

Extending access to insurance in Brazil

Proposals for regulatory change

Conseguro, Brasilia, 8 June 2011

Presentation by Hennie Bester

An industry contribution to policy

1. What can popular insurance contribute to Brazil?
2. Who's the target market?
3. What are the big obstacles to serving them?
4. How can regulation help?



“Social inclusion makes our growth sustainable”

Pres. Dilma Rousseff, *Brasil Sem
Miséria* launch, 2 June 2011

Insurance can protect the gains of social inclusion



- Bolsa Familia success story: 28m out of poverty, 36m joining the middle class
- New R\$20bn *Brasil Sem Miséria* to eradicate extreme poverty

BUT

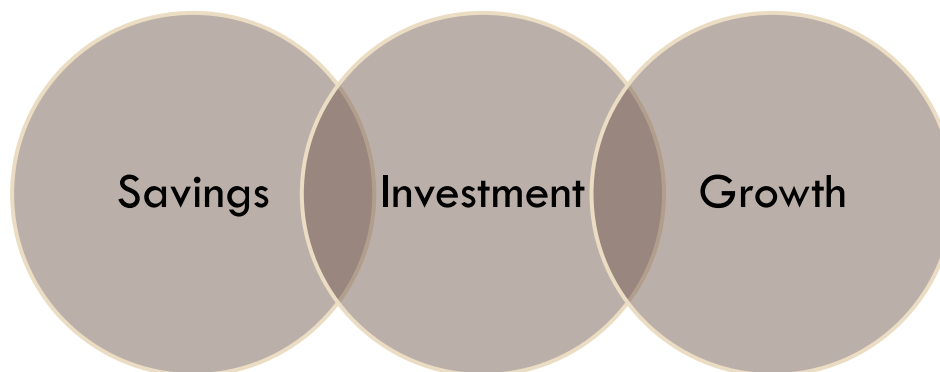
- Fiscal constraints
- Poor (slowly improving) education
- Low savings by the poor



- Insurance as market tool to **protect the gains of social inclusion**
- Reduced need for state as protector of last resort – **fiscal benefit**

Leveraging investment

□ International evidence:



- Brazil grows a lot, but domestic savings and investment too low (<20% compared with Asia's 30-40%) to sustain it.
- Over-reliance on FDI, with negative consequences.

Insurance market growth = institutional investment growth

Sources:

Antonio Corrêa de Lacerda, 'Poupança e investimento', *O Estado de São Paulo*, 11 November 2009. Available at:

