Malawi in 2003, in partnership with local MFIs. In 2005, AIG Uganda's was in charge of 1.6 million lives and was delivered through 26 MFIs in three countries.

Their methodology has always been the same: the village banking system, first used in microcredit operations, where groups of 20 to 25 low-income clients are formed with the aim to reduce the monitoring costs and failure-to-payment risks, since groups members are responsible for each other and normally only admit trustworthy individuals (McCord, Botero, McCord, 2005). One of the key points that resulted from this experience was the fact that it was quite complicated for the MFIs agents to deal with microinsurance, on top of their activity of managing loans. As a matter of fact, MFIs agents in Uganda usually have on average 400 clients to take care of. Their primary task is dealing with loans and not insurance, not to mention the fact that they were not receiving any incentives in order to inform their clients about the benefits of

microinsurance.

Nowadays, Uganda has a legal framework dedicated to microinsurance, as the Insurance Act has been amended to include special regulations for microinsurance. In the same way, the Ugandan Insurance Commission is currently working on developing detailed regulations to develop the market and actively includes stakeholders currently unable to act as a distributor, such as MFIs. Another objective is to expand the number of mutual's members, currently limited to 300, which is a counter-productive measure.

According to both microfinance and microinsurance experts in Uganda, this distribution channel is quite efficient and has enabled AIG Uganda to reach, on a big scale, the low-income market. Without these MFIs, it seems that AIG Uganda would not have managed to enter this market.

This efficiency has been proved by the rapid expansion of AIG: as a matter of fact, AIG in Africa has grown dramatically, thanks to its partnerships with MFIs that went from one in early 2000 to twenty-six MFIs in three countries in 2004. Nowadays, this type of partnership is no longer a competitive advantage but is necessary in order to keep being competitive. To do so, MFIs operating in that part of the world need to improve customer education and awareness, claims filing and adjudication process, to educate MFI staff and management and to develop the automation of premium collection and claims processing in order to reduce transaction costs.

As far as revenues are concerned, microfinance institutions working with AIG Uganda charge fees on every transaction, even if those are quite low, in order not to raise a lot the clients' premiums. The real advantage for the MFIs in providing insurance products is that it reduces the credit risk, even if they can hope getting benefits for those products, profits that are not negligible for such institutions.

However, one of the biggest limits AIG Uganda had to face in the beginning resides in the fact that the company was forbidden to sell life-insurance products. This meant that beneficiaries could receive payout only in the case of accidental death and not if their relative had died from illness.

This issue was raised by many MFIs: indeed, death due to illness is more common in Africa than in Europe for instance, which proved that AIG Uganda had not adapted its

business model. For instance, relatives of someone dead due to a disease would not receive anything, and until 2002, the cover excluded deaths due to AIDS, which is a disease whose many Africans have to face. Indeed, according to the NGO Avert, almost 23 million people had AIDS in 2008 in Africa, which corresponds to circa 90% of the entire world population affected by the disease.

Furthermore, a high number of MFIs in Uganda used to purchase the AIG Uganda group personal accident policy, which protects MFIs from client default due to death or disability related to accidents. On average, accidental deaths represent approximately 20% of total deaths, which means that many loan repayments are lost for those MFIs!

Another big issue concerns the duration of the cover; indeed, the insurance was related to the loan (and the MFI), and was only valid during the loan repayment, in order to help families depending on the business activity insured. However, what happened to those same families once the loan had been repaid and one of them died from an accident or a disease? Well, neither AIG Uganda nor the MFI took care of this consideration. Thus, we can only hope that both AIG Uganda and the MFI will be able to offer them a cover even in the case they are not tied with any loan; they would then solely be AIG Uganda clients.

As far as the premium payment is concerned, AIG Uganda used to have 3 different ways:

- In cash, whose advantage is that clients are more aware of how much they are paying and what they are paying for.

Cash payments turn out to be the most transparent. However, cash payments can be subject to frauds and are more costly to operate since they have to be done manually.

- Through the interest rate: in this scenario, the premium is paid by the clients to the MFI and this is the MFI which pays the insurer at the beginning of the repayment loan.

This is the most popular method within Ugandan MFIs, especially because it implies fewer transactions.

Nevertheless, the client may not realize he is paying for insurance and

may think he is only paying a higher interest rate than usual.

Here, the MFI is responsible in case of non-payment of the premium.

- As a reduction in the loan principle: in this case, the premium is paid through the loan by applying a deduction to the loan amount. The clients are usually more aware of their insurance product. However, the consequence is that loans tend to be smaller since part of the loan automatically goes into the insurer pocket.

Another issue faced by AIG Uganda and MFIs managers is related to fraud; as a matter of fact, it mainly concerns staff fraud, when insurance products were not mandatory, some field officers took premiums from clients and kept them for themselves. To fight this, AIG Uganda and MFIs decide to make the insurance product mandatory, which had the direct impact of reducing fraud, as well as a profit impact.

In 2004, after one semester of operations, AIG Uganda was already profitable and had earned over 200 000 US\$ thanks to their microinsurance activities, which corresponded at that time, to 25% of their earnings, with an average profit margin of 20%. It completed the year 2004 with a total revenue of 800 000 US \$.

As far as the way profits from premiums are divided, of the total premiums paid by final clients, AIG Ugandan agents only earn 10% while MFIs get 40% (they actually get 50% out of the total premium but 10% is attributed to operational costs). However, we can retain from this study that insurers are highly and dangerously dependent on MFIs activities; in Uganda, they penetrated this market using the MFI structure, which has been positive until today. But the expansion of their activities depends on the expansion of MFIs partners and their management.

The role of technology

Another topic mentioned in a few papers concerns infrastructure and technology to be used to expand microinsurance. The first issue related we could think of is the current development of mobile banking, especially in Africa, a factor of microfinance services improvement. But in this case, technology also refers to Internet, rapid sharing of information and data.

Nowadays, a few MFIs use mobile phone text messages to remind their client of a due payment related to a loan. Concerning microinsurance, technology could play a major role in massification, as many poor are not even aware of such a product, but there is no doubt they would be interested in subscribing to that kind of service, instead of depending on unreliable informal sources (François-Xavier Hay, 2008).

In the same extent, technology could be the way to implement marketing actions, sales transactions (use of computer kiosks), premium collection thanks to cell phone or banking software, claims processing (use of call center, database), communication between MFIs and insurers instead of using a slow and inefficient bureaucratic process, long-distance linking such as the experiences led by Kiva or other microfinance portals, which manage to connect a wealthy European to a needy African entrepreneur, for instance, thanks to a few clicks and a PayPal account.¹⁵

Other supports

Microinsurance massification also has to come from government and public policies. We can imagine measures like fiscal incentives such as financial services tax relief, a legal and economic environment favourable to the implementation of microinsurance.

At a macro-economic level, we can hope for low inflation and no restrictions to foreign investments (Wiedmaier-Pfister, 2008). Furthermore, informal groups such as

¹⁵ Kiva Website <http://www.kiva.org/>

community-based insurers cannot be ignored and have to be included in the elaboration of those measures, as their experience on the field and with low-income population could be very useful.

In order to adapt themselves to that kind of uncertainty, poor households often have at their disposal informal means to manage risks, but that kind of options does not entirely cope with the needs of those families.

Not only these informal protections do not cover the entire loss, but they also can turn out to be very costly; indeed, some individuals belonging to the same community often take advantage of the poorest by charging high interest rates or amounts, like it has also been observed with microcredit.

Moreover, even if microinsurance targets clients that have a very low predictable income, individuals working in the informal economy cannot be ignored, since they do not receive any commercial insurance or social protection benefits given by employers directly, or by the government through employers.

In the same extent, some informal communitarian systems offer protection to some risks; this is the case for example, with funeral societies in Ghana. Nevertheless, those schemes do not provide a sufficient protection against the most costly risks and unpredictable issues, like illness of a breadwinner.

This is when microinsurance has to intervene, in order to properly protect those households.

The difficulties

Many difficulties have been identified to create the most appropriate microinsurance product: first of all, there is a huge gap between professional that are used to deal with low-income people, such as MFIs or NGOs and insurance companies. As a matter of fact, there is a technical issue: the concept of credit has been successfully transformed into microcredit and thus adapted to the poor because it is a relatively simple product that does not require many variables.

However, an insurance product is quite more complex and turns out to be more difficult to transform into microinsurance. In this field, the expertise required is much more advanced and complex in order to mathematically estimate the monetary value of potential future risks. Furthermore, it is almost impossible to apply the same formulations used in regular insurance, mainly because low-income market does not provide reliable information in the eyes of insurers and do not have regular cash flows (Latortue, 2003).

To fight this, some simplified tools could be used, such as picture posters, comic books or door-to-door visits.

In the same way, the process required to enjoy the benefits from an insurance policy, has to be simplified, since poor people cannot allow themselves to spend hours or even days trying to break through the insurance bureaucracy, instead of working to sustain themselves and their families. As an example, it has been observed that in order to obtain a death certificate in Uganda, relatives have to pay 28 US\$ to obtain the copy of a police report (in case of accidental death), plus about 25 US\$ to the hospital to obtain a post-mortem certificate plus costs to have the hospital release the body.

Added to that, we have to take into consideration that, depending on the religion of the family, a Muslim widow cannot leave the household during 40 days after the death of the husband, which can complicate all this process if no one can do it on her behalf. As a matter of fact, the beneficiaries from insurance sometimes live in a remote area where it is almost impossible to obtain some documents usually needed in regular insurance, such as death certificates.

In the same way, to be interesting for poor households, payouts must be available immediately in case of death for instance, like it is the case with welfare associations, as opposed to regular insurance companies, which take months to provide their clients with their due, using the principle “guilty until proven innocent”.

On top of that, most of the times, the disbursement comes from the insurer, but the MFI or the organization responsible for the client first intercepts the disbursement, applying an interest rate, before to pay the beneficiary, which slows down the

process even more.

Another recurrent difficulty faced by some potential microinsurance clients comes from the fact that many microcredit institutions having a microinsurance product only offer it to its existing microcredit customers, which exclude many households. This limitation has to be avoided and according to some experts, no special link should be made between a microcredit and a microinsurance, in the same way that the reimbursement of a microcredit should be separated from the payment of an insurance premium.

Furthermore, microinsurance working with small figures, the amounts spent in order to identify the risky clients may turn out to be higher than the benefits of excluding those same clients in the first place, if insurers use the same calculation models. To avoid this, they have to rethink their business models to include as many potential clients as possible. And those business models have to be tailor-made to the country where the product is offered; this means that there is no universal microinsurance product, because from one country to another, the needs are different, as well as cultural traits.

To illustrate this, I would like to mention the case of life and funeral insurance; in Nepal and Indonesia, the demand for that specific product is not that high, as the amount spent for that matter depends on the family revenues. On the contrary, in countries like South Africa or Uganda, there is a bigger market potential for this particular product, because it is part of the traditions to have a big and costly funeral ceremony (McCord, Ramm, McGuinness, 2005).

Another challenge is to measure the impact of microinsurance on households; indeed, the indicators used to evaluate microcredit results do not apply to microinsurance services, mainly because of the variety of microinsurance products, requiring different tailored-made indicators. Indeed, it seems that qualitative indicators are more suitable and efficient to evaluate microinsurance activities, unlike microcredit, that tends to prefer figures and ratios even if qualitative indicators are important too. As an example of indicator, we can mention the existence of microcredit policies to reduce poverty within a specific country.

Qualitative indicators such as the amount of time to access health care or the ability

and willingness to complete a full and appropriate course of treatment seem more appropriate (Young 2006). Other performance indicators can be summed up in the following table:

Table N°2 Performance Indicators

	Performance Indicators	
1	Product value	<ul style="list-style-type: none"> - Is the product delivery efficient? - How valuable is the product to insurers? - Is the microinsurance product viable?
2	Product awareness and satisfaction	<ul style="list-style-type: none"> - Is the insured satisfied? - Does the product meet the real needs? - How well is developed the insurance awareness?
3	Service Quality	<ul style="list-style-type: none"> - How competitive is the microinsurance product in comparison to other products or to microinsurance alternatives? - Is the product understandable for low-income people? - Is the product easily accessible for poor households? - What is the time frame to take care of claims?
4	Financial Prudence	<ul style="list-style-type: none"> - Will the insurers be able to fulfil its future obligations? - How is the insurer going to meet its short-term expenses and its claims obligations?

Source: Qureshi, Reinard 2009 "Report on the 5th International Microinsurance Conference 2009: making insurance work for the poor"

Another limit encountered by microinsurance practitioners has to do with the evaluation of performance. As a matter of fact, most of the times, MFIs only look at new contracts, new policies and new transactions, but some experts believe that

renewals cannot be neglected, and some efforts should be put on promoting the optimization of renewals, since a high renewal rate is synonymous with long-term growth and activity.

Here are the reasons why special attention should be given to renewal clients:

- They can act as ambassadors of the product within their community
- Renewal is easier and cheaper to manage than new enrolments
- Brand loyalty tends to be high among the poor
- Renewals help in managing future cash flows and financial forecasts

3.1.2 Why a microinsurance tool?

Anyone, from the richest to the poorest is vulnerable to death, illness, accident, fire or even natural disasters, even if this vulnerability can be reduced, at some degrees, in some cases.

