Mapfre Seguros:

Retailer microinsurance distribution in Brazil

Part of a series of case studies on alternative microinsurance distribution models

Authors: Herman Smit and Anja Smith

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The Centre for Financial Regulation and Inclusion

University of Stellenbosch Business School Bellville Park Campus, Carl Cronje Drive, Bellville, 7530, South Africa

+27 21 918 4390

www.cenfri.org

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Foreword

The case study presented in this focus note is one out of a series of case studies on alternative, innovative microinsurance distribution models prepared for the International Labour Organization's Microinsurance Innovation Facility. Cost-effective distribution at scale is one of the biggest challenges facing insurers in low-premium environments, where customers are typically unfamiliar with insurance products. In an effort to effectively reach as large a client base as possible, emphasis is increasingly falling on innovative new distribution models as alternatives to traditional broker and agent sales. This focus note series takes stock of these alternative distribution models as they are emerging internationally. There is no template for what qualifies as an alternative distribution model. Rather, it is the diverse, innovative and evolving nature of such models that defines them. There are, however, several common features shared across all models. For this reason, in choosing the models to be included in the case study series, we have defined alternative distribution models as those meeting the following criteria:

- *Scale through concentration*: Ability to achieve scale through targeting large client concentrations, i.e. specific non-insurance client groups such as clients of retailers, cell phone companies, utility companies, etc.
- *Presence of infrastructure footprint*: When entering into partnerships with organisations with large client concentrations, alternative distribution models rely on the presence of an infrastructure footprint that is larger than what could be achieved by an insurance company in isolation. The infrastructure could be physical (e.g. brick-and-mortar stores) or technological (e.g. a cell phone network).
- *Transaction platform*: The sales channel typically doubles as a premium collection platform, e.g. adding premiums onto a utility bill.
- *Standalone voluntary product*: The case study business models distribute voluntary insurance products sold on an "opt-in" rather than "opt-out" basis. Buying the insurance is an explicit choice by the customer, rather than an automatic addition to another product or service.

The purpose of the case studies is to review the success and development of alternative microinsurance models that have been developed during the last few years. This focus note identifies success factors as well as challenges faced in the process of innovative distribution. This contributes to a better understanding of how insurance products work in the low-income market.

1. Introduction

This case study focuses on Mapfre's alternative (retailer) distribution channels, an area that has seen particular innovation in the Brazilian context[1]. The success of Mapfre's retailer distribution model has long served as a benchmark in the microinsurance community. The lessons learnt from Mapfre's experiences – both failures and successes – are shared in this case study.

Lessons from this case study. This case study highlights the experience of Mapfre Seguros as well as that of its partners in the microinsurance market. It illustrates the following themes and issues:

- The use of retail distribution of microinsurance to decrease distribution costs and increase reach.
- The use of a distribution partners' sales staff to actively sell microinsurance policies.

Methodology. The project draws on information gathered during a number of interviews with microinsurance providers[2]. The information from the interviews is supplemented by publically available information on these providers and their distribution channels, including newspaper reports, websites and annual reports. In addition, the report draws strongly on other research documents compiled by Cenfri on the Brazilian microinsurance market and on alternative distribution channels in other markets.

The products, underwriters and distribution partners reviewed in this case study were selected based on their high level of involvement in the low-income market. Their level of involvement was identified from desktop research and telephonic consultation with Brazilian microinsurance experts and the insurance industry body Confederacao Nacional das Empresas de Seguros Gerais, Previdencia Privada e Vida, Saude Suplementar e Capitalizacao (CNSeg).

The case study first provides an overview of the underwriter. Specifically, it highlights Mapfre Seguros' involvement in the low-income market and its relationship with Casas Bahia (a retailer) and Vivo (a telecommunications provider). The focus then moves to the product offering with consideration given to the product design process, the sales process and product performance.

Available data. Given that the case studies will be placed in the public domain, data that provide a true reflection of the success and value of different models and products, for example the number of policies sold, claims ratios, policy persistency, total premiums generated, profit, etc, are often not disclosed by the providers on the basis of being commercially sensitive. Where companies were willing to share this data, it is included in the report.

[1] Brazil was identified as a country of interest during a global scan for innovative alternative distribution models conducted by the Centre for Financial Regulation and Inclusion (Cenfri) for the International Labour Organization's (ILO) Microinsurance Innovation Facility (MIF). Other countries indentified were Mexico, Colombia, Brazil, South Africa and India.
[2] List of individuals and organisations interviewed available in the appendix

2. Positioning the distribution channel

Brazilian context[3]

The insurance sector in Brazil consists of 160 companies involved in one or more of the following: insurance, open-market pension products or capitalisation[4] (offering savings bonds linked to the national lottery) products. Total premiums collected in the insurance market (excluding open market private pension, medical insurance and capitalisation) reached R$70.5bn (US$39bn[5]) for the year ending June 2009. This corresponds to an insurance penetration rate of 2.4%[6], making Brazil Latin America's largest insurance market (Hougaard et al., 2010).