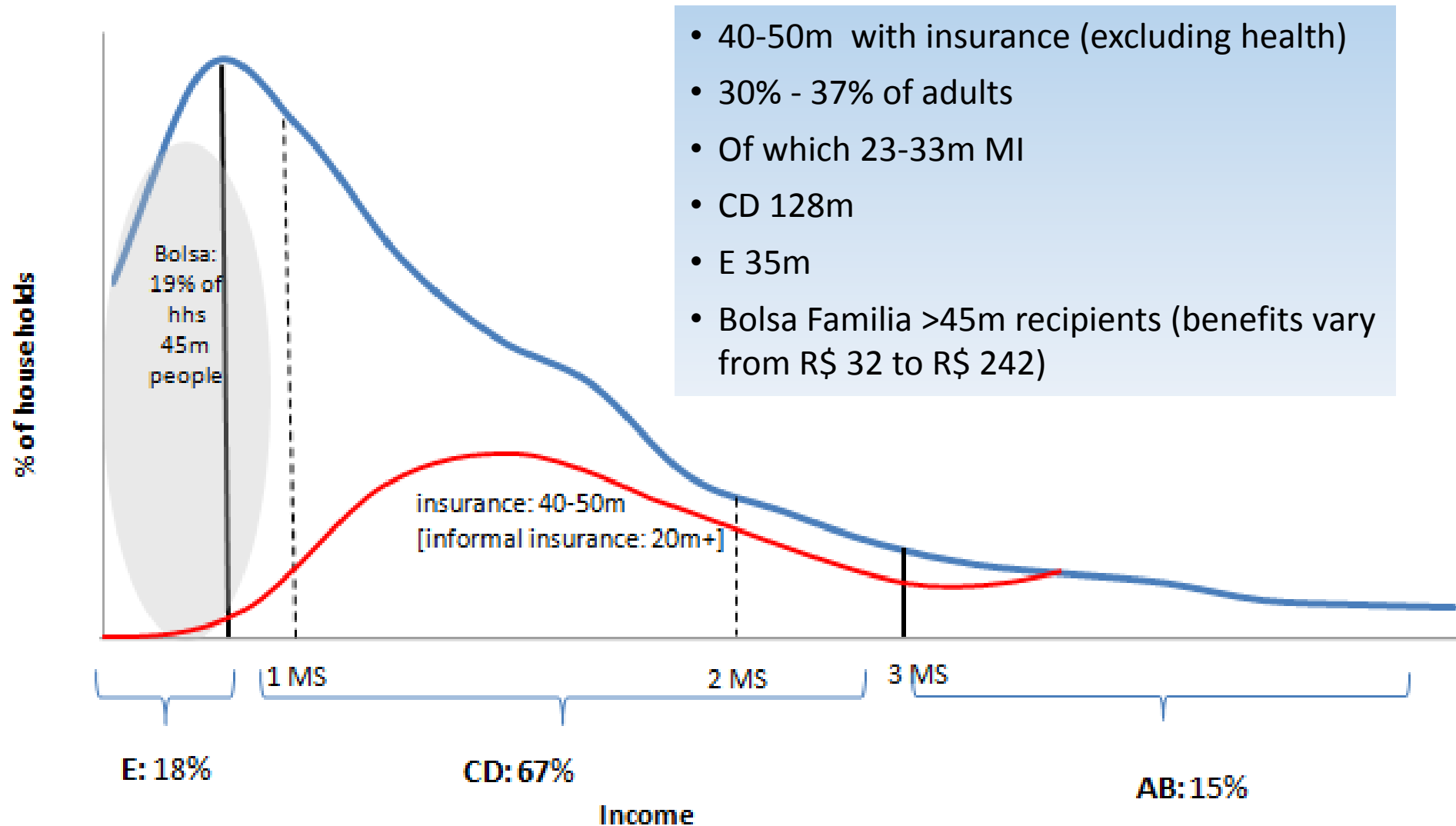
http://www.estadao.com.br/estadaodehoje/20091111/not_imp464424,0.php

World Bank, 2001: Savings Investment and Growth in Developing countries



Increasing access to private insurance should be a
national priority for Brazil.

Current insurance usage and potential market

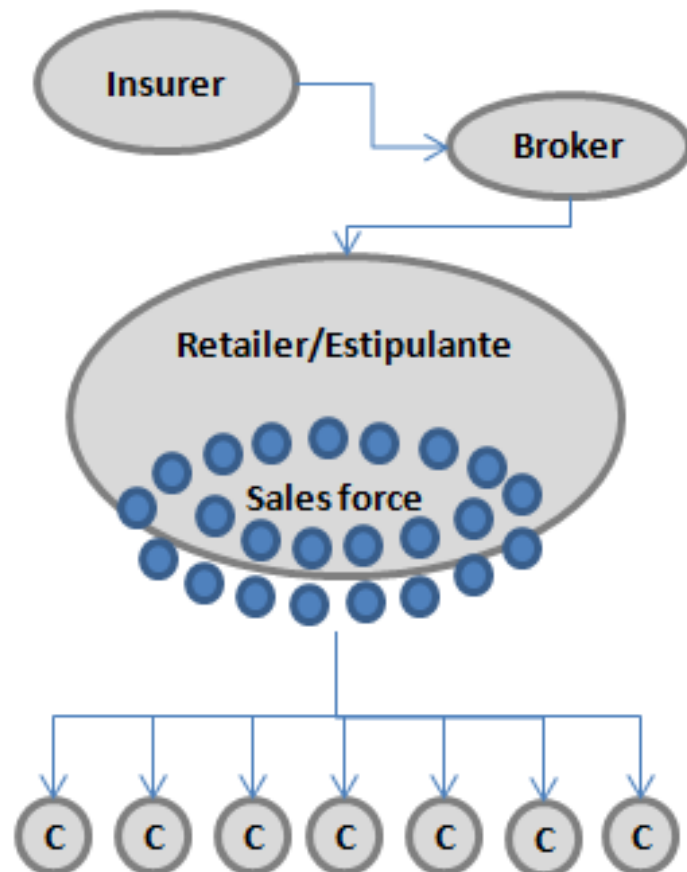


The big obstacles

1. Long, expensive distribution channels
2. High compliance costs
3. Low claims ratios
4. Anchor risk provided by informal providers