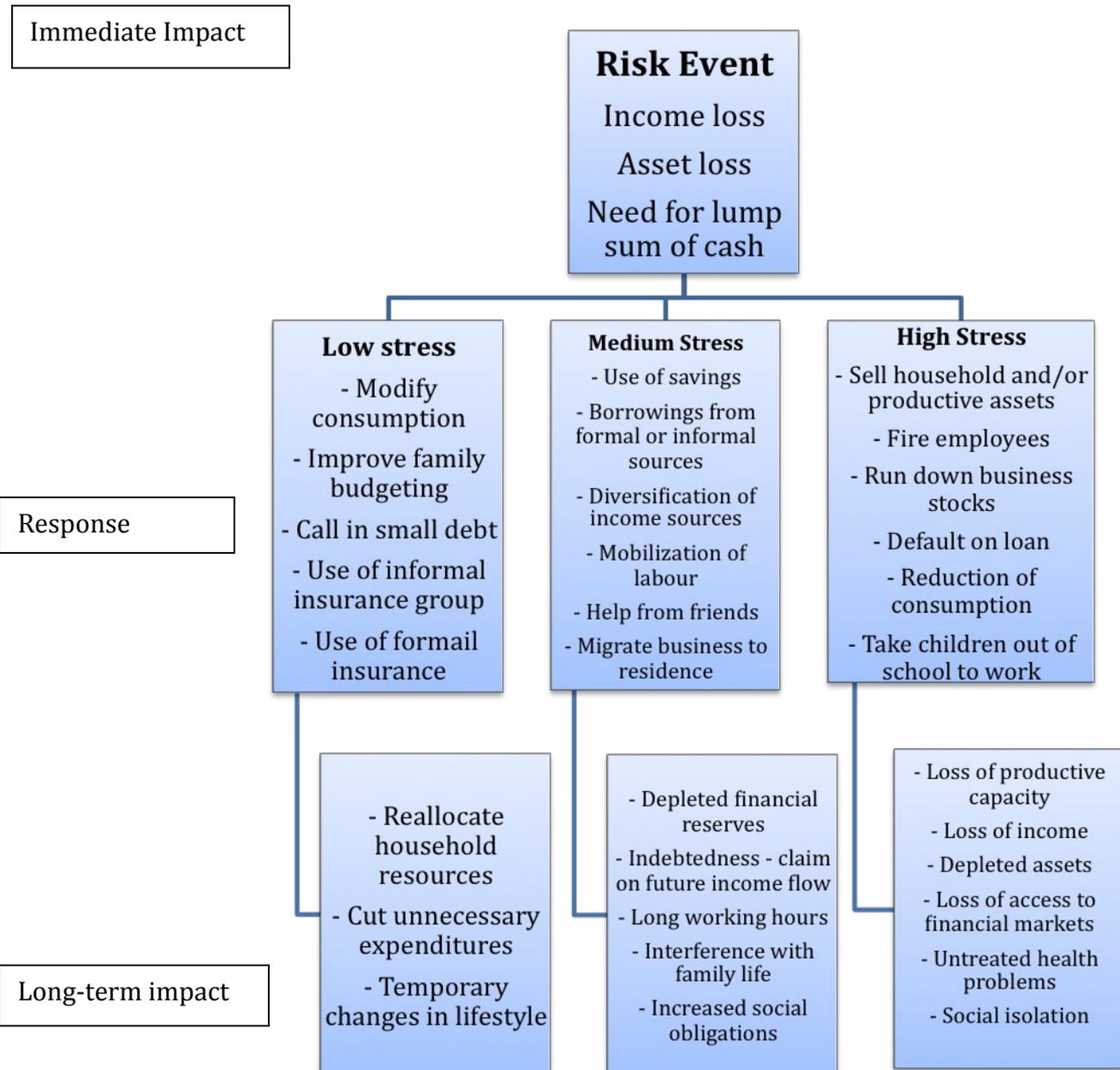
However, it is doubtless that poor people are likely to suffer more, to find themselves in a complicated situation in case such event happens, than wealthy persons.

Table N°3 Priority risks in African selected countries

Country	Priority Risk
Uganda	Illness, death, disability, property loss, risk of loan
Malawi	Fear of death (mainly due to HIV/AIDS), food insecurity, illness, education
Philippines	Death, old age, illness
Vietnam	Illness, accidents, natural disaster, illness or death of livestock
Indonesia	Illness, children's education, poor harvest
Laos	Illness, livestock disease, death
Georgia	Illness, business losses, theft, retirement income, death of a family member
Ukraine	Illness, theft, disability
Bolivia	Illness, death, property loss (crop loss in rural areas)

Source: Enarson and Wirén, 2005; Matul and Tounitsky, 2006; McCord, 2004; Soriano, Lomboy, Barbin, 2002

Figure N°3 The impacts of the risks



Source: Cohen and Sebstad, 2005

We refer to vulnerability as “the possibilities to be physically or emotionally wounded”.¹⁶

On top of that, the financial impact caused by such an unexpected situation may be devastating and may jeopardize a financial stability acquired thanks to years of hard work. The classical example is the death or the sudden illness of a family breadwinner, forcing an entire family to enter in a vicious circle of struggling.

Currently, the most common insurance product used by the poor concerns life and funeral assistance; then comes health protection, livestock and crop protection, and property insurance products (Karlan, Morduch 2009). As mentioned in the “Microinsurance overview of the Microfinance Gateway”, poor households can suffer the loss of an asset like livestock and/or housing, which may have huge consequences, since those families are less able to absorb the financial consequences of such a disaster.

The utility of this financial tool can also be understood, using a mid-term to long-term view. As a matter of fact, not only the risks mentioned above can cause financial damages, but households facing vulnerability may also suffer from an ongoing uncertainty wondering whether and when any kind of loss might occur.

Due to this constant worry, the poor may face some difficulties to enjoy income-generating opportunities that could reduce poverty. One of the issues here is that the amounts can be very different from one country to another to determine a universal definition of microinsurance.

However, Craig Churchill refers to users of microinsurance as “persons ignored by mainstream commercial and social insurance schemes, persons who have not had access to appropriate products”(Churchill C., 2006).

According to many experts from the microfinance sector, microinsurance does not only protect final customers but also microcredit institutions as health issues or death of a family member is highly related to loan delinquency and default.

In this respect, both the clients and the MFI can benefit from the insurance product since that kind of protection enables microcredit institutions to focus on their core

¹⁶ <http://dictionary.reference.com>

competency and can deliver quality financial services to their poor clients, instead of wasting time chasing bad payers and trying to reach profitability.

On top of the reasons mentioned above, a microinsurance tool is needed to succeed where microcredit failed. Indeed, the poor living in rural areas are more numerous and often poorer than their urban counterparts, but microcredit institutions have sometimes failed to reach those clients expectations'.

And this is mainly due to the risks resulting from potential climatic events. Thus, it is dangerous for MFIs to loan to people living in areas likely to face climate issues, but this issue could be solved thanks to microinsurance, and the poor from the rural world will no longer be left behind.

Microinsurance and climate change

In case of natural disaster, the ones suffering the most are farmers and rural populations, who earn a living working with natural elements.

In 2008, the Munich Re Foundation led a study on natural catastrophes, and found out that every year, occurred between 800 and 1 000 natural disasters around the world. Those events caused accumulative effects, due to high numbers of claims at the same time and within the same area, which can be hard to deal with, for both insurance companies and poor clients in need, to face reconstruction or even survival issues.

As an example, in Africa during a severe drought, populations can lose everything by losing their livestock (Loster, 2010). Most of the times, international aid programs are set up to help populations, but they can take months to reach the needy.

That is why the World Food Program launched an experimental insurance scheme in 2006, providing the famers with money, before the drought takes place, based on weather forecasts. This is the only way to manage the risk before a situation occurs, instead of dealing with it afterwards.

Countries such as Sudan, Chad, Mozambique and Malawi are subject to such natural

conditions, which correspond to a population of over 200 million people according to the United Nations, conditions amplified by the global warming. Thus, the key-concept here is to rely on weather data to anticipate problems, with the final objective of reducing costs.

This is also the case in Mongolia, where livestock farming is quite important and where farmers can protect themselves from weather damages since 2006, thanks to subsidies from the State and the World Bank. We can also mention the case of Vietnam, hit by frequent floods, or even Bangladesh and India.

The issue here is to manage to insure poor populations by staying profitable in case of natural disaster. Indeed, those countries have a high number of poor rural people, subject to the risks of natural disasters. In the past, some cases proved that microinsurance schemes have to be updated. In 2008, a tropical cyclone called Nisha hit southern India through over 200 villages, leaving insurance companies in a very complicated situation, because of tremendous financial losses. This proved that special schemes have to be used in case of extreme conditions, and some innovative work is needed to cope with this extreme natural disaster issue.

This has even been the topic of discussions that took place during the Copenhagen Summit in December 2009 and it has been highlighted that microinsurance alone can absolutely not protect people from the risks related to climate change.

Besides, microinsurance and climate change are linked with agricultural, and it constitutes a significant segment for rural countries like Vietnam, Cambodia, Senegal and any other nation, with a significant agricultural sector.

Finally, there is also a reluctant debate about the involvement of reinsurers in the equation, or to adapt catastrophe models to suit microinsurance, in case of a storm or a flood such as the one that occurred in Bangladesh a few years ago for instance.

3.2 Substitutes

Emergency loans from microfinance institutions, loans from moneylenders or even from friends or families and flexible savings are the substitute services to microinsurance. Sometimes, some of them even have to look for additional jobs or any sort of way to generate income, these ways being legal or illegal, in a legally or illegally form. To clarify, poor individuals sometimes end up selling drugs or illegal products, which put at threat their condition and their family's condition, or accept jobs without being registered, which is a threat to their health and even life, since they work extra hours, without any sort of work insurance!

Even if they are not always doable for poor people, precautionary measures are recommended and can have the form of money-savings, food savings, housing investments, diversification of income sources, involvement in social networks, involvement in any formal social security system, control of consumption. One of the most famous types of savings group is called a Rosca, which refers to a Rotating Savings and Credit Association, widely used in Vietnam for instance.

In 1983, F.J.A. Bouman, who worked at the time for the World Bank said: "ROSCAs are the poor man's bank, where money is not idle for long but changes hands rapidly, satisfying both consumption and production needs." Rosca members, that select each other, usually belong to a rural community and agree to meet each other during a certain period of time that does not exceed six months usually, to save and borrow together.

Normally, every transaction has to be accepted by all the members during their meetings (Bouman, 1983). In Africa and in the Caribbean, we call them "susus", in Cambodia they are named "Tontines", "wichin gye" in Korea, "arisan" in Indonesia, "xitique" in Mozambique and "djanggis" in Cameroon (Henry, 2003).

All those solutions correspond to two types of strategies: the precautionary one, whose principle is the anticipation, and the risk management, which is used when the risk became a loss.

All of them depend on the degree of vulnerability of the household and can be summed up as in the table below:

Table N°4 Coping strategy by risk

Coping Strategies	Risks		
	Death	Health	Property
Self-insurance	Financial services Money lender	Financial services Current income Family/friends Sell of assets Money lender Reduced consumption	Financial services Current income Family/friends Sell of assets Precautionary measures
Informal group-based schemes	Welfare association (funeral societies) ROSCAs	Welfare associations Borrow from church groups Funds raisers ROSCAs	Welfare associations Vigilante groups Hiring of guards
Formal insurance	Partnerships between insurers and MFIs	Partnerships between insurers and MFIs Purchase of health insurance	Partnerships between insurers and MFIs Purchase of health insurance
Social protection		Health services	Police

		Disability compensation	
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Source: Protecting the poor: A microinsurance compendium, *Monique Cohen and Jennefer Sebstad, 2006*

As far as the borrowings from relatives and friends are concerned, it concerns small amounts and are not always guaranteed, since those relatives might find themselves in the same position, in case of a natural disaster. The other drawback of this solution is that the persons from who the poor borrowed might expect a return, or at least reciprocity, which could put long-term pressure on the debtors.

On top of that, borrowing from someone, whether it is a physical or a moral person always raises the risks for the poor household, with consequences such as over-indebtedness or forcing children to work in order to honour the debt. Informal group or the so-called welfare associations are also an alternative to formal microinsurance and uses as principle, the division of risks and reciprocity, in general. They can be geographically or ethnically oriented, and generally require an entry fee plus a regular participation, in order to get access to the group funds, in case a situation of risk-management emerges. On top of that, every member who has benefited help from the association is expected to help as well, if one of his fellow members has to face a difficult situation. These kinds of groups are particularly used and efficient in case of death or funeral.

Table N°5 Informal group-based insurance systems

Country	Name of the association	Function
Uganda	Munno mukabi (needy friends)	Covering funeral requirements including food for guests and embalming of the body
Philippines	Damayan	Welfare/burial societies
South Africa	Funeral or burial societies	Emotional support, any kind of physical help
Indonesia	Arisans	Health insurance

Source: Protecting the poor: A microinsurance compendium, *Monique Cohen and Jennefer Sebstad, 2006*

Some experts have also already noticed that some households belong to multiple welfare associations, like in South Africa, because one policy, if used on its own, may be insufficient to cover all the costs. Typically, one is used to cover the funeral expenses, the second to cover the daily-life expenses, such as food and transportation and a third one for all the secondary costs, those related to school for example (Bester et al., 2004).

On top of that, South Africa is the country with the highest insurance penetration rate in Africa, with premiums accounting for circa 15% of the country GDP. Besides, thanks to the spread of funeral insurance, more than 90% of African premiums are collected in South Africa, the following market being Morocco, with premiums equal to 3% of their GDP.

Remittances from relatives living abroad, even if in case of incident, are not likely to rise substantively in order to cover sudden expenses, related to funeral or car accident, for example (Crayen, Hainz, de Martinez, 2009). As a matter of fact, a study based on FinScope surveys in South Africa, entitled "Remittances,

Bancarization and Demand for Insuring Schemes” proved that households receiving remittances from abroad are less likely to have a funeral cover.

3.3 Two options of development

Generally speaking, microinsurance can be developed in two different manners, depending on the government involvement and public policy, and the private sector. As a matter of fact, in case there is no appropriate government initiative we can think on extending social protection to the poor, which is a very bureaucratic and costly procedure.

The other option would be to create a business model involving the private sector. This service aimed at low-income households has to be a profitable and/or sustainable market in order to attract commercial and/or cooperative insurers. In this respect, microcredit is a great example of a business opportunity for banks, among others, targeting low-income populations.

According to C.K Prahalad, there are real business opportunities among the poor. This is the so-called “fortune at the bottom of the pyramid.” (Prahalad, 2002) As a matter of fact, according to him, there are nowadays more than four billion persons living with less than two dollars per day, and those are potential customers than cannot be ignored anymore. However, the corporate world cannot hope to sell the same products and use the same business model if they want to reach the bottom of the pyramid: they have to adapt themselves, be innovative and create business models tailored to low-income consumers.

One of the first successful relevant experience occurred in 1992 with the creation of the Bolivian bank BancoSol whose targets were only low-income consumers.