It is estimated that the Brazilian microinsurance market (formal and informal[7]) provides cover to approximately 40-50m people (Hougaard et al., 2010). The typical microinsurance target population earns between US$65.1 and US$781.2 (respectively ¼ and 3 times the minimum wage). The legislated minimum wage in 2009 was R$465 (US$260.4) per month. Typical microinsurance premiums range from R$2 (US$1.12) to R$50 (US$28) per month.

Distribution models

The same study identified seven distribution channels used in the distribution of formal microinsurance and funeral[8] insurance:

- **Utility and database distribution**[9]: Database distribution refers to the marketing of insurance products to an existing customer base, such as the clients of utility or telecommunications companies.
- **Retailer-based distribution**: Retailer distribution (the focus of this case study) refers to the distribution of insurance products through retail stores. This type of distribution usually refers to (but is not limited to) the sale of the product in-store by sales staff. Brazil has an extensive retail footprint, consisting of at least 27,000 retail stores (PWC, 2007). Of these, about 80% are supermarkets. There are also a number of large credit retail chains[10]. The top 10 credit retailers had a total of 2,503 stores in 2006, the largest of which are Casas Bahia (500 stores), Ponto Frio (369 stores), Lojas Colombo (360 stores), Lojas Pernambucanas (238 stores) Magazine Luiza (350 stores). Other chains include Gazin, Wal-Mart and Carrefour (Hougaard et al., 2010).
- **Credit agent sales**: Credit agent sales, a variation of the retailer-based model, refers to the sale of microinsurance products through microfinance institutions and their sales force.
- **Banking channels***:* Insurance sold through retail banks account for the majority of life microinsurance in Brazil. Banks either provide insurance companies with client

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[3] This section draws heavily on research conducted by Hougaard et al. (2010). Please visit www.cenfri.org to download this document.
[4] It is common in Brazil for insurers to add a lottery component to their microinsurance offering to incentives take-up. The workings of capitalisation is covered in greater detail later in this case study.
[5] Exchange rates are calculated using 6 month average interbank exchange rate where R$1 = US$0.56.
[6] Insurance penetration increases to 3.3% of GDP if one includes capitalisation, open private pension schemes and medical insurance.
[7] Informal insurance refers to insurance provided illegally, or not regulated by the Brazilian insurance regulatory authorities.
[8] Funeral insurance sold through funeral houses would also typically be considered microinsurance.
[9] Also see study by Smith, A & Smit, H., 2010. *Utility and database microinsurance distribution in Brazil: The case of QBE Brazil Seguros, ACE Group and AON Affinity Brokers*. Available at: www.cenfri.org
[10] Defined as retail stores that sell white goods and/or furniture on credit.

information, or allow third-party brokers to sell insurance from their branches (an example of this is Banco Brandesco).

- **Collective bargaining and common bond***:* Groups with pre-existing common bonds endorse a specific insurance product and each member is then free to decide whether to take up the insurance product or not. In some cases, the endorsement may also amount to a collective decision whereby all members are compelled to take the product.
- **Door-to-door sales***:* Another delivery channel is the face-to-face sales conducted by broker representatives. Although, by regulation, a broker is allowed to intermediate products of multiple insurers, brokers (and their representatives) generally sell only insurance and represent only one insurer.
- **Funeral assistance channel***:* Funeral assistance distribution through funeral homes or private cemeteries currently takes place outside of the formal definition of insurance. In this distribution channel, all functions are centralised in the funeral home or private cemetery. It provides the funeral service and employs a commissioned sales force to sell its funeral cover, mostly through door to door sales techniques.

Microinsurance distribution through affinity channels (retailers, utilities, telecommunications and database[11]) reaches at least 10m individuals. Considering the estimated size of the microinsurance market of 40–50m lives covered, affinity business could represent as much as 25% of microinsurance coverage in Brazil.

Model overview

This case study focuses on the retailer-based distribution channel and, more specifically, the role that Mapfre Seguros and its retail partners have played in the development of this model. The case study maps the role of the underwriter, Mapfre, and its distribution partners – low-cost appliance store, Casas Bahia, and cellular telecommunications provider and retailer, Vivo.

[11] Outbound call centres or mail advertising targeted to the clients of a particular organisation. This organisation supplies the clients' information through providing them with a client database.