Long distribution channel

Retailer channel



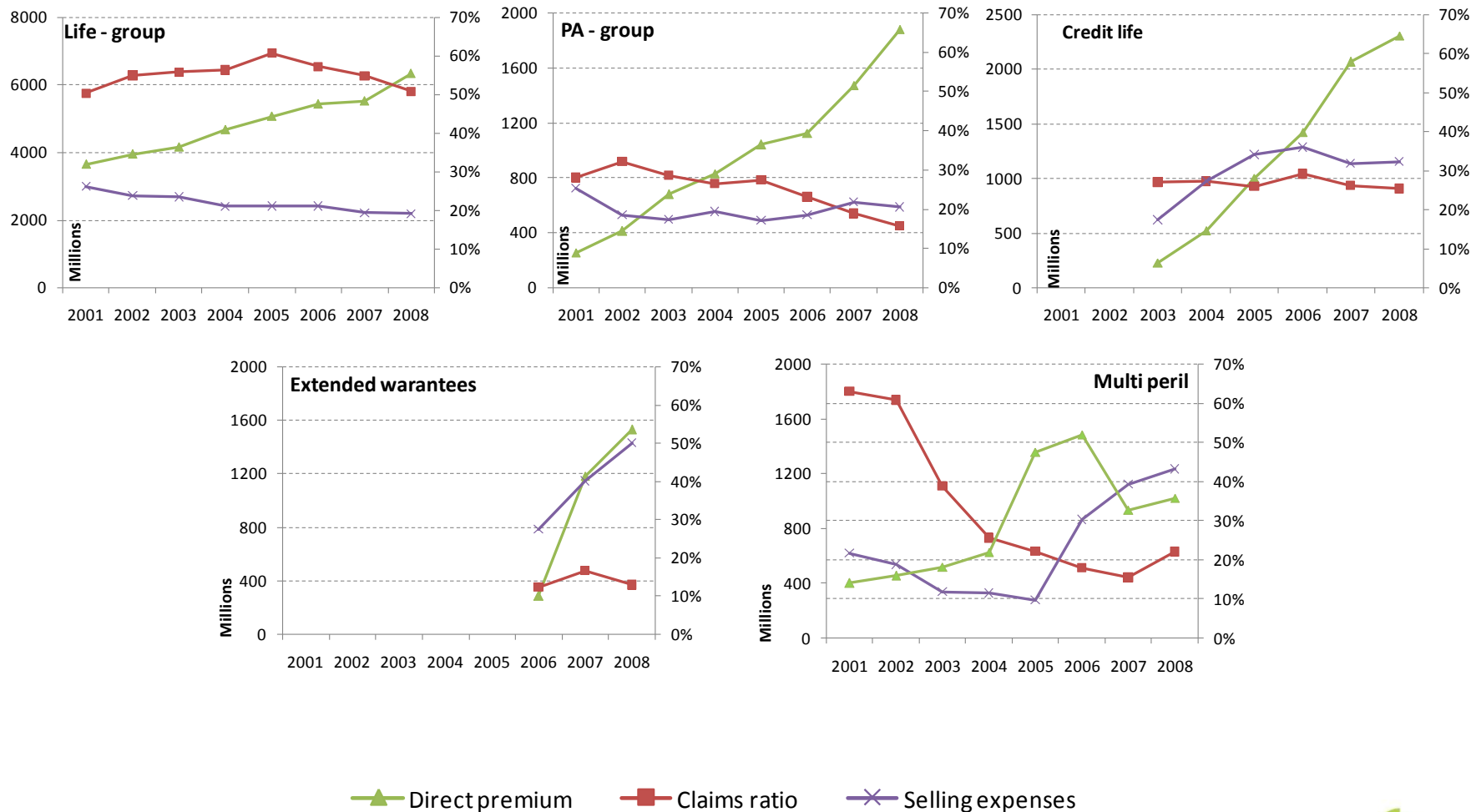
Roles

Underwriting
Product development

Facilitating relationship
Consolidating data

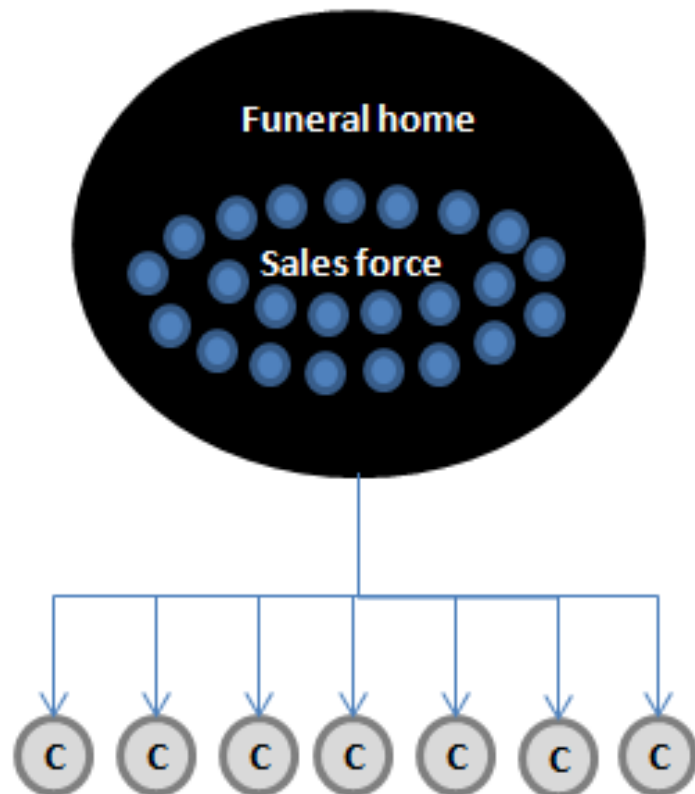
Marketing
Admin
Labour
Product development
Client intelligence
Premium collection

Increasing costs and decreasing claims ratios



Anchor risk informally covered

Funeral homes



Roles

Underwriting (though not generally based on insurance principles)

Marketing (via sales force or through funeral homes and cemeteries)

Collection

Claim payment in form of funeral service

May include other benefits "in life"

Client perspectives

- Do not all have a single source of income, live in a new reality of spending, not saving
- Tend to be opinionated, brand conscious and technologically savvy
 - Bradesco research: 80%+ of C & D are on social networking (Facebook, etc)
- Value “benefits in life”
- Place great value on the lottery (capitalisation)
- Quick to distrust insurers
- Value funeral insurance (25m+ clients) – for pragmatic reasons, even if reluctant to talk about death