On the other hand, government’s responsibility in this matter cannot be ignored and should provide minimum social protection to every citizen. Depending on the country, the way it leads its public policy and its budget, social protection refers to various types of benefits such as retirement benefits, universal healthcare, maternity (and sometimes paternity) benefits, unemployment and disability benefits. The ideal would be to link microinsurance with national health insurance, as health is the first priority. This is the case with PhilHealth in the Philippines with a program called

KASAPI, in partnership with CARD MRI, an important MFI, operating in the rural and agricultural sectors. The initiative was quite successful; in June 2009, PhilHealth had 18 million members and over 81 million beneficiaries, with a coverage objective of 85% of the population by 2010.

The premium cost is US\$25,50 per family each year and paid on a quarterly basis and if the individual is below the poverty line, the premium is taken care by the government. The benefits range from hospitalisation, expenses related to child delivery, limited outpatient costs related to cancer, dialysis and surgery, as well as medicines for specific diseases. In the same extent, Baltic countries such as Sweden, Norway or Finland are known to provide a high quality range of social benefits, whereas in some parts of the world, like sub-Saharan Africa or South Asia, only 5% to 10% of the working population can enjoy that kind of help.

Thus, according to Craig Churchill, in the absence of formal social protection, microinsurance responds to an urgent need while not absolving governments of their responsibilities.

Indeed, “[...]microinsurance can create delivery mechanisms to extend government programmes (and subsidies) to the informal economy, and in doing so integrates the informal and formal social protection systems. “In a nutshell, according to the author, an efficient and sustainable microinsurance scheme has to be related, in some way, to the competent government.

Moreover, it is impossible to write about microinsurance and not mention the concepts of social security and social protection. Social security refers to protection provided by the government for its citizens using public measures financed by taxes. It can take the form of healthcare social security or benefits provided for families with children, the so-called “allocations familiales” in France.

As far as social protection is concerned, it only differs with social security in the fact that it also includes private schemes such as retirement schemes for instance, alimented by the contributions of its members. Social protection and social security play a crucial role in a country as they maintain the economy by taking care of its workforce, the citizens. As an example, work injury schemes enable to prevent accidents and sickness and rehabilitate injured workers.

In the same extent, unemployment payout creates help to sustain the economy as they create a feeling of security, encouraging them in looking for a job in a braver way than they would do if they had no unemployment insurance. If this was the case, they would accept the first job offered in order to survive, which would prevent them from evolving and accessing better positions and opportunities (Churchill, 2006).

Social protection works on a solidarity system and not on a charity one. As a matter of fact, even if members can receive a lot of financial support in case of trouble, they also have to participate to the contributions. This give-and-take system is the key to well functioning.

But the objective here is not to develop the themes of social protection and social security, as this would require an accurate research work, which is out of the context of this thesis. We will thus focus on microinsurance as a service provided to the poor and not as a public policy part of a social security system.

On top of that, in order to be profitable, the microinsurance market has to be regulated by governments to avoid over-competition. Indeed, so far, there is no real competition on the microinsurance market, which lets current companies impose their prices to be profitable.

But in case of a price war, this already low-profitable market (since it only deals with small amounts at high-cost transactions) could lose its main actors. And the final clients, that-is-to-say the poor, would suffer from this situation, as well as the microfinance institutions', which would put at risk the entire financial inclusive system.

4. Microinsurance in Brazil

4.1 Legal framework and incentives

It does not make sense to talk about microinsurance in Brazil without mentioning the work done by Susep, the Superintendence of Private Insurers, through the work done by the Microinsurance Commission formed in 2007. The scope of this group was to gather experts of various fields, all related to financial inclusion. There were policy makers, representatives of the insurance sector in Brazil, but also faculty researchers. Their first mission was to define the low-income market and microinsurance, as well as the potential limits to its development, even if apparently, according to them, the legal framework in Brazil was quite flexible and ready to embrace microinsurance, without any major legal reform (Qureshi and Reinard, 2009).

The actual requirements to develop an efficient microinsurance product were the following:

- Creation of a microinsurance broker
- Introduction of a special mediator in order to regulate the relationships between insurers, consumers and intermediaries
- Introduction of a specific licence aimed at insurers to be allowed to sell microinsurance products

A proper legal framework is also required in order to protect clients from harmful products, especially because this is a fairly new market; in this respect, we can apply microfinance principles to microinsurance:

- To avoid over-indebtedness (in this case “over-protection”)

- To implement ethical behaviour within employees
- Transparent pricing
- To respect privacy of client data
- To use appropriate premium-collection practices
- To have prompt and fair claims-handling practices

In September 2004, the Susep edited a circular¹⁷ concerning life insurance aimed at low-income groups. On top of that, the same year, the Brazilian government emitted a decree¹⁸ reducing the IOP, a tax on financial operations, from 7% to 2% on the life insurance products. This legal act had positive repercussion on the commercialization and promotion of such products, facilitating the implementation of microinsurance schemes for poor households. In the same extent, in November 2005 the Susep issued another circular¹⁹ for car insurances, aimed at poor households.

In the beginning of 2006, the Susep made a move on the international scene, with its participation to the IAIS-CGAP Joint Working Group on Microinsurance (JWG-MI), the IAIS being the International Association of Insurance Supervisors.²⁰ Another step towards microinsurance regulation in Brazil was the creation of the Microinsurance Consultative Commission (Comissão Consultiva de Microseguros do CNSP). The objective of this commission is to promote work-studies on microinsurance.

A few months later, in June 2008, the Susep launched the working group on microinsurance, whose core competency is related to technical, legal and operational aspects. In September 2008, the Susep officially defined “microinsurance” and “low-income population” for microinsurance purposes in Brazil as following: “Microinsurance is the insurance protection provided by licensed entities within the country against specific risks which aims fundamentally to preserve the socio-economic and personal and family situation of the low-income population by means of premium payments which are proportional to the probability and cost of risks involved, in accordance with the legislation

¹⁷ Circular 267/2004

¹⁸ Decreto 5.172/2004

¹⁹ Circular 306/2005

²⁰ In October 2007, as a sign of recognition of the involvement of Susep on the international scene, the Superintendent Armando Vergílio dos Santos Júnior was elected President of the IAIS-CGAP Joint Working Group on Microinsurance

and globally accepted insurance principles.”²¹

Besides, in November 2008, the Susep submitted its conclusions about the identification of regulatory barriers. They revealed that no special regulatory barriers were found and that the legislation was considered as flexible and ready to regulate microinsurance activities within the scope of the Susep. On the contrary, Brazil is one of the only countries where an IMF or other entities can act as an insurance provider, which facilitates the promotion of microinsurance schemes. In the same extent, as an emerging country, Brazil has a relatively well-developed financial system but it needs to offer more services towards the poor households (Neri, 2009).

On top of that, there is need to differentiate the concept of popular insurance from microinsurance. Popular insurance refers to any products involving low premiums aimed at any customer, while microinsurance is specifically designed for low-income households (Susep October 2008/2 Relatorio). Unlike microcredit that uses Oscip as a legislative structure to offer microcredit, this format cannot be applied to microinsurance for legal reasons. Oscips are not even allowed to do savings and offer microsavings services. Nowadays, there are a few insurance products in Brazil, divided into 2 types: the private insurances and the social insurances.

The following parameters were identified by the Susep and revealed to stakeholders in August 2009: the terms of the insurance contract have to allow flexibility and promote the insurance culture. In the same way, reduced time limits or claim payments have to be introduced as well as specific licenses for insurers to sell microinsurance products and the creation of a microinsurance broker. The creation of a microinsurance correspondent was also highly recommended in order to regulate the relationships between insurers, insurance companies, customers and intermediaries.

In one of its publications, the Susep officially identified microinsurance as part of the financial and social inclusion strategy in Brasil (Susep August 2008/1 Relatorio). This necessary tool should enable poor households to protect their earnings and thus to keep on staying out of the poverty. In this respect, like microcredit, microinsurance is absolutely not an assistance program and its aim is to stimulate the spirit of

²¹ Susep Website: <http://www.susep.gov.br/menuatendimento/microssegueros.asp>

entrepreneurship more than the consumption one, as far as Brazil is concerned.

On top of that, it is agreed that customers should receive their payout, on average 3 days after they submitted their application, and the products offered on the market should have a valid date of five years, in order to incentive microinsurance providers to constantly innovate and adapt their products to the evolutions of the market and the demand.

As reminded earlier in the first part about microfinance in Brazil, there is a legislative framework obliging banks to attribute a fixed percentage of their resources to microcredit.

4.2 Potential market and current products

4.2.1 Potential market

First of all, according to the first part of this research, the most requested product is health insurance. However, health insurance is a complex product, hard to deal with, even for experienced insurers. Thus, if Brazilian institutions, NGOs or MFIs decide to go for a health scheme, basic options such as hospital cash or health savings accounts for small healthcare expenses, should be their focus.

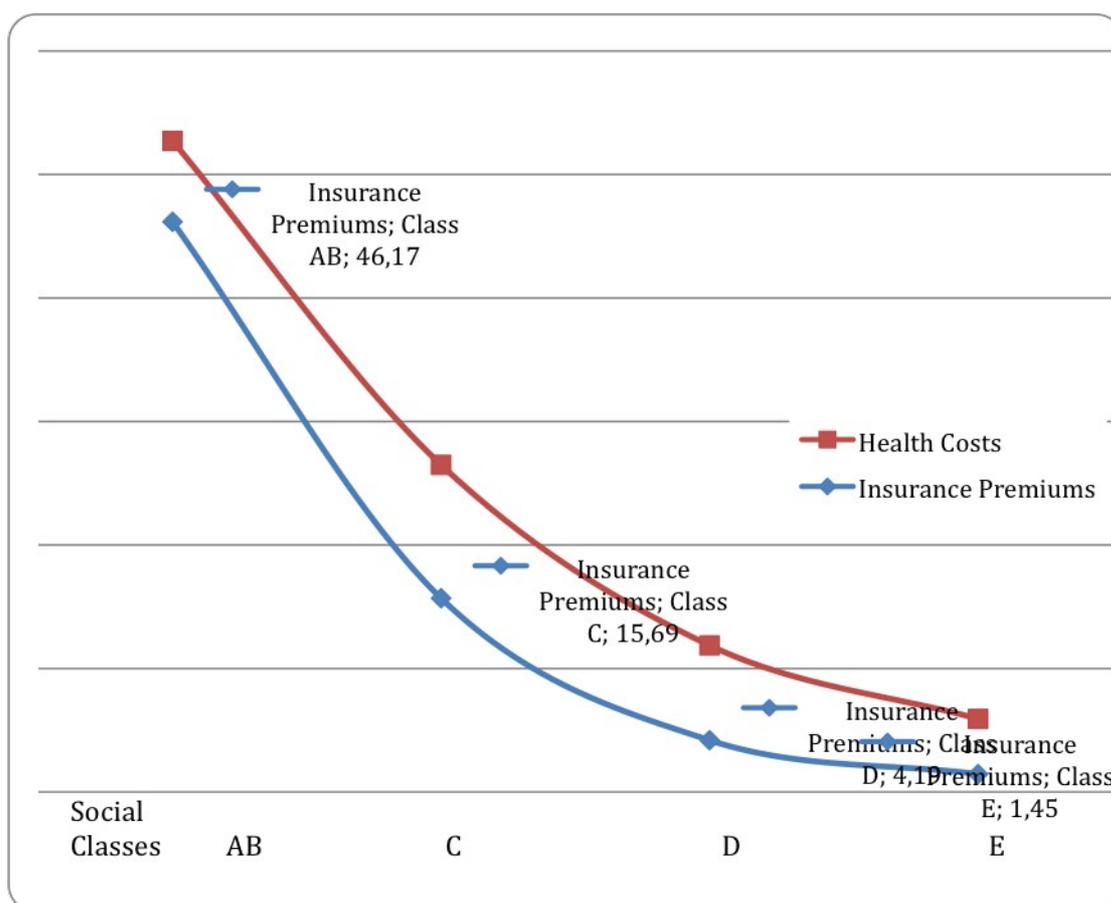
According to the Cenfri study ("Microinsurance in Brazil: Opportunities for market development" 2009), in Brazil the C and D social classes, which receive on average three minimum salaries, are the potential microinsurance target audience (Cenfri, 2009). They are approximately 128 millions, which correspond to 67% of the Brazilian population. Between 23 and 33 million people are currently benefitiated from microinsurance services and according to Hennie Bester, the maximum realistic potential penetration is between 64 and 77 million people.

Nowadays, approximately 17% of the Brazilian population has access to private insurance, the health insurance being the most used (12,9%). Then come the life insurance (4,3%) and the car insurance (2,9%). (Neri, 2009) According to the same study, led by Marcelo Neri, in 2008 an average Brazilian (above 15 years old) spent 23,96 BRL per month in insurance, 16,79 BRL being used for health insurance or the so-called "plano de saude", 3,22 BRL attributed to the car insurance and 2,17 BRL for the life insurance.

Those figures proved one important fact: more than 70% of insurance products are health oriented. As far as the classes C, D and E are concerned, they represent about 85% of the total population and only 10,78% of those households had access to insurance spending on average 8,56 BRL per month and per person.

Those figures keep decreasing when examining the poorest households; as a matter of fact, 8,45% of the households whose per capita income is equal to two minimum salaries have access to insurance and this number goes down to only 5,1% for the households having a per capita income equal to one minimum salary (Neri, 2009).

Figure N°4 Percentage of the Brazilian population having insurance and health costs sorted by social class



Source: Microseguros/Risco de renda, seguro social e a demanda por seguro privado pela população de baixa renda/Marcelo Neri, 2009

The other reasons explaining those variations are: education, as persons having a diploma have more chances to use insurance than an analphabet.

Then, we have the credit card issue; as a matter of fact, those having a credit card

tend to access those services more than those without access to financial services. The own of a security social scheme, a car, the state lived in (the State of São Paulo has a higher access rate to insurance than any other state), the size of the city lived in, are the other determinants of the insurance demand.

Those factors also apply to microinsurance: thus, 5, 24% of the individuals with less than 3 years of education have access to microinsurance products, while 34,87% of people having more than 3 years of education use that kind of schemes. In the same way, men (12, 63%) tend to have more access than women (8, 93%) to microinsurance.

As far as the geographic repartition is concerned, the capitals having the best insurance and social security penetrations are Brasília, Vitória and São Paulo, but the ones with better access to microinsurance are São Paulo, Belo Horizonte and Belém, the worst being Boa Vista in the State of Roraima, in both cases (Neri, 2009).