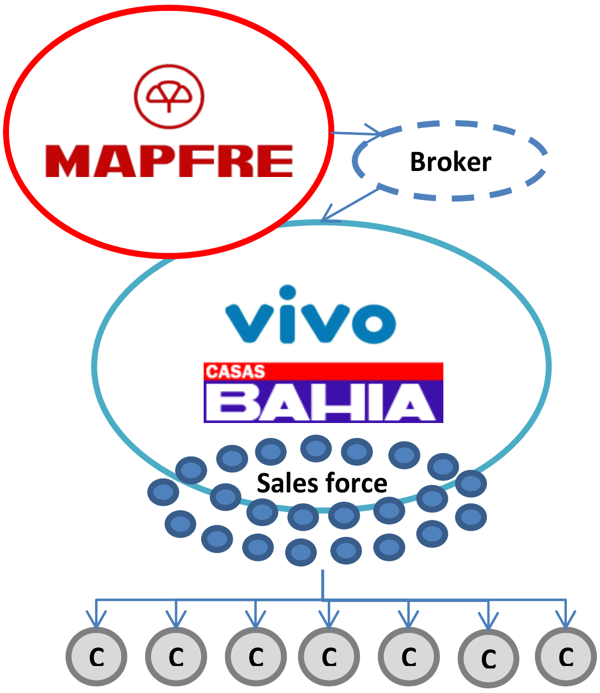

Figure 1: Retail distribution model

Source: Microinsurance in Brazil: Towards a strategy for market development. Hougaard et al., 2009

3. Mapfre Seguros

Mapfre is one of Brazils' largest insurance companies. Mapfre, a large international corporation, has had a presence in Brazil since 1992, when it acquired two insurers, Cruz Seguradora and Vera Cruz Vida e Previdencia, and formed Brasil Asistencia. Mapfre is one of the largest group insurance operations in Brazil and provides coverage to more than 15m policyholders through a network of 124 branch offices, various affinity channels and over 10,000 brokers. Mapfre Seguros has approximately R$6.5bn (US$3.64bn) in assets and over 2,733 employees. At the end of the 2009 financial year, Mapfre Seguros generated R$4.4bn (US$2.6bn) in revenue and R$364.4m (US$204m) in profit (Mapfre, 2010).

Mapfre is a multi-disciplined (re)insurer. Mapfre's Brazilian operations consist of several different companies, which specialise in specific lines of insurance underwriting. Namely, these companies are: Mapfre Vera Cruz Seguradora S.A., Mapfre Vera Cruz Vida e Previdência S.A. and Mapfre Seguradora de Garantías y Crédito (which all offer direct insurance), Mapfre RE Do Brasil (which offers reinsurance) and Brasil Assistência S.A. (which provides commercial clients with motor, home, health and travel insurance). In addition, Mapfre Group owns its own capitalisation[12] licence, Mapfre Capitalização S/A, enabling Mapfre to extend lottery tickets[13] to its policyholders.

In 2009, Mapfre signed a memorandum of understanding with Banco Do Brasil to negotiate the joint development of the insurance businesses of both groups in the Brazilian market. This strategic alliance was implemented in the insurance sector in 2010.

[12] It is common in Brazil for insurers to add a lottery component to their microinsurance offering to incentives take-up. The workings of capitalisation is covered in greater detail later in this case study.

Box 1: Mapfre globally

Mapfre is a leading Spanish insurance company with headquarters in Madrid, and the largest non-life insurance company in Latin America. Founded in 1933 by the Spanish Country Property Owners Association, the mutual insurance company was originally named *Mutua de Accidentes de Propietarios de Fincas Rústicas de España*. Today, it goes only by the acronym, Mapfre.

In 1970, the company became an insurance group with the mutual company as the parent company. The group focuses on motor insurance and has two subsidiaries: Mafpre Vida, for personal insurance, and Mapfre Industria, for all commercial and industrial business. The company's expansion into international markets began in 1984 with the acquisition of Mapfre Seguros Generales in Colombia. This was followed quickly by further expansion into European and Latin American markets.

Today, the Mapfre Group employs more than 30,600 people in 42 countries. The majority of their direct insurance business (non-reinsurance underwriting) is focused in Spain and Latin America, with a smaller presence in the USA, Portugal, the Philippines and Turkey. In corporate business[14], Mapfre operates in 40 countries, mostly in Europe and Latin America. Mapfre's products cover all fields of the insurance industry, and their Spanish operations include pensions and 15 representative offices.

In 2009, the Mapfre Group reported consolidated earnings in excess of R$43b[15] (€18.8b), R$35.7m (€15.6m) of which came from reinsurance and direct insurance premiums. The Mapfre Group had a net profit of R$2,122m (€926.8m) that same year (Mapfre, 2010).

4. Casas Bahia

Casas Bahia is Brazil's largest retail store. Casas Bahia, founded in 1958 by Samuel Klein, is the largest retail store in Brazil, employing 56,000 full time staff at approximately 550 stores across 10 states and one federal district[16].