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

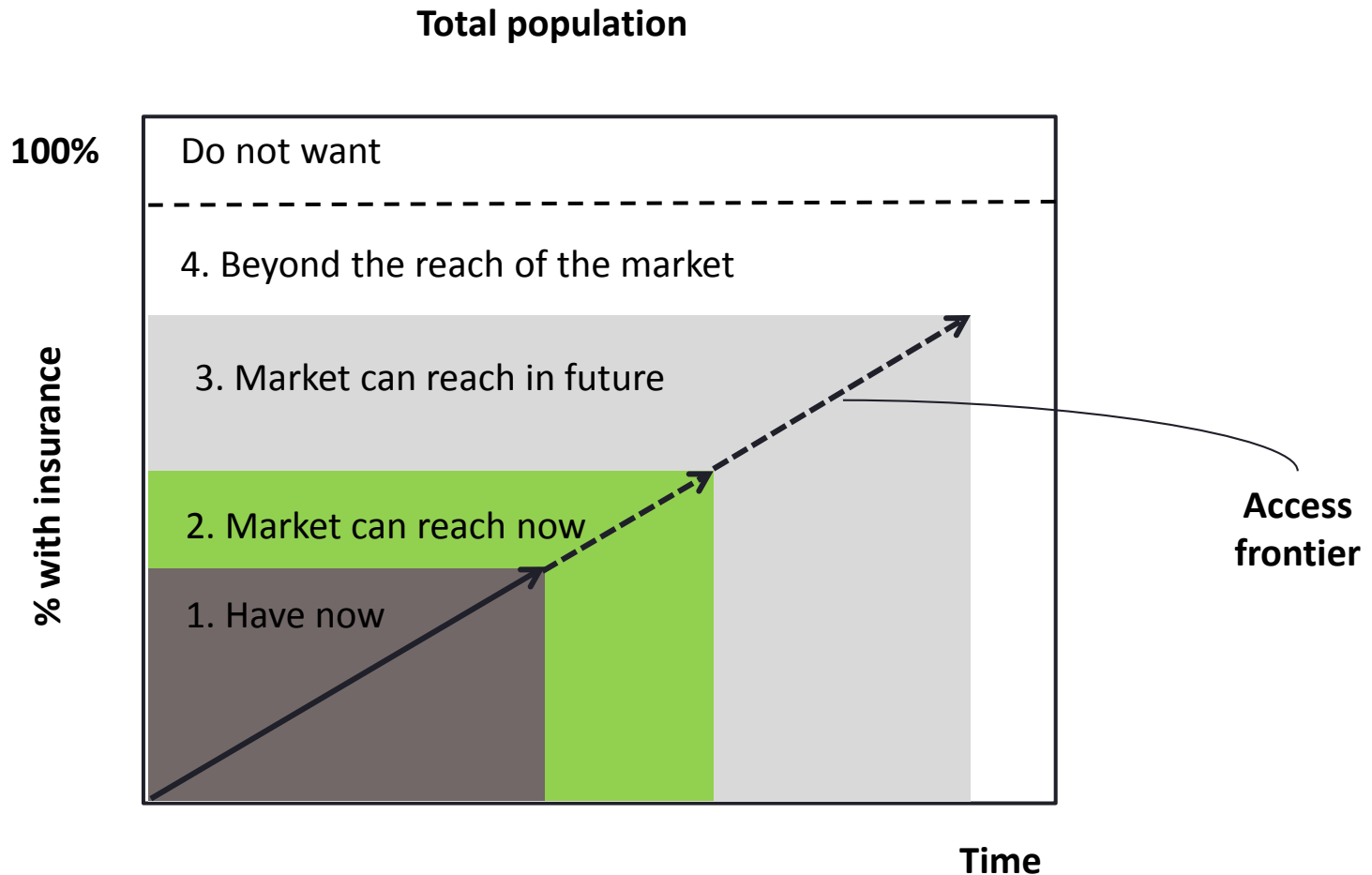
“Insurers don’t know how to speak to the public. They don’t provide clear messages, they don’t explain exactly how the insurance works.”

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

MI regulatory objectives

1. Promote access to insurance rather than just microinsurance
2. Open up more distribution channels
3. Enable low cost direct sales
4. Reduce compliance cost for dedicated providers, including lower solvency requirements
5. Extend consumer protection to informal market

