Brazil is one of the most promising markets for insurance in the world. Agriculture and other businesses, not to mention individuals, are seriously underinsured. Insurers and reinsurers in Brazil are responding to the country’s needs by designing innovative products for everyone from favela-dwellers to the government.

Solange Monteiro, Rio de Janeiro

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Insurers are waiting for the green light to introduce new products in Brazil, one of the most promising world insurance markets industry. Regulations are expected later this year for micro-insurance and pension plans tied to health, for instance.

According to the Confederation of National Insurance (CNSeg), since 2009 on average market growth has been triple GDP growth. If GDP growth and economic stability continue, in 2011 sales of health insurance, and pension plans should reach about R$205 billion.

Today’s insurance market represents 3.5% of GDP. In mature markets like the United Kingdom it is 13% of GDP, according to Max Thiermann, Allianz Insurance CEO. Last year Allianz collected R$2.1 billion in premiums in Brazil, 13% more than in 2009. Brazil is the company’s fourth largest market. Thiermann says, “We already have in our portfolio insurance of engineering risks for [World Cup] stadiums like the Mineirão in Belo Horizonte, the Arena do Grêmio in Porto Alegre, and the Kleber Andrade in Vitória. “This year Allianz intends to give special attention to insurance for cars, homes, and small and medium enterprises.

NEW REALITY
In mature markets the industry does not expect to return soon to the growth and profitability it recorded before the 2008 crisis. A study of 70 large insurers released in March by consulting firm Accenture found that future revenue growth for insurance companies is likely to be concentrated in emerging countries. Since the industry in India was liberalized in 2000, for instance, it has grown 600% and continues to take advantage of the social security gap; it expects double-digit expansion there for the next five years. In India, five companies control 80% of the market; in Brazil, ten companies do so. In China, between 1990 and 2009, the sector’s annual growth was 26%, concentrated as in Brazil in local banks.

According to Marco Antonio Rossi, CEO of Bradesco Seguros, the Brazilian market leader with sales of R$ 30 billion in 2010, “Since 1990, we have worked with stable rules and controlled inflation, and so we have great prospects
There are many opportunities, from the new middle class to the large universe of small and medium enterprises that do not provide either health or life insurance to employees.”

“And Brazilians are relatively under-insured. Fernanda Chavez, coordinator of statistics and actuarial studies at CNSeg points out that unlike in Brazil “a doctor in the United States does not act without a liability insurance policy.” André Portela Souza, EASP / FGV economist, gives another example: In the agricultural sector, he says, the government policy of guaranteed minimum prices “creates distortions in resource allocation; it would be more efficient to have insurance tailored for each type of event.”

Nikhil da Victoria Lobo, Swiss Re head of public sector business for the Americas, visited Brazil in April to offer the government customized solutions of a type the company introduced four years ago when it insured the Mexican government against earthquakes. “We already have contracts with 15 governments—federal, state, and municipal—to cover ten different types of risk,” he says, among them agricultural risks in Vietnam and pandemics in other countries. Swiss Re is now designing policies to cover longevity in pension systems.

In a 2008 study the World Bank noted that while growth in an economy is an invitation to expand the insurance industry, a healthy insurance market also helps countries grow. (The study analyzed the performance of 55 economies between 1976 and 2004.) Mitigating risks promotes stability, and more efficient management of risks stimulates accumulation of new capital and more efficient allocation of domestic savings.

This virtuous circle, the World Bank study says, also involves the financial system. The risk protection offered by insurance encourages the banking system to save by reducing the cost of capital to companies. And, depending on how each country regulates insurance, its activity, especially in life insurance, boosts stock markets.

**MICROINSURANCE**

Later this year Congress is expected to pass regulations for selling life (including funeral assistance), home, and personal accident policies to those of lower income.
(microinsurance). The market is estimated at 100 million people.

A 2009 study by the FGV Center for Social Policy points out that even where a government offers more abundant social insurance than countries of similar income, it cannot respond to unique individual needs. Supplementary private insurance could absorb shocks and maintain a family’s standard of living. Between 2003 and 2009, 27 million Brazilians moved up, into the upper, middle, or lower-middle class, and 24 million broke out of poverty. Once this market develops, says FGV economist Souza, social insurance mechanisms might be modified “so that everyone is free to choose depending on their risk aversion.”