Casas Bahia is a low-income credit-based retailer. Casa Bahia specialises in selling home appliances to low-income individuals, in socio-economic classes C, D and E[17], through structured credit financing. Goods are sold at low prices, mainly on credit. This provides the company with a very high sales rate. In 2005, 80% of all sales transactions were credit-based rather than cash-based and more than 800,000 financing agreements were processed per month. In 2007, the company had a total revenue of R$6bn (US$3.36bn) with 22m active customers, 80% of whom were repeat users (Casas Bahia, 2010). In 2010, most clients' repayment periods were 10 – 12 months.

The use of innovative technology allows for cost-effective credit assessment. The provision of credit finance options to low-income individuals is made possible through Casas Bahia's use of the Credit Bureau of Brazil. The Credit Bureau provides Casas Bahia with potential clients' credit histories, based upon which the retailer can decide whom to award credit. After the

[14] Assistance business provides specialised solutions to corporate clients with regards to motor, home, health and travel insurance.
[15] Exchange rate calculated using 6 month average interbank exchange rates where 1Euro = R$2.29
[16] Brazil is comprised of twenty-six states and one federal district.
[17] Brazilian Institute of Geography and Statistics (IBGE) categorisation of socio-economic classes: A-E (with A being the highest socio-economic class and E the lowest) is a commonly used welfare measure in Brazil.

initial financing agreement, any subsequent agreements are based on clients' repayment histories to Casas Bahia as identified through an advanced IT system enabling Casas Bahia to retain and monitor customer information.

In December 2009, Casas Bahia was purchased by Grupo Pão de Açúcar. Grupo Pão de Açúcar, founded 1948, is the trading name of Companhia Brasileira de Distribuição which owns and operates over 1,800 supermarkets, hypermarkets and appliance stores[18] in Brazil. In 2009, Grupo Pão de Açúcar had 137,000 employees with revenue of US$26.5 billion.

Casas Bahia is a well-trusted brand in Brazil. An annual study conducted by the Standard Group since 2003 has ranked Casas Bahia as the most respected company (as assessed by consumers) in the category of Appliances and Consumer Electronics (Casas Bahia, 2009), for the past six years.

Casas Bahia offers three insurance products[19] to its customers: (1) Extended warranty, (2) Financial protection and (3) Life insurance. This case study focuses on those insurance products underwritten by Mapfre Seguros (see Table 1 below).

[18] Pão de Açúcar (196 supermarkets); CompreBem (165 supermarkets; includes ABC CompreBem); Sendas (63 supermarkets); Extra Hipermercados (72 hypermarkets); Extra Eletro (55 home appliance stores); Assaí (42 stores). Ponto Frio (455 stores). Casas Bahia (560 stores) (Wikipedia, 2010).

[19] A fourth insurance product, unemployment insurance underwritten by Bradesco, is only available when customers finance the purchase of an appliance with a Bradesco credit card. Individuals can apply for this credit card in Casas Bahia stores.

Product	Broker	Premium	Benefit
Proteção Financeira (Financial Protection)	Massive Insurance	R$36 (US$20), in total, split over the credit repayment period[20].	Financial protection against death, personal accident and unemployment. • In case of loss of income due to involuntary unemployment[21] a payment of up to R$100[22] (US$56) per instalment for a maximum of 6 instalments. • In case of death, the payment of the outstanding financing agreement up to a maximum of R$1,000 (US$560). In the case an individual has no proof of income and/or employment the insurance will only provide cover in case of death (same premium applies as for individuals who can prove income). No capitalisation component.

Table 1: Casas Bahia insurance offering underwritten by Mapfre
Source: Casas Bahia/Mapfre Seguros policy document, 2010

[20] The repayment period is, on average, 10 –12 months.
[21] Involuntary unemployment is when an individual is dismissed from his/her employment without just cause. The individual must have worked for the employer for a minimum of 12 months before the date of dismissal for a minimum of 30 hours a week. In addition, employment must have occurred under a formal employment contract.
[22] Policyholder will be expected to pay the difference between the financing repayment and the insurance.

Product	Broker	Premium	Benefit
Vida Protegida & Premiada (Life Protection and Prize)	Massive Insurance	R$89.90 (US$50) per year.	Life and personal accident cover: • In the event of the death of the policy holder the beneficiary will be paid out in “food baskets[23]” to the value of R$200 (US$112) for a period of three months. • Personal accident cash cover of R$50 (US$28) per day for a maximum of 10 days in the event of hospitalisation. R$10,000 (US$5,600) in the case of accidental death and R$20,000 (US$11,200) for death from personal accident while using public transportation. Discounts on selected pharmaceutical drugs at pre-negotiated pharmaceutical outlets. The level of discount is specific to the type of drug. Discounts vary, maximum of 50%. Capitalisation : Monthly lottery for R$1,500 (US$840) prize

Table 2: Casas Bahia insurance offering underwritten by Mapfre
Source: Casas Bahia/Mapfre Seguros policy document, 2010

[23] The pay-out is advertised as food basket. However, the payment is made in the form of a prepaid credit card. The prepaid credit card is authorised to work at certain preselected stores.