Susep identified three types of targets:

- Low-income households
- People working in the informal economy
- Low-income workers in the formal sector

As a matter of fact, according to the IBGE, more than 40% of the Brazilian population has a monthly income up to US\$ 416, which corresponds to approximately 2 minimum wages. This means that for the Susep, the wage determines the microinsurance product and not the type of product or insurance company.

Furthermore, the Susep defined the microinsurance target as “the segment of the population whose monthly income per capita is equal to up to 3 minimum wages that-is-to-say US\$ 624.”

According to Kantar World Panel, a provider of consumer panels and market research solutions, the D social class in Brazil represents a consumption potential of BRL 381 billion in 2010 and nowadays 25% of those households have a bank account, about 20% use a credit card and one sixth of those households have their own car. Thus, it seems more than natural that insurance products should be their next step.

As far as the geographic repartition is concerned, national studies led by the IBGE showed that in the Northeast region, 54,7% of individuals had a monthly income up to US\$ 416 (two minimum wages), while in the Southeast region, there were 41,7%.

Furthermore, microinsurance schemes have to target field workers to protect them from work accident. As a matter of fact, as mentioned before, poverty often goes with lack of education, which means that many poor people work in difficult conditions, on the field outside where danger is everywhere.

One product has been very popular within this segment of the population: it is called PASI²² and was created 20 years ago by the MAPFRE. It serves about 2 million people. To beneficiate from this product, groups have to be formed in order to pay a monthly premium of US\$ 15. This scheme is very complete as it offers guarantees to workers' relatives and includes an alimentary help and funeral service.

This program started making benefits 5 years after its implementation and this is mainly due to the economies of scale it realized, since it was reaching over 2 million people, according to the International Labor Organization. This scheme being very successful, the MAPFRE decided to extend it to other sectors of the economy, where work conditions can be tough, such as textile.

On top of that, many times, those workers are informal and do not beneficiate from any sort of protection in case something happens. This is why microinsurance cannot leave behind this segment of the population. In the same extent, in order to better target the microinsurance potential clients, it seems important to remind that most of them operate within the informal economy and more than 80% of those targets are self-employed.

But other elements have to be taken into account when determining the target: education level, alphabetization rate, access to sanitation and to electric light, as well as the existence of a phone line. In this respect, according to the Economic Commission for Latin America and the Caribbean, Brazil has an alphabetization rate of 11,1%, superior to the Latin American average of 9,5%. On top of that, it is important to mention that the urbanization rate in Brazil is quite high, equal to 85%.

Furthermore, according to a study led by the Datafolha Instituto de Pesquisas,

²² Plano de Amparo Social Imediato

thanks to a series of 428 interviews realized in the states of São Paulo and Rio de Janeiro, a better approximation of the interested individuals can be done. From the interviewed, 53% liked the microinsurance concept, the most receptive being women living in São Paulo having between 18 and 34 years old with a monthly salary below 2 minimum wages, mainly interested in health schemes (Datafolha Instituto de Pesquisas, 2009). The least receptive are men from Rio de Janeiro, with over 55 years old and 2 minimum wages.

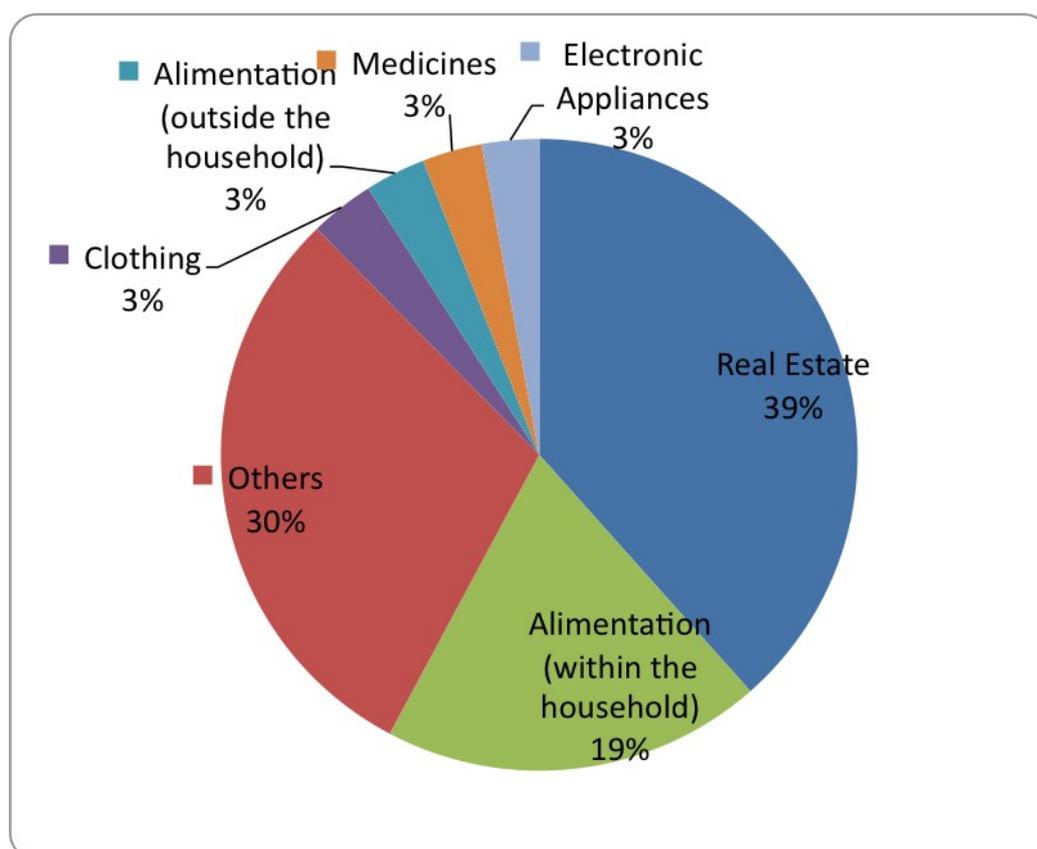
Nevertheless, the perception of life or funeral insurance is very bad as people would rather think about life than death, which is why the challenge in this case is to convert potential demand into actual usage. On top of that, the individuals skeptical to this product use the following reasons:

- The loss of invested money in case they do not need to use their insurance²³
- A lack of credibility of the service
- A lack of confidence in insurance schemes
- The amount of paperwork slows down payouts
- “It is unfair that persons receive money after my death”
- Health insurance has a very negative image
- It constitutes an extra monthly payment
- The insurance does not cover car damages
- Lack of understanding of the product

70% of the households interviewed think it is important to have an insurance (29% of them stated “very important”) and those interested would like to receive information about insurance (in this order) by group-target mailing, newspapers, magazines, emails, cellular and home phones. Women showed more interest than men, mainly due to their bigger preoccupation and care for family and children.

²³ “Se não acontecer nada comigo, no final de 12 meses eu não vou ter o dinheiro de volta.”

Figure N°5 The consumption of the D and E social classes



Source : IPC Target 2010

The potential stakeholders

In its third paper, the Susep Working Group identified a series of potential stakeholders (Susep May 2009/3 Relatório).

At the macro-economic level the Federal Government clearly has a role to play in promoting microinsurance as part of its social and financial inclusion policy. To do so, it can count on the support of the National Council of Private Insurances²⁴, the already mentioned Susep and one of its organs, the Actuarial Technical Department, responsible for the approbation of the commercialized products.

The National Agency of Supplementary Health²⁵ is also a potential stakeholder as it

²⁴ Conselho Nacional de Seguros Privados – CNSP whose President is the Minister of Fazenda

²⁵ www.ans.gov.br

is the authority responsible for the regulation of health insurances in Brazil.

In the same way, the Ministry of the Social Security²⁶ was also mentioned as it is in charge of taking care of the disabled workers in case of illness, invalidity, maternity, unemployment or death. We can also name the National Monetary Council and the Central Bank of Brazil²⁷ as well as all the Regulatory Agencies of Public Services such as the National Agency of Telecommunications.²⁸

As far as the meso level is concerned, international associations such as the International Association of Insurance Supervisors, the Latin American Association of Insurance Superintendents, the National School of Insurances could be associated, as well as the National Federations of Insurances and research institutes. The Social Development Ministry²⁹ and the re-insurance companies are also part of the list.

At the micro-economic level, there are the insurance providers, regulated by the insurance legislation or those depending on the Health Ministry, the brokers and all the providers taking part of the distribution, mentioned below.

In Brazil, there are about 30 million union workers and within this segment, (full and part time) there could have 90 million insured people if we extend this to workers relatives, subscribing to the PASI scheme (Galiza, 2009). In numeral terms, this represents at least an annual market of 5 billion Brazilian reais, if we use a 5 BRL monthly premium. Considering that most of the workers using the PASI product pay a 15 BRL monthly premium, this figure can be tripled.

According to the study already mentioned, through the interviews of a sample of 428 families, 40% of those would be willing to buy an insurance scheme (Carvalho, 2009). 32% of them would be willing to buy the 30 000 BRL scheme while 36% would go for the 10 000 BRL insurance product. And according to José Carvalho, it seems reasonable to think that about 30% of families with monthly wages between 1 to 5 minimum wages, would be ready to acquire a microinsurance scheme.

In the same extent, a study of the Instituto Brasileiro de Geografia e Estatística

²⁶ Ministério da Previdência Social - MPS

²⁷ Conselho Monetário Nacional e Banco Central do Brasil

²⁸ Agência Nacional de Telecomunicações and Agência Nacional de Energia Elétrica

²⁹ Ministério do Desenvolvimento Social

(IBGE) identified 85 million Brazilians with a minimum monthly salary up to 3 minimum wages (de Araujo, 2009). And those people typically do not have access to any type of cover, even though a network to divulgate microinsurance schemes is available.

4.2.2 The current offer of (micro)insurance products and distribution channels

Private schemes

The PASI scheme mentioned above has many advantages such as a 24-hour payout, no age-limit, and it is flexible depending on the client needs. But there are other schemes like the funeral assistance offered by a large majority of private companies. This market is quite promising and beneficiates from liberty of action as it is not regulated by the Susep.

There is also the Open Private Social Security³⁰ and the Health Insurance³¹, which refund all medical expenses. For 2008, this program spent over 11 billion BRL, while the entire health industry was evaluated at 51 billion BRL, which proves the importance of this private scheme, mainly used by enterprises.

The four largest insurance providers are Bradesco, Itau, Brazil Prev and Porto Seguro; the first two are bank-led groups and are responsible for approximately one third of the gross premiums written in the Brazilian insurance market.

³⁰ Previdência Privada Aberta

³¹ Seguro Saude

Public schemes

The law 7.998/90 implemented 3 programs:

- Unemployment insurance³² aimed at employees fired with no valid reason, fishermen unable to fish during the species reproduction period.

The receiving period depends on the time worked by the employee and the valor paid is based on an average of the 3 last months.

Approximately 600 000 people benefit from this program every year and costs about 1,5 billion reais to the government (Galiza, 2009).

- Abono Salarial
- Fundo de Amparo ao Trabalhador

The national security

The national social security³³ also offers a variety of services that can be assimilated to microinsurance such as help from the government in case of accident, disease and unemployment.

As far as the accident scheme is concerned, the benefits correspond to 50% of the salary and can be cumulate with other helps, except retirement.

The disease program offers a 15-day payout; in case the employee is registered, the company has to pay the first 15 days and then the government assumes the next 15 days. In case the employee is self-employed, the scheme covers him during the entire period. To be able to receive this help, the individual has to contribute for at least 12 months.

Concerning the unemployment scheme, no minimum contribution-period is required

³² Seguro-Desemprego

³³ Previdência Social

and the employee will receive 80% of his last higher salary in the limit of 710,08 BRL.

The government also has a death pension for the family members, corresponding to 100% of the retirement the employee would have had if he were alive. The children will only benefit from this help until their 21st birthday or before if they are considered by the law as emancipated.

Maternity leaves are also part of the services offered by the Brazilian government: mothers can receive this scheme during 120 days, corresponding to 100% of their fixed-salary.

Unique Health System (Sistema Unico de Saude)

Implemented in 1990, this system is segmented at three levels: national, state-level, city-level, the last one being the most important.

In 2008, 48 billion BRL were spent in this scheme, which corresponds to 1,7% of the Brazilian GDP. But according to experts this figure should be 4 times higher in order to have an efficient and well-distributed health system. About 25% of the Brazilian population currently does not have access to this service.

The product suggested

When we have to deal with a small insurance product, the administrative costs are much higher than the benefits. In this case, the solution would be to use **microinsurance solidarity groups** in order to reduce monitoring costs, especially because this scheme has and still is very successful in Brazil and has proved to be efficient and profitable. The other solution would be to use an independent insurance agent in charge of the monitoring of the solidarity group, remunerated upon results.

Marcelo Neri, in a study published in 2009, also suggested to transfer public helps received from the government into a special microinsurance fund administered by an

institution that would attribute microinsurance products only to low-income population (Neri, 2009).

This would be a great opportunity to join public policies, such as Bolsa Familia Program, with microinsurance initiatives, in order to generate economies of scale and reduce costs. In this matter, nowadays the Bolsa Familia Program is targeted to households whose per capital income is 140 BRL.³⁴

Studies proved that the highest demand of insurances in Brazil concerns life schemes, mainly for the same reasons than the other countries mentioned in this work so far (Gonzalez, 2009). Indeed, one of the main preoccupations of poor households is the death of a breadwinner. They fear to suffer from a diminution in their daily-life consumption and to be unable to pay funeral expenses. This product is even very interesting from the IMF point of view as it is less sophisticated, easier to implement and does not need to be marketed at a high price.

In Uganda, the Finca increased its microcredit premium of 0,5% to include the microinsurance scheme, which has been very popular within the clients and generated economies of scale.

Another suggestion made by Susep experts is the creation of finance education programs in order to develop the market and to build a solid and efficient market basis (Susep, 4 Relatorio/August 2009).

³⁴ Ministério de Desenvolvimento Social: <http://www.mds.gov.br/noticias/reajuste-do-bolsa-familia-mantem-poder-de-compra-da-populacao-de-baixa-renda>

The development of a microinsurance unity within a regular insurance company

The physical and legal structure already existing, the first step an insurance company should follow is the definition of the schemes to be offered.