For this potential to be realized, however, Jorge Hilário, president of CNSeg, says that market regulation needs to ensure simplified processes and an efficient system to distribute low-cost insurance products to geographically dispersed buyers. He also insists that “it is important to ensure more efficient taxation, from the cost of the policy to the inspection fee, because today there is no differentiation by segment.”

The microinsurance bill Congress is considering would reduce rates to 0.53% for PIS/ PASEP and Cofins¹ compared to 4.65% on traditional insurance policies (except life), which are also subject to a 7.38% financial operations tax (IOF). Because the industry recognizes that not all the risks of doing business with the emerging middle class are yet known, many companies have already begun testing the waters. Late in 2010 SulAmérica launched a product costing R$3 (US$1.8) a month with benefits of R$7,500 for accidental death; it is sold through the Redetrel. “Our goal is to sell an average of two insurance policies a day at each [of about 6,000] vending points”, says Renato Russo, vice president of the SulAmérica life insurance and pensions division. The intent is to begin a relationship with the insured and then expand the range of services offered.

Low-income Brazilians “want to persist in their achievements,” says Eugenio Velasques, director of Bradesco Vida and Previdência. “However, while the

¹ PIS/PASEP and Cofins are federal contributions designed for funding social security.
Later this year Congress is expected to pass regulations for selling life (including funeral assistance), home, and personal accident policies for those of lower income (microinsurance). The market is estimated at 100 million people.

The burgeoning private pension and health segments hope to come together to gain market share this year. In 2010, individual pension plans brought in R$46 billion in new deposits, 19% more than in 2009, and 12 million contracts were written. Health plans have also shot up almost 50% since 2000, from 30.7 million members to 45.6 million, mainly because of the increase in formal employment: 74% of health plan members are linked to collective bargaining plans.

The National Health Agency (ANS) is reviewing a plan that would invest part of the monthly payments in a fund to cover health expenses after age 60. According to the ANS the number of elderly, who now represent 10% of the population and 25% of health spending, is expected to triple by 2050. Another health plan model is a savings account that would offer high-risk insurance coverage for surgeries and hospitalizations.

These alternative health plans “are an incentive to save more and will be tax-exempted, as are retirement savings products,” says SulAmérica’s Russo, who is also vice president of the National Federation of Private Pension and Life Insurers (Fenaprevi). Some, however, have reservations.
Carlos Suslik, who coordinates the MBA in Health Management of the Institute of Education and Research, comments that “with pension plans the person that receives the benefit is the same person that pays the premiums. Since it is impossible to predict how much it will cost to treat a disease, health plans [on the other hand] pool contributions from many to pay for the health care of some.”

GROSSING PAST THE BARRIERS

Discussions on alternative strategies for new markets are natural, experts say. They note, however, that the government has to establish clear and stable rules to foster a sound market—unlike the experience of the reinsurance market. In 2008 elimination of the monopoly of the Brazilian Reinsurance Institute (IRB) attracted many foreign operators interested in large infrastructure projects. What happened then, however, was that the Private Insurance Agency (Susep) prohibited reinsurers from sharing risks in Brazil with other companies abroad, though it then amended its decision to allow sharing of 20% of the risk.

Such government intervention discourages competition. Today, insurance companies are mandated to transfer 40% of their risks to the main local reinsurer—still the privileged IRB—but can share only 20% of their risk abroad. “[When] reinsurance becomes more expensive for smaller and foreign companies, it smacks of protectionism,” says Luis Augusto Carneiro, professor of economics, business, and accounting at the University of São Paulo.

CNSeg president Hilário agrees that the 40% to the IRB must be reviewed but is not sure how much government-created insecurity has actually affected businesses. For international insurance companies there is a high “Brazil cost,” he admits: “a distribution system that requires use of local brokers, the high IOF tax, rigid limits on diversification of investments [only 2% can be in equities]. But nevertheless they continue to come.” What concerns him more is a familiar threat: inflation, “which corrodes the currency, and makes it difficult to assess the value at risk.”

2 Reinsurance is insurance that an insurance company buys from another insurance company (reinsurer) to lay off some of the risk.