Access to insurance rather than just microinsurance



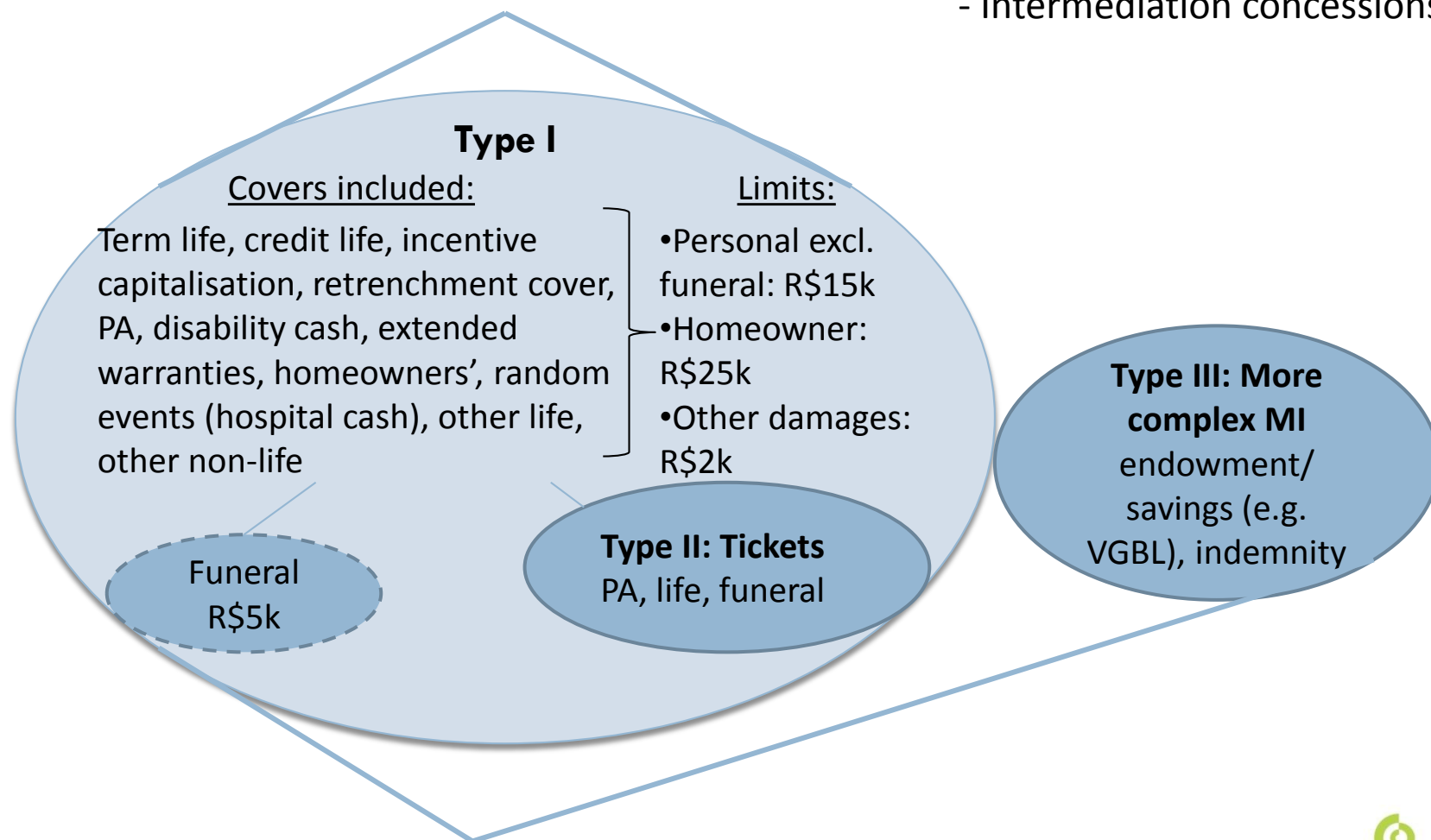
Regulatory proposals

1. Towards a definition
 - ▣ Types of cover
 - ▣ Product parameters
2. Dedicated MI providers
3. MI correspondent
4. MI brokers
5. Simplified contracting
6. Tax incentive to save