In this respect, the priority is to propose a group life insurance product, followed by a death scheme and a funeral cover (de Araujo, 2009).

With a 5 reais monthly premium, a 700 000 reais investment for the first year followed by a 200 000 reais investment for the second and third years³⁵, the insurer should sell 20 000 schemes on the first year reaching 100 000 schemes at the end of the fourth year (de Araujo, 2009). The basic scheme should cover death with payout up to BRL 15 000, funeral expenses covered up to BRL 1 500, with the application of a national death rate of 1,7‰.

Then, the company should try operating with microentrepreneurs to offer guarantees for their businesses. The next step should be the implementation of a financial intermediaries network to work together with micorinsurance and poor communities.

To reach productive poor households, insurers should focus their business operations in urban areas, where households have access to energy and sanitation. To be efficient, the insurers will have to build up a high number of trained agents knowing perfectly the product offered. These agents would receive a 15% commission on the gross premium.

Ideally, the microinsurance department should be independent as far as its management and financial administration is concerned. But it has to be constantly connected with other departments such as actuary, marketing, accountability, legal and HR.

On top of that, one of the main economical determinants that should be looked over is the inflation rate since it is proved that its impact is significant on the insurance sector. Indeed, on the offer side, inflation has negative impacts on adjusted

³⁵ This investment include : development, implementation and launching of the product; marketing campaigns; set up of administration and operational systems; agents trainings

accountability, reserves benefits and actuarial projections.

In this respect, the Brazilian government declared an annual predictable inflation rate equal to 4% for the 3 years to come.

In the same extent, the interest rate is a strategic variable to be taken into consideration for both sides: the insurers and the customers. The Selic interest rate is the main instrument determining the monetary policy; it is very high, placing Brazil as one of the economies with the highest interest rates, even if it has been reduced to 12,75% per year, during the Monetary Policy Council on 21st of January 2009 and to 11,25% on 11th of March 2009.

Finally, the reinsurance scheme mainly used for high valor schemes does not really concern microinsurance and its small amounts products.

The distribution channels

Various distribution channels have also been identified: churches, brokers, cooperatives, NGOs, MFIs, banks, banking correspondents, private insurance companies, public utility providers, community organizations and even services providers such as cellular providers.

For instance, nowadays 85% of the Brazilian population lives in urban areas and almost all of them are served by utilities; this means that utilities companies have at their disposal a huge database with payment profile and contact details, which could be used to offer microinsurance services.

According to Hennie Bester in the Cenfri study, a few potential distribution channels have been identified in Brazil: the banking channel, database selling, retailers, credit agents, common bonds (tarde unions), funeral homes/cemeteries, door to door (SINAF Seguros in Rio de Janeiro).

Synergies between microfinance and microinsurance in Brazil

The first part of this study about microfinance in Brazil had the purpose to present the global environment in this country and to introduce and to identify the potential synergies of this field with microinsurance. As mentioned earlier, the credit agent is crucial to microcredit and since he is the only living link between the microfinance services provider (IMF, bank, NGOs) and the final client, he requires special attention. Indeed, he appears to be one of the persons suitable to the distribution of other microfinance services.

Like in microcredit, we can only assume that poor clients will not go after a microinsurance product, mainly because of a lack of information. The solution here would be to use microcredit agents in promoting those schemes by using the concept of proximity finance (Gonzalez, 2009). The objective of this concept is to use social networks in order to reduce transaction costs, thanks to close and long-term relationships that make the customer feel secure and willing to keep using MFIs services.

In this respect, most of the investment decisions are taken at the family level and not at the individual level, which supposes that it is very important to know the household when promoting microinsurance and the microcredit agent is the competent one in this case. Considering that a credit agent has on average 300 clients, there is a real potential of massification and rapid expansion, the credit agent having the main asset: trust of the clients.

On top of that, the credit agent having monitored his client on a long-term basis he has a very accurate knowledge (accumulation of information with time) of his client mainly thanks to the progressive loans he gave him, depending on his merit and his serious in refunding it. This is also due to the payment frequency; in Brazil, payments are made on a weekly basis on average, according to the clients' cash flows and enable to quickly detect any payment default.

On top of that, such synergies can be encouraged by the regular cash flows received (on a weekly or bi-weekly basis) from the microcredit activity, to be used for other microfinance services, such as microinsurance. Indeed, as mentioned earlier,

most microcredit institutions receive payments on a weekly basis in Brazil, and IMFs should take advantage of this comfortable situation.

In the same extent, another synergy has been identified with the banking correspondents' network. As stated earlier, with more than 150 000 operators, the network is bigger than the number of bank agencies and those correspondents are the main banking channel used by poor households, especially the ones located in remote communities.

The network being already in place, no implementing and structural costs would be required; the only need here is to develop a suitable business model. There is at least one banking correspondent in every district (município) and this network distributes about 80% of the payouts from the Bolsa Familia Program.

Furthermore, in the poorest regions of the country, banking correspondents are the first means of bill payments. They handle approximately 50% of all the transactions in the regions North and Northeast, while in the region Southeast, this figure falls below 30%.

Then, we can imagine that synergies can be set up with postal banks and postal agencies, as it is the third means of making transactions, quite developed in the region North of Brazil.

Finally, all the issues mentioned in the global microinsurance part such as payment flexibility adjusted to clients' cash flows, focus on women (to strengthen their empowerment³⁶) are a source of synergies and potential opportunities.

In Brazil, about 20% of the families are led by a single mother, nowadays. Besides, food stores, cell phone kiosks, and clothes shops can also serve large volumes of clients. To illustrate this, I would like to mention the example of Cardif, a private French insurance company, which has totally modified its business model when entering in Brazil. While in France and Europe, they sell insurance schemes mainly through their agency networks; in Brazil they made partnerships with wholesalers such as Wal Mart or Leroy Merlin, companies operating in the supermarket sector, to

³⁶ Empowerment refers to increasing the spiritual, political, social, or economic strength of individuals and communities.

distribute their products.

In the same extent, private insurance companies should not ignore those potential microinsurance customers, considering that approximately 4 million Brazilians leave the low-class to join the middle-class every year. As stated by Antonio Cassio dos Santos: "The consumer of a microinsurance policy today will be the consumer of traditional insurance products tomorrow."

Thus, it has been identified that most of those households pay electricity bills to providers that could turn out to be efficient distribution channels and premiums receivers.

Furthermore, microinsurance agents should work closely with community leaders. Most of the time, they are president of community associations and have a large power of communication with their members. Those leaders could become "microbrokers", acting as middlemen between the company and the community targeted.

Microinsurance and climate change in Brazil

The recent floodings in the States of Pernambuco and Alagoas, in the Northeast region during the month of June in 2010, reminded us the potential help microinsurance could bring in the future. 51 individuals died during this natural disaster and many houses were destroyed, like in the Quilombola community in the State of Alagoas or in Palmares, city of 58 000 inhabitants where almost everything was destroyed.

On top of that, most of the people affected by the disaster are agricultors and on top of losing their housing, they also lost their work and their only financial resource, leaving them in a very complex situation, at the mercy of the government help. In all, over 14 000 houses will have to be rebuilt and the total reconstruction cost should be 586 millions of Brazilian reais.

Another case worth to be mentioned concerns the Ceape Maranhao, one of the best microcredit institutions in Brazil, with about 25 000 clients.

The months of April and May 2009 were particularly complicated at the financial level

for the MFI due to the floodings that occurred in the region. Because of a very little diversification in the sectors of activity of their clients, the negative effects clients had to face were passed on the Ceape, which suffers a lot from the consequences of this natural event.

We can only think that a partnership with an insurer could have reduced those consequences, since the Oscip would not have had to assume alone all the costs and negative effects.

5 Case Study

5.1 Methodology

Two methods are traditionally used when one wants to lead a research: the qualitative one and the quantitative one.

While the quantitative approach is based on “*observations that are converted into discrete units that can be compared to other units by using statistical analysis*”, qualitative approach “*generally examines people’s words and actions in narrative or descriptive ways more closely representing the situation as experienced by the participants*” (Welch. and Piekkari. 2005). Thus, the main difference between the two approaches is that the quantitative one is based on numbers and figures, while the qualitative way deals with non-numeric data, that-is-to-say words (Schwandt, 2007).

That is the reason why some challenge the reliability of qualitative data even if it has been proved that the interpretivist paradigm offers various methods in order to assess the truthworthiness of such data, like triangulation or structural corroboration for instance (Daniel and Onwuegbuzie, 2002). According to Onwuegbuzie, there are 24 techniques “to assess the dependability or reliability of qualitative data extracted”. However, some experts even assert that the term “reliability” should not be used when it comes to discuss the qualitative method.

In this study, the qualitative method seemed more appropriate as the goal is to better understand the way microinsurance has been adapted to the Brazilian insurance and banking environment. The overall purpose was to discover the perception, the point of view of a significant player on microinsurance products in Brazil. In this fashion, the general questions addressed were how to adapt this new type of services to the existent market? What are the limits, the difficulties encountered in the

implementation of microinsurance? And what are the perspectives for the future?

Furthermore, qualitative method offers a number of advantages when one wants to lead a study in an international business environment (Welch. and Piekkari. 2005) :

- It enables a more accurate cross-cultural understanding of the topic and the researcher is less likely to follow cultural and ethnocentric assumptions.
- Besides, a qualitative approach is more suitable to developing countries as some relevant data may lack.
- In the same extent, that kind of method is particularly suited to Latin-American cultures, where personal relationships and face-to-face contacts are common features.
- Finally, it is a great way to identify complex issues, related to cultural traits and customs, that would not appear in numerical data.

According to Robert Stake, a case study “is expected to catch the complexity of a single case. One studies a case when itself is of very special interest. We look for the detail of interaction within its contexts”(Stake Robert E. 1995). This last sentence is quite representative of the objective of this work; as a matter of fact, the case study methodology was used to clarify the application of microinsurance within particular circumstances: the Brazilian environment.

When using a case study, one always looks for both the uniqueness and the commonality of the case chosen (Stake Robert E. 1995 p.16). Moreover, this method also aims at learning, understanding but also putting aside any presumptions we might have. On top of that, the use of the case study seems relevant as it is particularly well-suited to any new areas of research, which is the case here, since microinsurance is fairly new in the academic research world. Furthermore, this research led on microinsurance deals with a contemporary phenomenon which justifies even more the use of this methodology since the data extracted does not belong to a “dead past”.

We can distinguish two types of case study: the single-case study and the multiple-

case study. As far as qualitative researches are concerned, the multiple one is recommended which is why we decided to choose it by interviewing individuals from two institutions: the Bradesco Bank, which constitutes an atypical case of a bank offering insurance services to low-income individuals, within its insurance division, and the Susep, which is the entity responsible for the regulation of companies operating within the insurance sector. However, it seems important to notify that our case study is not comparing two institutions but is focusing on two different entities, whose activities are different, one working with legislation, the other one operating on the commercial side. In this case, the aim was to capture different points of view in order to have a broader perspective and a better understanding of microinsurance in Brazil.

Data collection

The data collection has been realized during interviews and meetings I had with Bradesco and Susep staff members, whose positions within the company/institution, are strategic and decisive as far as microinsurance operations are concerned. Three individuals were interviewed, two from Bradesco and one from the Susep. The ones from the bank work in two distinctive divisions and their official posts are:

- Microinsurance coordinator in the Superintendência Técnica de Novos Negócios within the Bradesco Auto/RE Cia. de Seguro (Car Insurance Division).
- Microinsurance coordinator within the Bradesco Vida e Previdência S.A. Those two executives are the key interlocutors as far as microinsurance is concerned, within the Bank Bradesco.

Concerning Susep, the individual interviewed works as a Coordenadora do Projeto de Implementação de Microseguros da SUSEP and deals with microinsurance on a daily basis.

The reason why we interviewed very few people is due to the fact that microinsurance is quite recent and so far there are a very limited number of persons solely dedicated to this purpose, having a relevant knowledge to be able to discuss issues of microinsurance. More precisely, the two executives we met from Bradesco

are currently the only persons involved on a daily basis with microinsurance, within the entire company. Moreover, until now, Bradesco does not use any employees working on the field, like it is the case with credit agents for microcredit.

The interviews realized have been an opportunity to access a broader perspective from inside players. Various types of interviews are at our disposal: very structured interviews or open-ended interviews, where the questions enable to start the discussion and to support it. As far as I am concerned, I used a mix of both: indeed, I had at my disposal a structured questionnaire, organized by topics but this questionnaire has been a tool to open the discussion on other issues, depending on the on-going of the interviews.

One characteristic of this process needs to be reminded here; all the interviews and meetings were led in a cross-cultural environment since the interviewed and myself come from different cultural backgrounds and consequently do not share a common mother tongue. The language chosen for the interviews was Portuguese for a few main reasons:

- First of all, Portuguese was chosen in order to preserve the local business language as much as possible in order to avoid misinterpretations. Indeed, the insurance and microinsurance fields use technical vocabulary whether in English or in Portuguese, which can lead to mistakes when one wants to translate those words.
- Moreover, it has been noticed that neglecting the use of a local language in a cross-cultural environment, can be perceived as a lack of professionalism and care, especially in Latin-American countries (Welch and Piekkari. 2005).
- Finally, according to Geoff Walsham, in its publication "Doing Interpretive Research (2006)", if the researcher manages to understand and speak the local language, he should do his research in that language. The interviewed are managers working within the Bradesco insurance division and at Susep, the organization in charge of the regulation of private insurances. The Brazilian Insurance Code delegated the power to regulate detailed aspects of insurance provision to the CNSP (National Private Insurance Council) and

Susep (Private Insurance Superintendent). This allowed 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.

Interpretation of the results

When one uses a case-study methodology, he has to be aware that the interpretation of the data extracted is a critical and major step of the research (Polonsky and Waller 2005). The interpretation phase has been the opportunity to link the theoretical framework with the actual facts, told by the participants.

Critiques to the methodology

It is important to point out that the main critique found in business literature concerning the use of case study is that the conclusions and results can not be adapted and reproduced to other cases. But according to Robert E. Stake, processes and methods can be extended in order to keep on working on a topic, whose source is a case study (Stake 1995).