Casas Bahia, in partnership with Mapfre, designed two insurance products for its clients:

The first, **Proteção Financeira** (Financial Protection), launched in August 2004, provides Casas Bahia credit clients insurance against death and unemployment. In the case of involuntary unemployment[24], outstanding monthly repayments[25] due to Casas Bahia by the policyholder will be covered by the policy for an amount of up to R$100 (US$56) per instalment for a maximum of six instalments[26]. Individuals who do not have a steady income or proof of income/employment will not be eligible for this component of the insurance policy and will only be covered for the life and personal accident insurance components. In case of death (from any cause), the insured's Casas Bahia financing agreement will be credited with R$1,000 (US$560).

The second insurance product, **Vida Protegida & Premiada (Life Protection and Prize)** launched in August 2008, offers life and personal accident cover to Casas Bahia customers (both cash and credit customers). The product is not linked to a financing agreement with Casas Bahia. However, the product is only offered to the customer during the purchase of an appliance[27]. The policy benefits include the following:

- The policy offers the beneficiary a "food basket" to the value of R$200 (US$112) per month over a period of 3 months in the event of the death of the policyholder. The "food basket" takes the form of a prepaid credit card (issued by Ticket[28]) that can be used at preselected grocery stores, supermarkets, bakeries or similar establishments.
- In the case of accidental death, beneficiaries are entitled to a cash payout of R$10,000 (US$5,600). Accidental death while using public transportation entitles them to a cash payout of R$20,000 (US$11,200).
- The policyholder also receives hospital cash indemnity cover that pays out R$50 (US$28) per day spent in the hospital, for a maximum of 10 days.
- The policyholder is entitled to discounts on pharmaceutical products offered at an extensive list of pre-selected pharmacy chains. The discount varies (up to a 60% discount) according to the type of medication purchased. The list of medication includes an wide selection of prescription and non-prescription medication.
- Lastly, the policyholder is entitled to a monthly lottery ticket for a R$1,500 (US$840) prize.

Joint product development and policy administration. Mapfre approached Casas Bahia with the proposal to offer insurance products to Casas Bahia clients. The products were jointly designed by Casas Bahia and Mapfre and changes to product cover and premiums were made through regular consultations between the two parties[29]. The broker, Massive Insurance, plays a limited role in the product design and administration. Mapfre and Casas Bahia staff are jointly responsible for administration[30]. The product is sold on a voluntary

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[24] Where involuntary unemployment is when an individual is dismissed from his/her employment without just cause. The individual must have worked for the employer for a minimum of 12 months before the date of dismissal for a minimum of 30 hours a week. In addition, the employment must have occurred under a formal employment contract.
[25] Cover is paid out directly to Casas Bahia
[26] The financing structure at Casas Bahia allows individuals to structure repayments in more than one payment per month. The insurance policy covers each payment (not month).
[27] The client is given the option of a credit or cash purchase.
[28] For more information visit http://www.ticket.com.br/.
[29] The product has been changed five times since launch and re-priced eight times due to higher than expected claims rates.
[30] Staff directly paid for by Mapfre who work in the Mapfre back offices assist with claims and policy activation.

basis in-line with Article 39 of the 1990 Consumer Code[31] (Law 8078) which prohibits "married sales" (which includes compulsory insurance sales with credit purchases) (Hougaard et al., 2010).

In-store sales process: The insurance product is sold face-to-face by Casas Bahia sales staff. Mapfre is responsible for the training of Casas Bahia's 55,000 employees[32]. This is done through daily training sessions. Each employee receives, on average, seven hours of training from Mapfre. They are trained on the features of the product, how to use the product systems, how to inform the client of the policy and how to effectively market the product (Wakebe, 2010). Casas Bahia is a registered *estipulante*[33] of Mapfre Seguros. This allows Casas Bahia to sell insurance on behalf of Mapfre, and therefore, the sales staff of Casas Bahia to sell insurance directly to the customer. This is done as part of the appliance sales process:

- **Step 1**: The prospective customer enters the store and, with the assistance of Casas Bahia sales staff, chooses an appliance.
- **Step 2**: The customer is offered the choice to buy the appliance with cash or through a structured financing agreement.
- **Step 3**: In the case of a cash purchase, the customer is offered an extended warranty plan, as well as the Mapfre **Vida Protegida & Premiada** policy. In the case of a credit purchase, the customer is given the option to select a repayment period, an extended warranty policy, **Proteção Financeira,** as well as **Vida Protegida & Premiada.** The customer is shown on a computer screen how including the insurance policy in the financing plan will affect the total repayment amount and can select the appropriate number of insurance policies. The average financing period (and thus the duration of the Proteção Financeira policy) is 10 – 12 months.