Proposal 1: MI products & providers

Dedicated microinsurers ----->

- Reduced solvency requirements
- Intermediation concessions

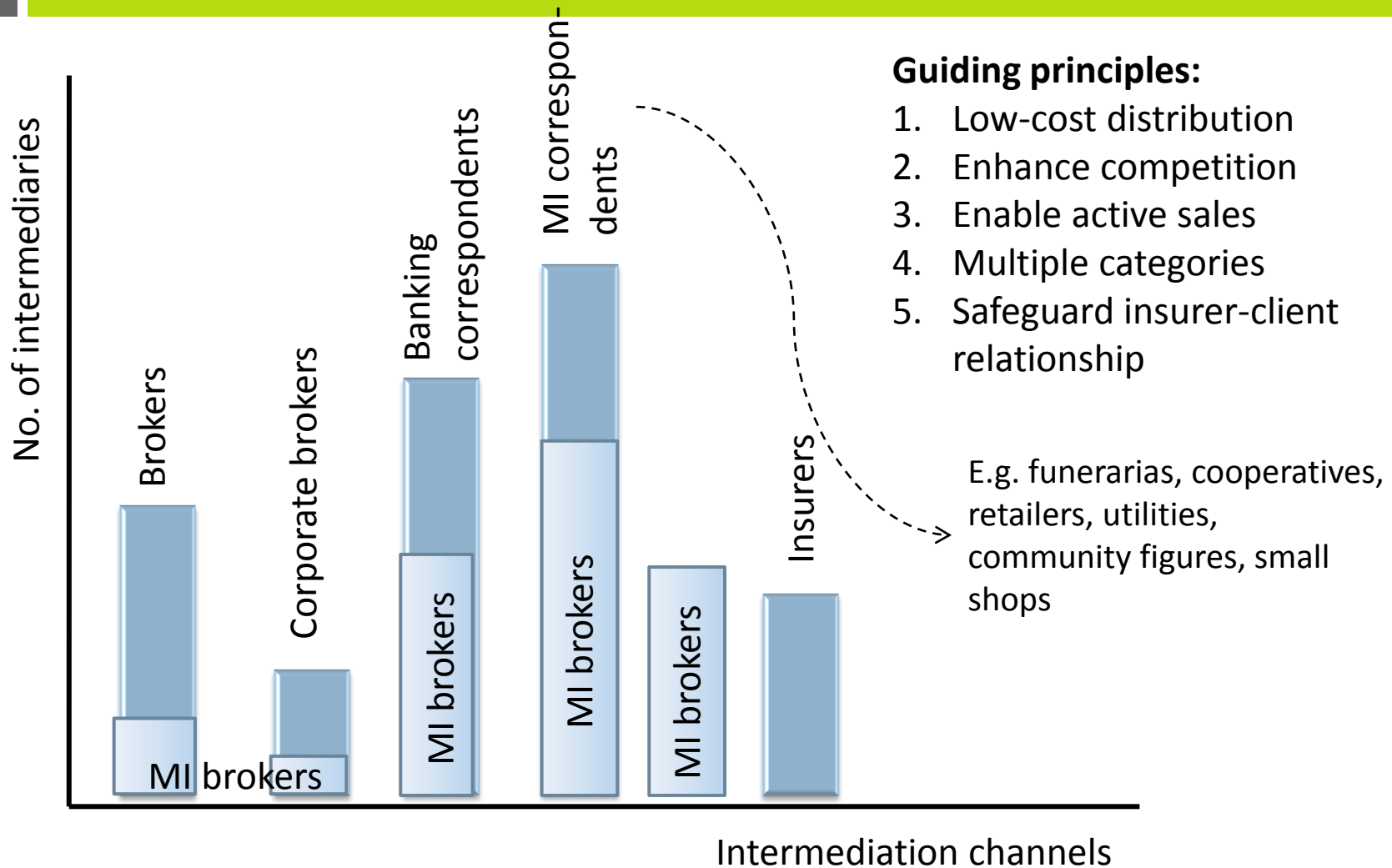


Intermediation concessions

Dedicated microinsurance providers

- Limited to lower risk products (Type I and II)
- Facilitate innovation and bring new players into the market
- Lower compliance requirements
- **Lower solvency requirements** - actuarial calculations show that standardized model for capital (Circular 411/2010) is very conservative with regard to underwriting risk associated with low income insurance
- Two solvency options:
 1. Calibrate a standardized model according to low-risk product parameters
 2. Allow partial internal model - “Plug in” internal formula on underwriting risk component

Microinsurance intermediation



Summary proposals: intermediation

	Type I – mainstream MI	Type II - tickets	Type III – more complex MI
Traditional brokers	√	√	√
MI brokers	√	√	
MI brokers-“plus”	√	√	√
Banking correspondent staff		√	
MI correspondent staff		√	
Dedicated sales staff	√	√	√