5.2 Presentation of the case

The company chosen for this case study is the Bradesco Bank, the second biggest bank in Brazil. It was the largest private bank in Brazil, until 2009, when Itaú Bank and Unibanco decided to merge. Besides traditional banking services, Bradesco offers insurance services, with divisions entitled: Bradesco Seguro e Previdencias

and Bradesco Auto/RE, covering over 36 million individuals. Following the merger of Itaú Bank and Unibanco in 2009, Bradesco lost its leader position and potential market shares. Thus, to remain a major player in Brazil, Bradesco had two options: to proceed to a merger/acquisition as well or to grow internally by reinforcing its current portfolio of clients and expanding it: this process is also called organic growth.

Since there was no relevant acquisition to be made, they decided to enlarge their customer base to clients receiving lower incomes. On top of that, it was an opportunity to use their geographical coverage to develop synergies, by using its bank agencies to market insurance products, and thus to enjoy economies of scale. In 2009, the bank led a study to launch a popular insurance and realized that many potential customers from the C and D social classes already used that kind of schemes, through cooperatives for instance, or being included into family plans, mainly based in the North East region.

Even if those products are not that lucrative, the Bradesco considers this approach as a long-term investment; as a matter of fact by reaching current individuals belonging to the D and E social classes, Bradesco is hoping part of those clients will reach the C social class and will be able to buy more profitable insurance products. Attending those clients now is a way to obtain their future loyalty when their purchasing power will be higher.

And according to national data, there are every year millions of Brazilians moving from the D social class to the C social class. On top of that, the Bradesco bank has a competitive advantage, which is its wide geographical coverage, even within isolated areas, which is one of the reasons why the bank is seen as popular. So far, Bradesco does not use any specific agents only dedicated to microinsurance and markets its microinsurance schemes only throughout Bradesco bank agencies, mainly in the state of Sao Paulo.

Furthermore, it seems important to remind that the Bradesco Foundation is active in supporting low-income families since 1956, especially as far as education is concerned.

Currently, the main insurance scheme that can be assimilated to microinsurance is

named Primeira Proteção Bradesco, was launched in January 2010 and has now over 560 000 clients. It offers a 20 000 BRL protection with a 3,50 BRL monthly premium and has a termination rate 25% lower than traditional schemes; this can be explained by the fact that when low-income individuals acquire a new service, to stop using it tends to be perceived as a failure, a regression in their social status. It covers accidental death, which is more adapted to poor communities since urban violence is more present in the “favelas” than in wealthy neighborhoods. Nowadays, Bradesco’s objective is to insure at least one family in every municipality of the country.

Then, we had the opportunity to interview one Susep executive, Susep being the institution in charge of the regulation of microinsurance. It has been involved on the international microinsurance front through the IAIS-Microinsurance Network Joint Working Group on Microinsurance (JWGMI) for a number of years now.

In 2004, the Susep issued the legislation of a new type of product dedicated to low-income people, the “seguro popular”. The same year, the Bradesco bank became the first private bank to offer that kind of insurance product. The decision to launch this new service was based on the fact that the company realized in 2003 they were only targeting wealthy individuals, as far as insurance were concerned.

5.3 Analysis and interpretation of the results

In this section, we will present the results of the analysis based on the data collected during the meetings and interviews led with Bradesco executives. The aim, in this part, was to understand the approach Bradesco is using to penetrate this market and what are the limits they are encountering as well as the tools they are using to pass through those difficulties.

The analysis of those results has been led based on the research on microinsurance

in Brazil, which corresponds to the parts 3 and 4 of the dissertation. Indeed, after having identified the general framework, the limits and the key-success factors to the implementation of microinsurance in emerging countries and more particularly in Brazil, those findings were applied to the Bradesco case.

The interviews were led following a structured questionnaire in order to capt the insight of the stakeholders about the application of microinsurance in Brazil. The results of the interviews are classified following the main concepts of a theoretical framework elaborated by Pozzebon, Diniz, Jayo (2009). In the model, there are: the interpretive frames, the negotiation process and the methodologies-in-practice as briefly explained below.

5.3.1 Interpretive frames

The interpretive frames correspond to interests, expectations and assumptions individuals might have as far as the implementation of a methodology is concerned.

In this respect, the following questions were asked: *what are microinsurance key-success-factors in Brazil?*

- What are microinsurance key-success-factors in Brazil?

As far as the Bradesco executives I interviewed are concerned, there are 3 main Key Success Factors:

- **Communication** in order to give a better understanding to their clients or potential consumers. As a matter of fact, when Bradesco decided in 2009 to launch its first insurance product aimed at C and D social classes, they made a study to target them in a more efficient way. One of the main results was that low-income populations had a very negative image of insurance companies and did not like the word “insurance” at all. This is why they decided to call this product “protection” instead of “insurance”.
- **Financial education** in order to make those populations understand

the product and its advantages. Indeed, one of the biggest challenges when dealing with low-income communities is to succeed in penetrating these communities in order to let them know about microinsurance products and most importantly, make them understand the product.

- **Distribution:** this is the most important KSF according to our interviewed. Indeed, this is a key element as microinsurance can only be popular if we manage to reach the clients, to pay him when needed and above all to collect the payouts, from a bank/insurer point of view. This can only be done with an efficient distribution channel.

On the Susep side, three KSF have been identified:

- **Financial education**, which will act as an accelerator to microinsurance implementation and development. On top of that, educate potential clients is a way to adapt the microinsurance products to their expectations and needs; indeed, this formation process is interactive since it involves the two sides and would enable to adapt the risks to short-term visions, that suits better low-income individuals. Furthermore, this process seems to be the best way to understand the low-income communities and to get closer to them.
- **Adapted regulation to microinsurance products.** The objective here is to build a flexible legislation, which will facilitate citizens' lives but at the same time will protect them from any insurers abuse.
- **Distribution** was also mentioned as a key-element to microinsurance success: *“distribuição da o tom do microseguro no país.”*

5.3.2 Negotiation process

This process refers to the way groups exercise an influence in the implementation of microinsurance. Thus, in order to better understand this process, I have asked the

following questions: *are there any limits to the expansion/development of the concept of microinsurance in Brazil? Did you adapt your promotional campaigns to the public targeted (easily understandable; use of comics, pictures...)? What about the banking correspondent's network? What about alternative distribution channels (food stores, cell phones kiosks, clothes shops, Wal Mart, Leroy Merlin, electricity bills to collect premiums)?*

- Are there any limits to the expansion/development of the concept of microinsurance in Brazil?

According to Bradesco executives there is no real limit to the development of microinsurance in Brazil. On the contrary, every effort should be made to explore the whole potential market and a special attention should be given to the concept of "favela". As a matter of fact, it would be useless to offer a unique product for favelas residents as every community is different and depending on the region of Brazil, each community might have a different source of revenue.

In the same extent, we have to remind those communities such product is accessible and affordable and that it is much better to use microinsurance services than to sell belongings in order to cover any damage, for instance.

To democratize microinsurance, companies can use a specific tool to the Brazilian market, that-is-to-say lottery. Indeed, in Brazil, it is very frequent to receive a lottery ticket when subscribing to an insurance product. That is the case for the Bradesco popular insurance product whose premium is 3,50 reais per month with a 20 000 reais maximum cover.

Nevertheless, a few limits have been mentioned during interviews: fraud. Even if the impact of fraud is so far very limited, it can not be ignored and has to be restrained as much as possible.

On top of that, Bradesco mentioned the fact that the prerequisites to apply to a microinsurance product should be more flexible and not as demanding as it is the case for traditional insurance. For example, Bradesco insurance divisions always monitor clients to make sure they are not using insurance schemes for money laundering purposes. That kind of monitoring should not be applied to microinsurance schemes.

Furthermore, legislation costs have been quoted as potential limits to the development of microinsurance; as a matter of fact, the administrative costs for that kind of schemes are almost as high as traditional insurance schemes. Thus the margin is lower, which limits brokers interest in those products and consequently limit its expansion, since brokers are currently the main distribution channels. In order to bypass those difficulties, Bradesco is using cheaper material, as far as paper and impression are concerned; in the same way, there is no marketing investment and the promotion is being done thanks to mouth-to-mouth within the bank agencies and their brokers, press release, spontaneous media, churches, community centers, schools...

As mentioned earlier, distribution also turns out to be a difficulty since the only channel authorized is the broker, who earns a lower commission with a microinsurance scheme since the value of the product is lower. The regulatory institution should develop other distribution channels and aims at individuals who could use microinsurance sale as a secondary source of revenue and not primary, as it is the case with brokers.

As far as the regulative institution is concerned, when they started defining rules, their primary objective was to implement a soft legislative framework that could be as flexible as possible to benefitiate the consumers. Even if the current legislation is not totally suited to the Brazilian market, it has progressed a lot during the past few years and does not present any potential limit to the expansion of microinsurance in Brazil.

On the contrary, compared to some other developing countries around the world which set up a microinsurance legislation, Brazil can be considered as one of the most flexible. For instance, banks can not act as insurers in many countries, which is not the case in Brazil, where a few banking institutions also offer insurance services, through subsidivies or divisions, such as our case study: Bradesco Banco.

In the same extent, Brazilian law authorized partnerships between bank/insurers and various types retailers (“varejistas”) such as Casas Bahia, a furniture distributor or even gas and electricity providers; that kind of alliance can not be encountered in

most of the countries where microinsurance operates. Thus we can only think that Susep activities will contribute to the expansion of microinsurance as long as it does not jeopardize consumer protection.

Only a macroeconomic issue such as high inflation could be a barrier to microinsurance in Brazil.

As a matter of fact, despite the rapid stabilisation achieved by the Real Plan, the hyperinflation legacy continues to shape the behaviour of the current generation and low-income individuals still show a tendency to withdraw their full salary and spend it all at the beginning of the month.

Informal insurance has also been mentioned as a potential limit; as a matter of fact, nowadays in Brazil, approximately 20 million low-income individuals already use microinsurance services on an informal basis and those people receive up to 2 minimum wages (Cenfri, 2009). That kind of formal insurance is mainly concentrated on funeral assistance. For example, the religious institution Santa Casa de Misericórdia offers funeral assistance, very popular among the poorest in Brazil. Here, the issue is that those institutions do not follow Susep rules, and Susep has no control over them.

Cultural drivers have also to be taken into consideration; as a matter of fact, insurance suffers a bad perception, especially life and funeral products because “Brazilians are passionate about life, not death”.

- Did you adapt your promotional campaigns to the public targeted (easily understandable; use of comics, pictures...)?

So far, there is no special material available for low-income consumers but Bradesco Banco is working on a few different projects in this respect. They have led a three-month pilot-project in a “favela” in the city of Rio de Janeiro in order to promote microinsurance. In this respect, they have used communitarian radios, short soap-operas (“novelas”) and theatre plays to explain the concept to this community and to study the way they were reacting to this new product.

In the same way, the CNseg is currently working in partnership with a member volunteer of the same community, to elaborate a simple and short comic book explaining the advantages of the families living within this type of communities. This could be a powerful promotional tool, especially for those who are illiterate or encounter difficulties when trying to understand elaborated marketing material.

Bradesco has also mentioned another form of adaptation, which depends on the region differences, whether they are cultural or only geographical. As a matter of fact, if Bradesco wants to market its product in the Amazon region, it will have to operate a few changes due to climate differences: this region is subject to more floodings and fires for instance, which is why protection conditions have to be adapted consequently.

In the same extent, due to cultural differences, it might be interesting to study the possibility of modifying the name “insurance” with some other word that would be closer to the Amazonian population vocabulary. This can be justified by the fact that the Portuguese is quite different in this area and also because of the bad reputation of the word “insurance”. But such initiative could only be realized with the authorization of the Susep.

- What about the banking correspondent’s network?

As far as Bradesco Banco is concerned, the banking correspondent’s network is a key-element to the development of microinsurance. It is considered as a potential huge accelerator that could highly contribute to the increase of the geographical coverage of such services in Brazil.

The bank is already using this network to market insurance products all over the country and is currently expanding this use to one of their residential insurance product aimed at low-income populations.

On top of that, Bradesco has a competitive advantage compared to other private banks as it has over 25 000 partners’ agents in the whole country. Thus, the use of this channel is fundamental to the bank, in order to realize economies of scale and to incentive those correspondents to be loyal to the bank, thanks to a wider services

portfolio.

From Susep's point of view, this channel can absolutely not be ignored, mainly because of its impressive capillarity throughout the country. According to the latest figures, there are more than 150 000 banking correspondents in Brazil and they are represented in each of the 5 565 Brazilian municipalities.

So far, they are not legally authorized to distribute microinsurance schemes, neither by the Susep not by the Central Bank. However, the Susep is preparing a legal text to enable banking correspondents to distribute microinsurance schemes. Allowing this channel to distribute those schemes is considered as a major step in microinsurance democratization in Brazil. This is the only way to reach poor remote communities in places where it is not profitable to open an insurance/bank agency.

In the same extent, Susep is studying a few other legislative measures to keep expanding the concept throughout the country: a specific license to be attributed to traditional insurers and to insurers operating solely with microinsurance.

Furthermore, the Susep is studying the possibility to give a preferential treatment to microinsurers, with pre-requisites more flexible concerning financial reserves for instance, respecting the proportionality principle. Besides, a special law aimed at microinsurance brokers could be issued, with a training suited to the concept that should be easier too, in order to facilitate its accession to less-educated individuals. As a matter of fact, microinsurance schemes being aimed at low-income individuals, it would be easier if those products were sold by individuals from the same environment. Indeed, as mentioned earlier in the microcredit part, credit agents are always more efficient when belonging to the community where they are operating. This is mainly due to their proximity with the inhabitants of the communities. There is no need to remember that low-income individuals tend to trust more easily people coming from the same background and/or environment.

A preferential tax treatment has also been mentioned as a potential tool to expand microinsurance as well as the creation of microinsurance correspondents, based on the banking correspondents model, which already proved its efficiency.

- What about alternative distribution channels (food stores, cell phones kiosks, clothes shops, Wal Mart, Leroy Merlin, electricity bills to collect premiums)?

Concerning Bradesco, the insurance division Bradesco Seguros already uses a company called BSP Affinity, since 2008 which sold over one million of insurance schemes during its first year of operations. This services company was created to reach differentiated targets and to explore new market opportunities. To do so, it has access to the internal customer base. This alternative distribution channel has proved to be very successful and has signed other partnerships with canals such as energy providers, furniture distributors such as Casas Bahia or other types of retailers (“rede de varejo”); those are responsible to invoice their clients the premium payout on behalf of Bradesco, on top of their own monthly invoice.