Individuals must be 18 years or older to obtain coverage, and a waiting period of 31 days applies to unemployment coverage.

Cash premium collection in-store. If clients purchase their appliances on credit and select Proteção Financeira**,** the premium is bundled with credit payments. In the case of Vida Protegida & Premiada**,** the policy can either be paid for in-full in cash when the appliance is purchased, or financed by Casas Bahia and paid off over the structured loan repayment period of the appliance. The sale of Vida Protegida & Premiada is not dependent on the purchase of an appliance; however, it is not widely purchased as a standalone product. According to Casas Bahia management, many individuals return after the first year's coverage period to renew the policy even if they have no remaining credit obligation toward Casas Bahia. The insurance policy is suspended immediately upon non-payment and cancelled upon two missed payments[34].

Commission structure: Brazilian insurance regulation (Decree-Law 73/66) stipulates that only brokers may receive commission. The *estipulante* is remunerated through *pro labori* as opposed to commission and can decide what percentage of this remuneration to pay directly

[31] "it is forbidden to the supplier of goods or services, among other abuses, to influence the supply of product or service for the supply of another product or service, and without just cause"
[32] Training is provided on a once-off basis to new employees. Casas Bahia staff turnover is 15% per year. This is lower than the market average staff turnover in similar sales environments.
[33] The Insurance Act (Decree-Law), Article 21 regulates the position of estipulante.
[34] Non-payment does not have to be consecutive to cancel cover. Two non-payments in a period of 12 months will lead to the cancellation of the policy.

to floor sales staff[35]. The *pro labori* is an amount set to cover administration and other expenses and is therefore not regarded as commission. In the case of Casas Bahia, *pro labori*, however, relates directly to insurance sales and can be considered remuneration for sales.

Claims process: All claims are handled in-store by the sales staff and processed by Mapfre and Casas Bahia back-office staff. For Protecao Financeira, the risk event must have occurred during the financing period (of the appliance) in order for the client to be covered. Further, Protecao Financeira pay-outs are made directly to Casas Bahia and credited to the clients' instalments. All payments are made within 15 days of the submission of the proper documentation.

Product performance: Since the product was launched in 2004 very significant adoption rates have been achieved for the financial protection policy offering[36] sold through Casas Bahia stores. Due to higher than expected claims rates and in an attempt to better meet client needs, management was forced to make changes to the financial protection policy. The changes involved five amendments to the product characteristics and re-pricing of the product eight times. Every product amendment was monitored by Casas Bahia and Mapfre staff to ensure customer loyalty remained unaffected. The Vida Protegida & Premiada policy has remained unchanged since its launch in 2008.

[35] Casas Bahia decided on a commission amount for its sales staff in consultation with Mapfre.
[36] No specific up-take information was made available for the Life insurance policy. However, it is reasonable to believe that this product has also experience significant take-up.

5. Vivo

Vivo is Brazil's largest mobile operator with extensive retail outlets. Vivo Participacoes S.A. (Vivo) is a provider of cellular telecommunication services in Brazil, through its wholly-owned subsidiary, Vivo S.A. Founded in 1998 as a joint venture between Portugal Telecom and the Telefonica group, the company was originally known as Telesp Celular Participacoes S.A. Today, Vivo has the largest market share in the Brazilian cellular operator market (35%) and is the largest mobile operator in the Southern Hemisphere. In 2010, Vivo had 57 million cellular lines (Telecompaper, 2010) in service and a total of 10,598 full-time employees, operating out of 336 sales outlets. The same year saw total revenues of US$9.4bn, up from US$6.6bn in 2008, and a gross profit of US$4.3bn, up from US$3.1bn. The company is listed on the New York Stock Exchange (NYSE) (Vivo, 2010).

Vivo provides a range of value added services. Vivo operates as a subsidiary of Brasilcel, N.V. The company provides voice and ancillary services including: voicemail, call forwarding, caller identification, short messaging and data service—such as wireless application protocol service. The company also offers direct access to the Internet through data cards, and provides multi-media messaging services and mobile execution environments, which enable wireless devices to download applications and execute them on the mobile with a user interface. In addition, it provides roaming services through agreements with local cellular service providers in Brazil and other countries as well as certain interactivity services with radio and television providers, allowing clients to listen to radio stations and watch TV channels. The company also sells Global System for Mobile Communication (GSM[37]) and Wideband Code Division Multiple Access (WCDMA[38]) devices, such as handsets and broadband USB modems through its stores and authorised dealers (Vivo, 2010).

