The insurance industry in Brazil is experiencing an unprecedented boom period. The four largest banks—Bradesco, Banco do Brasil, Itau-Unibanco, and Santander—have spent the last two years consolidating their insurance operations and restructuring products and processes to win over a good number of the 80 million Brazilians with active checking accounts.

“We have 40 million households in Brazil and only a few are covered. Only now has Bradesco reached 1 million, and we are the second largest home insurance company,” says Marco Antonio Rossi, president of Bradesco, which is responsible for 25% of total insurance sales. Rossi estimates that selling only to the bank’s clients, Bradesco could reach 8 million residential insurance policies.

Joseph Rudge, vice president of Itau-Unibanco, agrees: “We view with optimism not only the growth of Brazilian companies but above all the infrastructure works required to host the big events to come, the World Cup and the Olympics, which will require coverage of the risks.”

Account holders — Similarly, Santander bank is not only focused on its clients — the bank is responsible for life insurance, pension plans, home and car insurance, and business risk policies offered by strategic partners — but is reaching out to other companies as partners, primarily Vivo, which writes accident
BRAZILIAN Insurance

“The idea is to have a product that appeals to cell phone customers. If all goes well, new channels will be open to reach customers outside the bank,” says Gilberto Abreu, director of insurance for Santander bank.

Government-owned Banco do Brasil is this year finishing up a major restructuring that began in 2009. Paulo Rogério Caffarelli, BB vice president, says one aim is to increase the share of insurance operations in bank profits and generate products customized for every type of customer: “The strategy is to create for our clients a safety net for modern life risks and income accumulation for retirement.” The BB has a partnership with Icatu for capitalization, with The Hartford in the US for private pension funds, and with Spain’s Mapfre for general and life insurance. BB is also finalizing the purchase of the National Treasury’s interest in the Brazilian Institute of Reinsurance (IRB).

“There is so much interest we expect that Brazil will soon occupy a prominent place among the largest insurance markets, since it already ranks among the top 10 economies in the world,” said Antonio Cassio dos Santos, president of the Mapfre holding company, adding that “Brazil has become fashionable in the world because of the new horizons of the national economy in recent years.”

Indeed, the performance of Brazil’s insurance industry has been encouraging. Over the last decade it grew at a rate more than twice that of national GDP. The sector earned R$107 billion in 2009, 11% more than in 2008. Of the total, private pension funds accounted for R$38 billion and general insurance for R$33 billion. Brazilians clearly are more aware of the need both to protect their assets and to save part of their income for the future.

Health insurance makes up 12% of total sales (R$12 billion), an increase of 10% over 2008. Although there are 10 groups that work selling health insurance, Bradesco and SulAmérica together account for 79% of sales.

Sales of insurance represented 3.4% of GDP in 2009, up from just over 3.2% in 2008. “If we consider that GDP had a real decline of 0.2% last year, the performance of the insurance market was very significant. Sales of insurance policies grew by 6.1% in real terms,” says Flavio Faggion, CEO of Siscorp Consulting.

Gains — Along with sales, net income has also risen. Consolidated profit reached R$7 billion in 2009, almost 20% higher than in 2008, mainly from efforts to reduce costs to make up for losses in revenue resulting from the decline in interest rates, according to Siscorp Consulting. In 2009 Bradesco was the most profitable company with more than R$2 billion — nearly 40% of the profit of the bank. Faggion

Over the last decade the insurance industry it grew at more than twice the rate of national GDP. The sector earned R$107 billion in 2009, 11% more than in 2008.
says that “market profitability, measured by net return on equity, was 24% in 2009 and 22% in 2008, which underscores the market’s ability to remunerate the investment of shareholders. The performance of the insurance industry has been good even though it has not yet even begun to benefit from planned investments in infrastructure to sustain Brazil’s growth. The government’s Growth Acceleration Program 2 (PAC 2), with investments of nearly R$1 trillion; the World Cup in 2014; and the Olympic Games in 2016 are all huge investments that will require many insurance contracts.

“There are opportunities everywhere you look,” says Jorge Gonzalez Cale, CEO of Group Aon Corporation for Latin America, part of the largest insurance broker in the world. Like Aon, an endless number of foreign investors are attentive to all types of possibilities, from complex insurance for investments in the new technology needed for the Pre-salt oil field to simplified funeral insurance for those with lower incomes. “The way Brazil’s economy came out of the financial crisis, its economic stability, and international optimism about the country’s development allow for a very optimistic view of the growth of the insurance market,” says Guillermo Leon, president of Chartis Insurance, a subsidiary of American International Group (AIG) specializing in property risks.

A recent report issued by Santander analysts also raises optimism. It predicts that the sector should keep growing at about 15% a year through 2014. Growth will be spurred by such factors as automobile sales, a drop in the unemployment rate, and expanded credit for all segments, especially housing. “Brazil has a promising future and all segments of the economy will benefit,” says Acacio Queiroz, president of Chubb.