**Limited
training &
certification**

**No training/
certification**

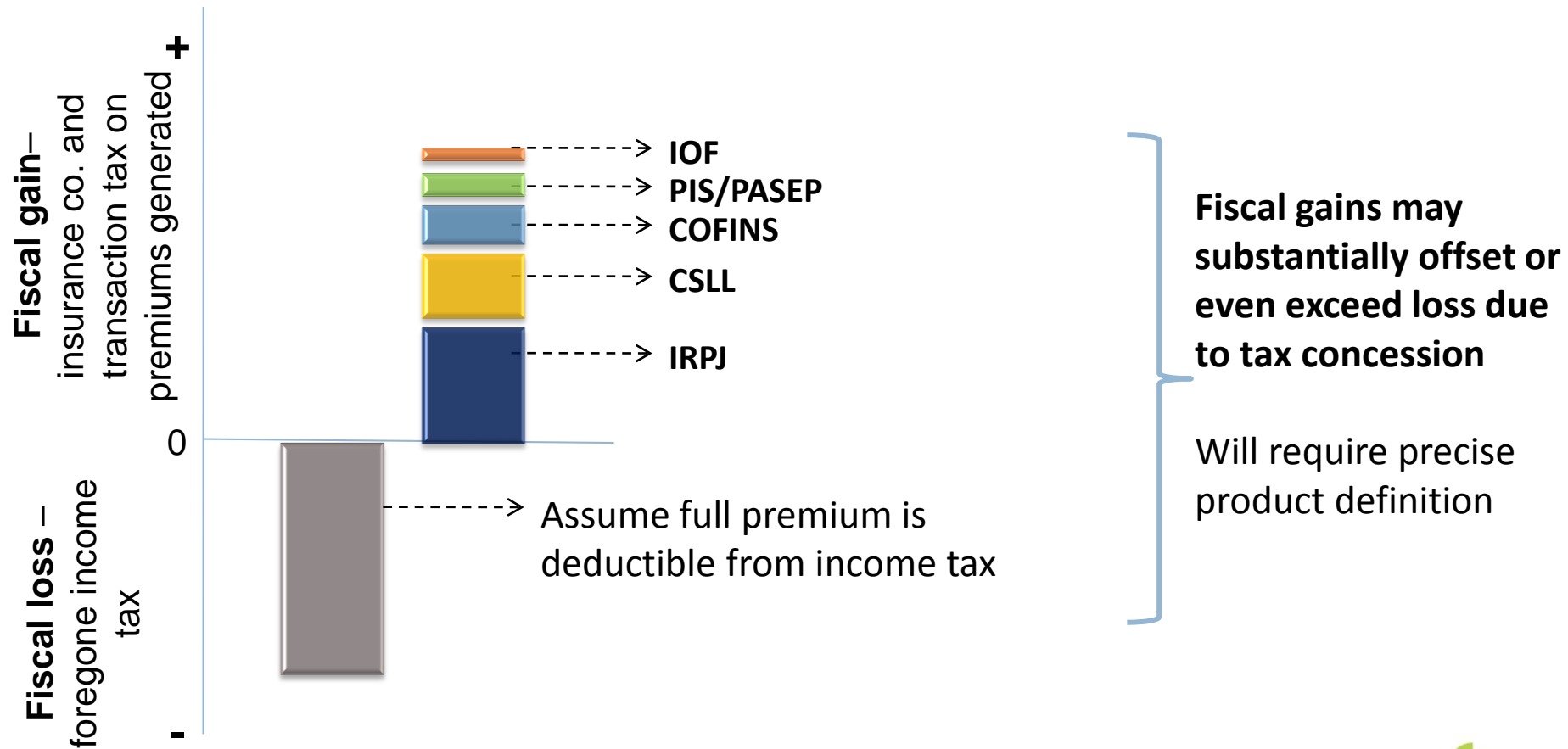
**More
advanced
training &
certification**

Transaction simplification

- Ticket sales – commoditized insurance products
- Electronic contracting
- Electronic transactions (e.g. m-payments)
- Cash collection of premiums
 - Law 5,627 of 1970: SUSEP may waive the requirement to collect premiums via banks for individual life and for others if premium <25% of the highest minimum wage

Tax incentives for premiums paid on behalf of employees

Rationale: to incentivise insurance and savings for those below income tax threshold (e.g. micro VGBL)



Why a bill is necessary?

COMISSÃO DE FINANÇAS E TRIBUTAÇÃO

SUBSTITUTIVO AO PROJETO DE LEI Nº 1.233, DE 2011

A law of Congress will:

- Establish access to insurance as a national priority
- Create MI as a composite class
- Establish dedicated microinsurers
- Create MI correspondent as a new insurance intermediary
- Implement a tax concession for employers paying premiums on behalf of employees
- Provide strong regulatory mandate to SUSEP

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A pessoa natural ou jurídica, inscrita no CNPJ, que tenha sido classificada pela sociedade seguradora como microsegurado, poderá ser segurada de plano de microsseguro a pessoa natural ou a microempresa definida no art. 3º, inciso I da Lei Complementar nº 123, de 14 de dezembro de 2006, desde que esta Lei, que visa primordialmente preservar a vida e a integridade física do segurado, mediante pagamentos de prêmios proporcionais às probabilidades de ocorrência dos riscos envolvidos, em conformidade com a legislação e os princípios de seguro globalmente aceitos.

§1º Poderá ser segurado de plano de microsseguro a pessoa natural ou a microempresa definida no art. 3º, inciso I da Lei Complementar nº 123, de 14 de



Thank you

Questions or comments:

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