Vivo is focused on the low-income market. According to Mapfre management, Vivo services all socio-economic classes (A, B, C, D and E) (Marins, 2010). The majority (80%) of Vivo's clients are pre-paid customers.

Mapfre Seguros and Vivo launched cell phone insurance, sold through Vivo retail stores, in early 2006, and this insurance is available to both pre-[39] and post-payment[40] subscribers. Although Vivo distributes insurance offerings underwritten by both Mapfre and ACE[41], this case study will consider only the insurance offering underwritten by Mapfre. The product details are depicted in Table 3 below.

[37] Global System for Mobile Communication (GSM) is the most popular standard for mobile telephony systems in the world.
[38] Wideband Code Division Multiple Access is an air interface standard found in 3G mobile telecommunications networks.
[39] Pre-paid or prepayment clients refers to individuals who do not have a contractual relationship with the cellular provider for the payment of phone calls or services. The payment is made before the use of the network by purchasing "airtime" or minutes that will allow an individual to phone and use the network.
[40] Post-paid clients refer to individuals who have contractually agreed with the mobile provider to pay for the use of mobile services, usually on a monthly basis, after the service has been used.
[41] ACE, Vivo and broker Seguros da Corretora Santander. The insurance offerings include personal accident, permanent and temporary disability, life, household structure insurance and hospital insurance policies.

Product	Broker	Premium	Benefit
Seguro Mapfre Celular	Mega Corretora De Seguros	R$2.99 (US$1.67) – R$16.99 (US$9.51) per month	Cover against theft[42] of mobile phone[43]: • The cover is dependent on the level of insurance. Five levels of insurance exist with cover ranging between R$150 (US$84) and R$3,500 (US$1,960) Capitalisation[44] 4 X R$1,500 (US$840) per month

Table 3: Vivo Mapfre product offering

Source: Policy document

[42] The cover is both for **(1) theft by burgla**ry and **(2) theft**, where (**1) theft by burglary** is defined as the mobile devise being stolen during the burglary on the premises. In this event, the customer must prove traces of tampering, subject to the exclusions in the coverage provided. (**2) Theft** is defined as the use of threat or violence against a person where their mobile phone is removed from them.

[43] The cover can also be purchased to cover the use of 3G modems.

[44] Capatilisation company: Mapfre Capitalização

The partnership between Vivo and Mapfre allows Vivo clients to purchase mobile phone insurance. The insurance product covers mobile phones from theft for the ranges contained in Table 4 (below).

Cover levels	Premium per month	Cover
1	R$ 2.99 (US$1.67)	R$150 (US$84)
2	R$4,99 (US$2.79)	R$151 (US$84) – R$250 (US$140)
3	R$7,99 (US$4.47)	R$251 (US$140) – R$500 (US$280)
4	R$10,99 (US$6.15)	R$501 (US$280) – R$1,000 (US$560)
5	R$16,99 (US$9.51)	R$ 1,001 (US$560) – R$3,500 (US$1,960)

Table 4: Coverage options offered by Mapfre Seguros
Source: Policy document

Coverage and exclusions. The insurance product provides cover for theft by burglary and theft by use of violence. The product does not provide cover for simple theft (as defined by article 155 of the Penal Code) where theft was committed without violence and without any traces of burglary. In addition, the insurance does not cover theft of mobile phone from a vehicle, loss of the mobile phone or damage to the device.

In store, face-to-face sales process. The policy is activated by Vivo staff in-store. As in the case of Casas Bahia, Vivo acts as the *estipulante* (legal representative) of Mapfre. Vivo staff offer the insurance policy in Vivo's 360 outlets to clients at the end of a mobile phone handset sales process. The policy is offered to both pre- and post-pay clients. At this point of the sales process, sales staff match the value of the handset and the monthly premium.

Premium collection. Premiums are collected in two ways. For post-paid (contract) clients, the premium is collected with the cellular bill (listed separately and added to the total). For pre-paid clients, the insurance can be deducted (monthly) from either a credit card or savings account. The policy will be suspended after 30 days of non-payment and will be cancelled after six consecutive months of non-payment.

Commission structure. As in the case of Casas Bahia, Vivo is remunerated on a *pro labori*[45] basis as opposed to a commission basis. Vivo is responsible for structuring the remuneration of its sales staff.

*The insurance coverage is sold predominantly to cover low-value mobile handsets***.** Of the five cover options (see Table 4) the largest proportion of insurance policies (30%) are for the lowest level of cover provided (R$150 (US$84)). The remainder of policyholders are distributed across the product ranges as indicated in Table 5.