Optimism — Accenture studied how 30 major insurance companies in Brazil see prospects for the domestic market through 2015, and found they expect strong growth for insurance products for life, health, and pensions. Besides an increase in consumption by those who already have some insurance, the sector has benefited from the higher purchasing power of the population. “With the reduction of the poverty rate and the increase in the Brazilian middle class, which could reach 100 million people, the insurance market will gain direct consumers for the sector’s products,” the study said.

A report from Goldman Sachs investment bank highlights the natural potential of the sector by evaluating the low share of insurance in total domestic product. In Brazil the insurance industry has a share of 3.4% in GDP; the world average is 8%. The study found that the gap between Brazil’s ranking among the ten largest economies and its ranking only 17th in the world insurance industry will narrow over the medium term as the benefits of the opening of the reinsurance market become more visible.
Indeed reinsurance has changed most in the past two years. To open the reinsurance market, the Superintendence of Private Insurance (Susep) had to adjust regulation of it to international standards. This generated a wave of consolidations and intensified local competition as more foreign investment came in. More than 80 international insurance companies — reinsurers, brokers, and service providers — have since set up business in Brazil.

The elimination of restrictions on buying reinsurance raised Brazil’s attraction to the insurance industry. Susep found that in 2009 total foreign investment exceeded R$14 billion invested in more than 50 companies. Among the latest companies to enter the market is the Canadian firm Fairfax. “At the end of March we increased our capital from R$40 million to R$71 million,” company president Jacques Bergman says. In April, Chartis too announced a capital increase of R$54 million.

Changes — This scenario turned the domestic insurance market into an international one. Virtually everything in the sector was restructured in the last two years, products as well as management. Advertising has also changed. Instead of terrorizing people with the fear that something bad can happen at any time, making insurance a necessary evil, the new campaigns are more creative and friendlier.

Liberty has chosen a social responsibility theme. As a result, “We grew 16.5% last year and hit the mark of R$1.5 billion in [insurance premiums]. Now we have the scale to pursue greater involvement in the country,” Luis Maurette, president of the Brazilian subsidiary of American Liberty, said. Liberty arrived in 1996. The campaign aims to enhance the company’s presence in retail insurance; it spent the last year investing in the performance of its high-risk group through two new subsidiaries, Liberty International Underwriters (LIU), focused on greater risks and Liberty Syndicates, the reinsurance group.

SulAmérica was already using the slogan “Why worry?” For Patrick Larragoiti, its chairman, the new campaign aims to make the company the preferred choice of both brokers and insured by 2012: “We want the insured and the broker to think of SulAmérica as agile and transparent, prepared to avoid hassles.”

Target — This February Bradesco launched insurance for accidental death for the lower middle class and...
the poor, aged between 20 and 50, and targeted first residents in the large urban centers of Rio de Janeiro and São Paulo. The insurance covers such events as shootings and costs only R$3.50 per month; policy limits reach R$20,000, Bradesco director Eugenio Velasques says.

Insurance for the general population is likely to see intensified competition between banks and independent insurers. In 2009, this niche saw the highest growth in sales, totaling R$52 billion. It now represents almost 49% of the total insurance market, according to a Siscorp survey. The policies are sold mainly by large retailers or banking networks, and premiums are usually paid automatically through credit cards or direct debit of a bank account. Large corporations also sell insurance on site to employees at a cheaper price.

**Auto insurance** — The biggest concern of Brazilians is their cars. Besides theft, drivers also fear floods. In 2009 the car insurance segment unexpectedly showed significant growth of 13%, tracking the good performance of vehicle sales.

Psupar, a joint venture between Porto Seguro and Itau-Unibanco, is the leader in the sales of car insurance with 28% market share. Bradesco ranked second with 14% and SulAmérica third with 12%.

**Rural and housing insurance** grew most in 2009, rural at 30% and housing at 26%. Farming has been gaining prominence mainly because Brazil is a major supplier to China. Housing is expected to continue to be a strong market as the credit for mortgages has expanded significantly.

According to Siscorp’s Faggion, although the industrial sector declined 5.5% in GDP in 2009, insurance of large risks, operational and fire, had very satisfactory growth of 7%. However, other insurance products suffered from the financial crisis: credit insurance was down 15%, transport insurance down 8%, and risk guarantee insurance down 3%.

**Expectations** — The watchwords in the industry for 2010 are competition, reduction of costs, and gains in economies of scale to make insurance more affordable. Although there seems to be little room for further consolidation between large insurance companies, mergers and acquisitions should continue, according to Mapfre’s Cassio dos Santos: “There will be a lot of movement among smaller insurers, with the emergence of a large number of new companies specializing in niche markets and regions.”

Insurance companies also are betting on increased sales of liability insurance — the more aware and educated population, the higher the sale of such insurance. There is a trend of increased sales of liability insurance for both individuals and corporations, whether in traditional policies such as automobile and home or in corporate programs to protect the assets of executives from lawsuits by third parties alleging mismanagement.

Worldwide, about 75% of car insurance premiums are for liability coverage. In Brazil, this value is minimal. Only 30% of Brazilian car owners have any insurance, and almost all the contracts are to cover damage to the buyer rather than harm to others. “Liability coverage is a matter of education and awareness,” explains Paul Umeki, director of Liberty Insurance.