That kind of services is quite frequent in Brazil. They are well appreciated by the company since it is a way to reach a bigger scale, to save operational costs by outsourcing the premium collection in a more secure way. As a matter of fact, those companies already have their own payout collection structure; moreover, clients are already used to pay their energy bills, which means that their insurance premium payout is less perceptible.

As far as Susep is concerned, it seems that the organ is in favour of the use of those alternative channels, as long as it does not abuse the consumers’ rights. As a matter of fact, in those cases the risk is that a customer paying his insurance payout together with his gaz bill might not realize he is actually paying for two services. He may not be aware that he is going to be charged on a regular monthly basis an extra payout that could jeopardize his financial situation.

Nevertheless, there is no doubt alternative distribution channels are the best way to democratize microinsurance in Brazil, by reaching all kind of clients, whether it lives in one of the Brazilian megapols or in the most remote areas, in the North region, for example.

5.3.3 Methodology in practice

This part concerns the potential consequences (direct or indirect) of the implementation of microinsurance services, as well as the potential tools that could be part of its development. The questions asked were: *what is the role of technology (premium collection thanks to cell phone or banking software, claims processing)? Any perspectives of development such as mobile banking applications?*

- What is the role of technology (premium collection thanks to cell phone or banking software, claims processing)? Any perspectives of development such as mobile banking applications?

Technology is considered as an accelerator of the microinsurance expansion in Brazil and Bradesco has a few projects in this respect.

Thus, Bradesco uses a well-known concept in Brazil, considered as a Brazilian specificity by microinsurance experts: lottery. Indeed, most of the Brazilian insurance companies offer this service: when one customer subscribes an insurance product, he receives a lottery number and automatically participates to the monthly game. This lottery is segmented by insurance division, which means that if you applied to different insurance schemes within the Bradesco, you will participate to many lotteries. This service is organized by the BSP Company, mentioned earlier in this study.

According to Bradesco executives, this is a powerful tool of promotion and incentive that cannot be ignored since it is very popular among Bradesco clients. Moreover, Bradesco schemes can be bought through internet, ATMs, PDAs (a pilote test is being led in 15 agencies of Sao Paulo), mobile phones. This proved the particular interest Bradesco is giving to technology.

Furthermore, Bradesco is developing an automated system for their residential insurance (“seguro residencial”); as a matter of fact, in case of a natural disaster in a particular region, the control system is used to identify the potential victims in order to start the payouts as soon as possible or to use any services that could help them such as funeral services or companies distributing first necessity kits (“cesta basica”),

such as Sinaf in the state of Rio de Janeiro.

In the same extent, Bradesco is planning on offering differentiated services to their low-income customers, that would be faster for example, as low-income individuals cannot rely on any other external help from friends or families, that are in the same complicated situation most of the times.

As far as Susep is concerned, technology plays a fundamental role and has to be emphasized. However, technology evolves much faster than legislation and this constitutes a real challenge for the institution. The objective here is to implement a flexible regulation that will be able to follow technological innovations, responsible for improving microinsurance consumers' conditions.

Furthermore, the penetration of credit card into the lower-income market has constituted a big step towards financial inclusion and has a strategic role to play along with mobile phones.

Conclusion

In this paper, our objective was to investigate the opportunities of microinsurance in Brazil, by studying the current microfinance environment and the potential synergies that could facilitate the implementation and the development of this concept.

We believe there is a real potential for microinsurance in Brazil; but besides that, we strongly believe there is a need for this microfinance scheme, in a country where economic growth is currently spectacular, giving the global economic climate, and where every citizen should enjoy this rise by acquiring basic needs such as health insurance.

Indeed, like in any developing country where microcredit is very popular, Brazil needs to develop microinsurance schemes, as it is the natural continuation of all the work done for 20 years within the field of microfinance.

Microinsurance scheme is not a substitute to microcredit but a necessary complement to continue on the path to financial and social inclusion. This product that constitutes an added value for MFIs and for any institution involved in microfinance will contribute to improve poor daily life by enabling them to manage many kinds of risks.

I hope this study will help insurance companies and MFI managers, as well as Brazilian policy-makers, to better understand this concept in order to implement it with success. Based on this research we would like to sum up a few recommendations considered as the Key Success-Factors to the implementation of a microinsurance product in Brazil:

1. **Transparency:** it will attract donors and potential investors and will contribute to the expansion of the concept.

On top of that, it could enable the improvement of performance and the

protection of customers.

2. The microinsurance scheme has to be **market-driven**, which means adapted to client needs and expectations.
3. On top of that, it has to **cover basic needs** and to be **easily understandable and affordable**. Besides, the payout application process has to be simple and quick, especially for households living in remote communities.
4. It has to be **innovative** by building new approaches and not replicate the already existing business models, especially because microfinance clients are not an homogeneous group and differ from one country to another or even from one region to another (rural vs. urban). In this respect, I believe microinsurance has to use and take advantage of the **banking correspondents' network**, a Brazilian specificity that could definitely be an asset to microinsurance expansion throughout the country.
5. In the same way, the use of **technology** is fundamental in order to reduce costs and to optimize the promotion of the product. As an example, cost reduction can be achieved with automation of premium collections.
6. When marketing a microinsurance scheme, operators have to use promotions targeting the entire household and not simply an individual since most of the times individuals revenues are grouped and the investment decisions are taken at the family level.
7. In case a MFI decided to implement a microinsurance scheme in its portfolio, it has to provide **proper training and formation** to its agents, as well as some kind of incentive in order to promote more efficiently the product.
8. **Qualitative and performance indicators** should be implemented to measure the impact of microinsurance on households and to optimize renewal rates.
9. Microinsurance responds to an urgent need but can absolutely not absolve governments of their responsibilities.

This means that both the Brazilian government and microinsurance operators have to cooperate in order to be more efficient.

10. **Microinsurance stakeholders** have to pay attention to the emergence of a consumption culture, which is not prioritizing insurance. The lower-income market is aspiring to a better lifestyle and tends to be quite optimistic about the future, which means that they do not think about the probability to be affected by any kind of bad situation. In the same way, indebtedness is rising quite a lot, due to credit card democratization, which is creating a spending rather than a saving culture and regular premium payouts are seen as a limit to their life improvement.

Conclusão

O trabalho aqui apresentado teve como objetivo investigar as oportunidades do microseguro no Brasil levando em conta o atual contexto de microfinanças no país e as potenciais sinergias que poderiam facilitar a implementação e o desenvolvimento do conceito. Cumpre lembrar que o microseguro não pode ser um substituto do microcrédito, mas ; é um necessário complemento para continuar no caminho da inclusão social e financeira.

Do ponto de vista de contribuição prática da pesquisa, os fatores-chave para o sucesso da implementação do microseguro no Brasil são:

1. Transparência: atrairia investidores e contribuiria da expansão do conceito. Transparência poderia também contribuir para melhorar a performance e a proteção dos consumidores.
2. Os esquemas de microseguro têm que ser dirigidos pelo mercado, ou seja adaptados às necessidades e expectativas dos clientes.
3. Além disso, microseguro precisa ser um esquema cubrindo primeiras necessidades, compreensível e acessível.
4. Precisa ser inovador, construindo novos métodos, sem apenas replicar os modelos de negócio já existentes, particularmente porque os clientes de microfinanças não formam um grupo homogêneo, variando conforme o país e a região, como áreas rurais e urbanas.
5. O microseguro deve utilizar a rede dos correspondentes bancários, uma especificidade brasileira, como canal de distribuição.
6. O uso da tecnologia é fundamental para reduzir custos e otimizar a promoção do produto. Essa redução de custos poderia ser atingindo por exemplo, com a automatização do recolhimento de prêmios.
7. A promoção de um esquema de microseguro deve levar em

consideração as necessidades do domicílio e não apenas do indivíduo. Isso porque preponderam, na baixa renda, decisões de investimentos tomadas ao nível da família.

8. No caso um instituto de microfinanças ou um banco decidir implementar microseguro, é necessário promover uma formação adequada para os funcionários, assim como uma estrutura de incentivos adequada para promover o produto.

9. Indicadores de qualidade e de performance devem ser usados para medir o impacto do microseguro nos usuários e para otimizar as taxas de renovação.

10. Microseguro deve ser realizado como complemento às responsabilidades do governo. Cooperação entre o governo e seguradoras é aconselhado.

11. Os atores do microseguro devem investir na educação financeira. O endividamento tem aumentado no Brasil e é preciso incentivar o uso adequado de produtos financeiros.

An opening on future studies

Many further topics could be mentioned here but I will only talk about the ones that seem relevant as far as microinsurance is concerned and the issues that should be prioritized, in my mind.

The development of education is one of the main current issues on the political Brazilian agenda. A study focusing on the benefits of education on poverty reduction could be one option.

As a matter of fact, there is a correlation between per capita GDP and instruction level by region: the lower educated individuals are, the poorer they are.

Furthermore, the CNSeg and the ILO have launched a project in Rio de Janeiro, whose aim is to promote microinsurance by educating populations of townships. The other partners are the Bill and Melinda Gates Foundation, the Grupo Eco and the Associação de Moradores do Morro.

Their promotion, aimed at urban communities, has been realized thanks to a series of cultural actions within the townships such as cinema, radionovela or street theater.

In the same extent, the development of **financial education** could be a very interesting topic to be studied.

I mentioned earlier in this paper that many individuals have no financial knowledge and because of that, many potential customers are not willing to apply for a microinsurance scheme (or other microfinance services).

In order to better target the poor, we need to explain them the basics of financial education in order to prove them those services can be highly beneficial and that those schemes can contribute to improve their life conditions, by providing them financial and economic stability.

Furthermore, during my research I had various opportunities to read about the

promising future of mobile banking.

This service is being implemented all around the world and successful experiences have been related, such as M-PESA in Africa for instance.

M-PESA (M for mobile, pesa is Swahili for money) is the product name of a mobile-phone based money transfer service whose initial concept and design occurred in Kenya.

The concept of mobile banking enabled MFIs to offer more competitive loan rates to their users, due to the limited involvement of a bank. This service is also very interesting for the users as they are able to track their finances more easily.

Thus, even though mobile banking is confronted to many challenges such as security, reliability or scalability, I believe there are real potential synergies with microinsurance in Brazil, especially because Brazil is a very atypical market, successful in implementing original distribution channels.

In the same extent, we can only think about the opportunities the development of internet could bring.

According to a study from Cetelem and O Observador, almost 40% of the Brazilian population had access to internet in 2009 and 19% of the Brazilians had an internet connexion at home.

Even if Internet is not part of the current reality of the poor households, its development could enable many innovations.

For instance, the microinsurance customers could track their financial statement and be able to quickly make all kind of financial decisions.

On top of that, Internet could be a quick and cheap way to promote microinsurance schemes in order to reach massification.

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Appendice 1 Circular Susep 267, de 21 de setembro de 2004

Estabelece as regras de funcionamento e os critérios para operação do seguro de vida em grupo popular e disponibiliza, no site da Susep, suas condições gerais padronizadas e respectivos parâmetros.

O SUPERINTENDENTE DA SUPERINTENDÊNCIA DE SEGUROS PRIVADOS – SUSEP, no uso da atribuição que lhe confere o art. 36, alíneas “b” e “c”, do Decreto-Lei 73, de 21 de novembro de 1966, tendo em vista o disposto no art. 10 da Circular Susep 265, de 16 de agosto de 2004, e considerando o que consta do processo Susep 15414.000828/2004-13,

R E S O L V E:

Art. 1 Estabelecer as regras de funcionamento e os critérios para operação do seguro de vida em grupo popular e disponibilizar, no site da Susep, suas condições gerais padronizadas e respectivos parâmetros, constantes dos anexos I e II desta Circular.

Art. 2 É vedado às sociedades seguradoras aceitar, como segurado, no plano de que trata a presente Circular, menor de 18 (dezoito) anos.

Art. 3 Deverão ser utilizados mecanismos de controle que identifiquem os segurados por CPF ou, na falta deste, RG, Carteira de Trabalho, Certidão de Nascimento, Certidão de Casamento ou outros documentos oficiais de identificação que possuam validade no território nacional.

Art. 4 As sociedades seguradoras que tenham interesse em operar o plano de seguro de que trata esta Circular deverão utilizar as condições gerais padronizadas e encaminhar à Susep, previamente à comercialização, as condições gerais, para análise e arquivamento.

Art. 5 O capital segurado da garantia básica não poderá ser superior a R\$ 10.000,00 (dez mil reais).

Art. 6 A nota técnica atuarial deverá conter, no mínimo, os seguintes elementos:

I – coberturas securitárias previstas no plano;

- II – especificação das taxas ou prêmios puros;
- III – estatísticas utilizadas para definição das taxas, com especificação do período e fonte utilizados e o respectivo demonstrativo de cálculo ou tábuas biométricas, se for o caso;
- IV – critérios de reavaliação de taxas, incluindo formulação e períodos;
- V – carregamentos;
- VI – provisões técnicas; e
- VII – assinatura do atuário, com número de identificação profissional perante o órgão competente.

§ 1 As taxas especificadas, na forma do inciso II deste artigo, poderão ser revistas, em periodicidade não inferior a 1 (um) ano, em função de variação superior a 100% (cem por cento) na sinistralidade do produto, calculada com base no prêmio puro, devendo ser previamente estabelecida, na forma do inciso IV deste artigo, a respectiva metodologia técnica.

§ 2 Na hipótese de revisão das taxas, nos termos do parágrafo 1º deste artigo, a sociedade seguradora deverá encaminhar à Susep aditivo à nota técnica atuarial, com o cálculo das novas taxas, indicando o número do processo administrativo correspondente ao plano.

§ 3 Observado o disposto nos parágrafos 1º e 2º deste artigo, a efetiva alteração das taxas adotadas somente poderá ser introduzida no plano após anuência prévia e expressa e pelo menos $\frac{3}{4}$ (três quartos) do grupo segurado.

Art. 7 O valor cobrado a título de carregamento, destinado a atender às despesas administrativas, à comissão de corretagem e à margem de lucro do plano, não poderá exceder o prêmio puro.