[45] *Pro labori* is paid for administration and other expenses and is, therefore, not regarded as commission. In practice however, *pro labori* often relates directly to insurance sales and takes the form of incentive remuneration.

Cover levels	Premium per month	Cover	% of policy holders
1	R$ 2.99 (US$1.67)	R$150 (US$84)	**30%**
2	R$4,99 (US$2.79)	R$151 (US$84) – R$250 (US$140)	**15%**
3	R$7,99 (US$4.47)	R$251 (US$140) – R$500 (US$280)	**20%**
4	R$10,99 (US$6.15)	R$501 (US$280) – R$1,000 (US$560)	**15%**
5	R$16,99 (US$9.51)	R$ 1,001 (US$560) – R$3,500 (US$1,960)	**15%**

Table 5: Coverage options offered by Mapfre Seguros

Source: Mapfre management

Claims process: Mapfre, in partnership with Vivo replaces the stolen handset with a handset of equal value. The insured will receive the same handset as was insured unless the manufacturing of that handset has been discontinued. The handset will be delivered to the insured via post within 15 days of submitting the required documents. The documents required for the claims process include the following: notice of claim, a copy of the identification document issued for taxation purposes and the state-specific identification (CPF[46] and RG[47], respectively), a police report and the invoice for the insured device.

Product performance: The product has performed well since its launch in 2006 with 300,000 policies sold. The product's billing system was modified shortly after its launch, switching from a separate bank debit order payment system, and instead using the Vivo billing system to collect post-paid (contract) clients' premiums. According to Mapfre management, the change in the billing practice (from a separate debit order to an add-on to the customer's monthly mobile bill) has significantly reduced policy lapse rates (Marins, 2010).

6. Conclusions

This case study identifies various reasons why Mapfre's insurance offerings through Casas Bahia and Vivo have been successful:

Large underwriter and a patient distribution partner. The insurance product distributed through Casas Bahia has had to be changed eight times, with five of these leading to re-pricing. Smaller insurance companies and less patient retailers may not have been willing to endure all the product amendments and changes. In addition, Casas Bahia remained concerned about how the price amendments could affect customer loyalty, resulting in a carefully-revised strategy in the amendments of the product in order to retain consumer trust.

Cash benefit advertised as tangible goods. Cash benefits for death in the case of Vida Protegida & Premiada is advertised as a food basket, but provided to the beneficiary in the form of a prepaid credit card. This builds on a general theme in the Brazilian microinsurance market where insurance products typically include both in-life benefits and tangible post-life benefits. Individuals are better able to appreciate the value of the insurance product when

[46] The Brazil federal identification number is the CPF (Cadastro de Pessoas Fisicas) issued for purposes of taxation.
[47] RG (Registro Geral) issued by the Identification Institute of each Brazilian state.

the benefits are communicated in a tangible manger. Another example of creating tangibility is the pharmaceutical discount card offered by Mapfre's Casas Bahia life insurance product.

Lottery component used to draw clients. As with other microinsurance offerings in Brazil, the capitalisation components of the product in this study (excluding Proteção Financeira) are often the draw card, advertised as the first benefit of owning the policy, possibly leading individuals to choose a product based on this component rather than the risk mitigation benefit offered by the insurance product. However, little evidence has been found that the lottery component undermines policy value and anecdotal evidence reveals that while the lottery component is a determining factor in the decision to take the insurance policy, it is not a determining factor in the decision to continue paying for the policy (Hougaard, 2010).

Premium collection mechanism very important. The lower lapse-rates experienced by Mapfre's mobile insurance after combining the billing system with the post-paid account indicates that leveraging existing billing systems could be critical to the success of many of the current Brazilian microinsurance models.

Advanced IT systems. Casas Bahia has invested significantly in new technology. Also, Vivo (and telecommunications companies in general) has advanced IT platforms in place to store and monitor client information. This has enabled both companies to easily add and monitor the progress of insurance sales through these channels in real-time, thus reducing reporting delays and increasing management's responsiveness to change.

One development in the retailer market is particularly reassuring for the future of retail distribution models in Brazil. The take-over of Casas Bahia by Grupo Pão de Açúcar, a holding company of several large retailers, could facilitate the dissemination of Casas Bahia's experience in the distribution of microinsurance space to other large retailers.

7. Meeting list

Name	Organisation	Position
Bento Aparicio Zanzini	Mapfre Brasil Seguros	Director Vice Presidente
Sergio W. Marins Barbosa	Mapfre Brasil Seguros	Director
Francisco Eiji Wakebe	Mapfre Brasil Seguros	
Mr. Ailton Oliveira	Casas Bahia	General Manager
Maria Elena Bidino	CNSeg	Institutional Affairs and Reinsurance Director
Regina Lidia Giordano Simoes	SUSEP	Superintendência de Seguros Privados – SUSEP

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