Art. 8 O seguro de que trata esta Circular deverá ser contratado de forma coletiva, por meio de contrato firmado com o estipulante, observado o que determina a regulamentação específica em vigor.

Art. 9 Para cada proponente admitido no seguro, deverá ser emitido certificado individual que caracterize sua aceitação no plano, apresentando os capitais segurados, discriminados por garantia oferecida, prêmio, data de início e de término de vigência do seguro e a identificação do segurado, nos termos do artigo 3º desta Circular.

§1 Deverá ser remetido ao segurado novo certificado individual, quando os valores a que se refere o “caput” deste artigo sofrerem alteração, por força de atualização

monetária ou da reavaliação de taxas referidas nos parágrafos 1, 2 e 3 do artigo 6 desta Circular.

§ 2 Por meio do certificado individual poderão ser fornecidas as principais informações do seguro contratado, devendo ficar evidenciado que serão disponibilizadas pelo estipulante e pela sociedade seguradora, a qualquer tempo, por solicitação do segurado, as condições gerais completas.

Art. 10. O segurado deverá indicar, no cartão-proposta, seu(s) beneficiário(s).

Parágrafo único. A qualquer tempo, o segurado poderá alterar o(s) beneficiário(s) indicado(s), por meio de solicitação formal, datada, assinada e protocolizada junto à sociedade seguradora.

Art. 11. O plano de seguros poderá prever a cobrança de prêmios diretamente na sociedade seguradora ou por meio de contas de consumo, tais como luz, gás, telefone ou outros meios viáveis, desde que o valor destinado ao seguro seja perfeitamente identificado, assim como a data da correspondente quitação.

Parágrafo único. O certificado individual, acompanhado da identificação de quitação do prêmio a que se refere o “caput” deste artigo, será prova, a qualquer tempo, da celebração do contrato de seguro.

Art. 12. A comercialização do seguro de vida em grupo popular em desacordo com o estabelecido nesta Circular sujeitará o infrator às medidas e sanções legais e regulamentares previstas nas normas vigentes.

Art. 13. Aos casos não previstos nesta Circular aplicam-se as disposições legais e regulamentares em vigor.

Art. 14. Esta Circular entra em vigor na data de sua publicação.

RENÊ GARCIA JR.

Superintendente

Appendice 2 Circular Susep 306, de 17 de novembro de 2005

(sem Anexo com as Condições Gerais)

Regulamenta as regras de funcionamento e os critérios para operação do seguro popular de automóvel usado e estabelece as condições contratuais padronizadas.

O SUPERINTENDENTE DA SUPERINTENDÊNCIA DE SEGUROS PRIVADOS

– **SUSEP**, no uso da atribuição que lhe confere o art. 36, alíneas “b” e “c”, do Decreto- Lei 73, de 21 de novembro de 1966, e considerando o que consta do Processo Susep 15414.004359/2004-01,

R E S O L V E:

Art. 1 Regulamentar as regras de funcionamento e os critérios para operação do seguro popular de automóvel, nos termos desta Circular.

Art. 2 Estabelecer, no anexo desta Circular, as condições contratuais do plano padronizado do seguro popular de automóvel usado.

Art. 3 Para efeito desta Circular, define-se como seguro popular aquele destinado exclusivamente à cobertura de veículos usados.

Art. 4 As sociedades seguradoras que comercializarem o plano de seguro de que trata esta Circular deverão utilizar as condições contratuais padronizadas no anexo desta Circular, encaminhando à Susep, previamente à comercialização, para análise e arquivamento, a nota técnica atuarial e eventuais alterações pontuais.

Art. 5 A proposta do seguro de que trata a presente Circular deverá conter, no mínimo, as seguintes informações:

I – descrição das coberturas básicas incluídas nos planos oferecidos, bem como das coberturas adicionais, quando houver;

II – identificação do veículo segurado;

III – limites máximos de indenizações e prêmios discriminados por cobertura;

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IV – informações sobre bônus, quando houver;

V – franquias, se aplicáveis;

VI – informação quanto à faculdade do segurado optar pela utilização de rede

credenciada, conforme disposto nos §§ 6o e 7o do art. 9o desta Circular;

VII – informação quanto à faculdade do segurado de escolher a forma do pagamento do prêmio, conforme disposto no art. 10 desta Circular; e

VIII – respostas do questionário de avaliação de risco, quando houver.

Art. 6 A contratação do seguro popular de automóveis usados poderá ser feita mediante apólice padrão simplificada, que conterà no mínimo os seguintes elementos:

I – no frontispício da apólice, além das informações previstas em normativos específicos, deverão ser discriminados:

a) as coberturas básicas do plano escolhido, bem como as adicionais, se contratadas, com seus respectivos limites máximos de indenizações e prêmios,

b) percentual fixado para caracterizar a indenização integral, definido no § 7o do art. 9 desta Circular, e

c) bônus e franquias, quando houver; e

II – respostas do questionário de avaliação de risco, quando houver.

Parágrafo único. As condições contratuais do seguro, na íntegra, deverão estar à disposição do proponente previamente à assinatura da respectiva proposta, devendo este, seu representante ou seu corretor de seguros, assinar declaração, que poderá constar da própria proposta, de que tomou ciência das referidas condições contratuais.

Art. 7 O custo de apólice, quando cobrado, estará limitado a R\$ 20,00.

Art. 8 O seguro popular de automóvel usado será contratado, exclusivamente, na modalidade “valor determinado”.

Parágrafo único. Para efeito desta Circular, fica estabelecido que a cobertura de “valor determinado” é a modalidade que garante ao segurado, no caso de indenização integral, o pagamento de quantia fixa, em moeda corrente nacional, estipulada pelas partes, no ato da contratação do seguro.

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Art. 9 As sociedades seguradoras que comercializarem o plano de seguro de que trata esta Circular deverão oferecer, exclusivamente, uma ou mais das seguintes coberturas básicas:

a) BÁSICA I – Garantia Compreensiva A (indenização integral por incêndio, queda de raio, explosão, colisão, roubo ou furto) e responsabilidade civil – danos materiais (RC-DM);

b) BÁSICA II – Garantia Compreensiva B (indenização integral por incêndio, queda de raio, explosão, roubo ou furto) e responsabilidade civil – danos materiais (RC-DM);

c) BÁSICA III – responsabilidade civil – danos materiais (RC-DM);

§ 1 As sociedades seguradoras poderão ainda oferecer outras coberturas adicionais, além das coberturas de responsabilidade civil – danos corporais (RC-DC) ou acidente pessoal de passageiros (APP) já previstas no anexo desta Circular, desde que previamente submetidas à Susep para análise.

§ 2 A contratação das coberturas contidas no parágrafo anterior poderá ser facultativamente efetuada pelo segurado quando da contratação de uma das coberturas básicas previstas neste artigo.

§ 3 Deverá ser estabelecido valor de LMI, igual ou superior a R\$ 10.000,00, distinto para a garantia de Responsabilidade Civil por Danos Materiais.

§ 4 Nas coberturas básicas, as garantias de incêndio, queda de raio, explosão, colisão e roubo ou furto, não oferecerão cobertura nos casos em que ocorram perdas parciais, somente compreendendo a indenização integral.

§ 5 Na hipótese de as sociedades seguradoras optarem por oferecer coberturas adicionais para perdas parciais, deverá ser prevista a livre escolha de oficinas pelos segurados, para recuperação dos veículos sinistrados.

§ 6 Caso a sociedade seguradora disponibilize rede credenciada para recuperação de veículos sinistrados, deverá ser garantido ao segurado, quando do preenchimento da proposta, o direito de optar pela utilização ou não desta rede.

§ 7 A oferta de rede credenciada, conforme disposto no parágrafo anterior, somente poderá ser efetuada se, além de submeter previamente à Susep a “Cobertura Adicional

374 • Microseguros: Série Pesquisas para Perdas Parciais”, a sociedade seguradora submeter também a “Cobertura Adicional para Perdas Parciais com Utilização de Rede Credenciada”, discriminando, nesta hipótese, as vantagens auferidas pelo segurado se optar por sua utilização.

§ 8 Fica vedada a aplicação de franquia nos casos de indenização integral ou de danos causados por incêndio, queda de raio ou explosão.

§ 9 A indenização integral é caracterizada sempre que os prejuízos resultantes de um mesmo sinistro, atingirem ou ultrapassarem a 75% do valor contratado estabelecido na apólice.

§ 10. Fica vedada a dedução de valores referentes às avarias previamente constatadas no veículo segurado.

Art. 10. O prêmio somente poderá ser pago após a aceitação da proposta pela sociedade seguradora.

§ 1 As sociedades seguradoras deverão oferecer na proposta, como forma de pagamento do prêmio, as opções de prêmio único anual e prêmio mensal.

§ 2o Adicionalmente, outras formas de fracionamento do prêmio poderão ser oferecidas na proposta pelas sociedades seguradoras, desde que previstas em cláusula específica de fracionamento de prêmios, previamente submetida à Susep para análise, respeitado o direito de o segurado eleger a forma de pagamento.

Art. 11. As informações referentes às apólices contratadas no seguro popular de automóvel usado serão contabilizadas no ramo 26 – Seguro Popular de Automóvel Usado.

Art. 12. A nota técnica atuarial deverá manter perfeita relação com as condições contratuais e conter, adicionalmente, a indicação de que a contratação do seguro é a primeiro risco absoluto.

Art. 13. As sociedades seguradoras ficam dispensadas de submeter especificação das taxas ou prêmios estatísticos e puros referentes às Garantias Compreensivas A e B.

Art. 14. Nos casos de utilização de prêmios diferenciados, deverão ser especificados os critérios de cálculo.

Art. 15. Deverá ser estabelecida, em cláusula específica previamente submetida à Susep, a forma como será efetuado o pagamento da indenização integral de veículos sujeitos a alienação fiduciária, arrendamento mercantil, consórcio ou outras formas de gravame.

Art. 16. Aplicam-se, subsidiariamente ao disposto nesta Circular, ao seguro popular de automóvel usado, as disposições legais e regulamentares em vigor referentes aos seguros de danos e de automóveis.

Art. 17. A comercialização do seguro popular de automóvel usado em desacordo com o estabelecido nesta Circular sujeitará o infrator às medidas e sanções legais e regulamentares previstas nas normas vigentes.

Art. 18. Fica expressamente vedada a denominação “Seguro Popular” na comercialização de seguros para automóveis usados que não atendam ao disposto nesta Circular.

Art. 19. Esta Circular entra em vigor na data de sua publicação.

RENÊ GARCIA JR.

Superintendente

Appendice 3 Resolução nº 3.156 de 17.12.2003

Altera a Resolução 3.110, de 2003, que dispõe sobre a contratação de correspondentes no País.

O BANCO CENTRAL DO BRASIL, na forma do art. 9º da Lei 4.595, de 31 de dezembro de 1964, torna público que o CONSELHO MONETÁRIO NACIONAL, em sessão realizada em 17 de dezembro de 2003, com base nos arts. 3º, inciso V, 4º, incisos VI e VIII, 17 e 18, § 1º, da referida lei e 14 da Lei 4.728, de 14 de julho de 1965, RESOLVEU:

Art. 1º Alterar os arts. 1º a 5º da Resolução 3.110, de 31 de julho de 2003, que passam a vigorar com a seguinte redação:

"Art. 1º Alterar e consolidar, nos termos desta resolução, as normas que dispõem sobre a contratação, por parte de instituições financeiras e demais instituições autorizadas a funcionar pelo Banco Central do Brasil, de empresas, integrantes ou não do Sistema Financeiro Nacional, para o desempenho das funções de correspondente no País, com vistas à prestação dos seguintes serviços:

(...)" (NR)

"Art. 2º É vedada às instituições referidas no art. 1º a contratação, para a prestação dos serviços mencionados nos incisos I e II daquele artigo, de empresas cuja atividade principal ou única seja a prestação de serviços decorrespondente.

(...)" (NR)"

Art. 3º Depende de prévia autorização do Banco Central do Brasil a contratação, por parte das instituições referidas no art. 1º, para a prestação de qualquer dos serviços mencionados naquele artigo, de empresas não integrantes do Sistema Financeiro Nacional que utilizem o termo 'banco' em sua denominação social ou no respectivo nome de fantasia.

(...)" (NR)

"Art. 4º (...)

I - a total responsabilidade da instituição contratante sobre os serviços prestados pela empresa contratada, inclusive na hipótese de substabelecimento do contrato a terceiros, total ou parcialmente;

II - o integral e irrestrito acesso do Banco Central do Brasil, por intermédio da instituição contratante, a todas as informações, dados e documentos relativos à empresa contratada, ao terceiro substabelecido e aos serviços por estes prestados;

III - que, na hipótese de substabelecimento do contrato a terceiros, total ou parcialmente, a empresa contratada deverá obter a prévia anuência da instituição contratante;

IV - (...)

a) efetuar adiantamento por conta de recursos a serem liberados pela instituição contratante;

(...)

Informativo Tributário Deloitte Touche Tohmatsu - Nº 1/2004

V - que os acertos financeiros entre a instituição contratante e a empresa contratada devem ocorrer, no máximo, a cada dois dias úteis;

VI - que, nos contratos de empréstimos e de financiamentos, a liberação de recursos deve ser efetuada a favor do beneficiário ou da empresa comercial vendedora;

VII - a obrigatoriedade de divulgação, pela empresa contratada, em painel afixado em local visível ao público, de informação que explicita, de forma inequívoca, a sua condição de simples prestadora de serviços à instituição contratante.

... (...)

§ 2º Alternativamente ao esquema de pagamento previsto no inciso VI, a liberação de recursos poderá ser processada pela empresa contratada, atuando por conta e ordem da instituição contratante, a favor do beneficiário ou da empresa comercial vendedora, desde que, diariamente, o valor total dos pagamentos realizados seja idêntico ao dos recursos recebidos da instituição contratante para tal fim." (NR)

"Art. 5º As empresas contratadas para a prestação de serviços de correspondente

nos termos desta resolução estão sujeitas às penalidades previstas no art. 44, § 7º, da Lei 4.595, de 1964, caso venham a praticar, por sua própria conta e ordem, operações privativas das instituições referidas no art. 1º." (NR)

Art. 2º Esta resolução entra em vigor na data de sua publicação.

Brasília, 17 de dezembro de 2003.

Henrique de Campos Meirelles Presidente