Microinsurance in Brazil: a business of social inclusion

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Agenda

• The consumers at the bottom of pyramid: a marketing approach
• Development of popular insurance in Brazil
• Microinsurance Regulation
Marketing challenges in the 21th century

- A 20/80 world
- Rich people can get all they want
- Poors just want to have access

How to close the gap?
Differences between developed and ascendant societies

- Different societies, different approaches
- Inelastic demand in Ascendant Societies

Consequence: distinct segmentation strategies
Changes in the Paradigm: from lack to abundance

- Luxury
- Unique
- Expensive
- Desire

- Tecnology
- Escale
- Cheap
- Feasibility
Upscale segments look for concepts
Bottom of the pyramid: innovation!
Innovation for the bottom of the pyramid: a Brazilian Retail Case

- Above 500 retail stores with capability to offer credit to people refused for banks
- Growth: 7 times in the last 10 years
- US$ 6.5 billion in revenues per year
- Delivery from store to home
- Slogan: “Total dedication to you” (total care of you)
Consumer Behavior in Brazil

(+++) Emotional Benefits

Social Inclusion
Low income Consumer
“Right Purchase”

Aspiration
Price and Quality
Rational Behavior

(+++) Rational Benefits

Status and Prestige
High Income Consumer
Rational Purchase

Source: IBOPE Solutions
Consumer Behavior in Brazil

Main Consumer Segments

(++) Emotional Needs

Social Inclusion

Low Income Consumer

“Right Purchase”

(++) Functional Needs

Price and Quality

Aspiration

“Rescued”
- Respect / atención
- Confort

“Limited”
- Price differences
- Assistance
- “No mistakes”

“Arrogant”
- Sophistication
- Fashion

“Pragmatic”
- “Convenience”
- Variety
- Sales Offers / discounts

Rational Behavior

Rational Consumer

Prestige / Status

High Income Consumer

Rational Purchase

Source: IBOPE Solutions
Myths and Reality

Myth 1

Consumers have little money to expend

Reality

Even having little money, Ascendant Consumers expend proportionally more than others in goods and services and, together, they have a considerable purchase power.
Understanding the real value of Ascendant Consumers

**Brazil**

- % Population: 2.6%, 16%, 28.9%, 52.5%
- % Purchase Power Saved for consumption: 29.4%, 28.6%, 31%, 11.3%

**Mexico**

- % Population: 1.5%, 10.9%, 22.4%
- % Purchase Power Saved for consumption: 18.7%, 33.8%, 28.0%, 32%

**Argentina**

- % Population: ~20%, ~30%, ~50%
- % Purchase Power Saved for consumption: ~53%, ~29%, ~18%

**Colombia**

- % Population: 2.2%, 7.7%, 37.2%, 52.9%
- % Purchase Power Saved for consumption: 24.0%, 26.2%, 38.1%, 12.8%

**Chile**

- % Population: 2.1%, 6.2%
- % Purchase Power Saved for consumption: 21.1%, 23.3%, 41.8%, 12.8%

**Costa Rica**

- % Population: 1.6%, 12%
- % Purchase Power Saved for consumption: 11.9%, 36.2%, 36.6%, 50.3%

**Notes:**
1. % Ingreso del hogar; A/B/Cᵣ and Cₑ are percentages reported together for 11/2002
2. For 1999 in US $1999
3. % Poder de compra ahorrado para Prod. de Consumo: Monto del poder de compra asociado con productos de consumo
Myth 2

In the “bottom of the pyramid” the needs are simple and low prices prevail

Reality

Ascendant Consumers are not always interested in low costs products or low prices. Even being sensible to low prices they have aspirations and their target is to minimize the total cost of the purchase.
Myth 3

Ascendant Consumers are all the same, simply “poor” or the “popular poor class”

Reality

Ascendant Consumers do not act in the same way: they have huge differences in terms of purchase behavior, selecting stores based in the amount and stability of their income, innovation, loyalty, brands prestige, etc.
The reality of the Ascendant Consumers in Brazil

Summary

• There is much income in this whole segment
• Complex access: rural, urban, risk
• Brands are valued
• Connectivity: the rising of internet
• They adopt tecnologies (cell phones, computers, web, etc)
• Innovation is essential
Innovation for Ascendant Consumers

Premises:

- Deep knowledge of the consumers
- Use of updated technology to make experiences
  - easy
  - cheap
  - attractive
- Permanent search for new ideas

Innovation must be oriented to business process:
produccion, logística, marketing, services
Keys to seduce the Ascendant Consumers

The “A” words:

- Affordable
- Accessible
- Available
- And Easy
In summary:

- Ascendant Consumers are the basis of the Brazilian development
- They are not equals, must be segmented
- They have real needs and may not know all of them
- They need ...protection...
- ...as well as we need opportunities.
Brazilian Insurance Market Highlights

- Traditional market without focus in the BoP
- Total written premiums of the market over than US$ 50 billion.
- 177 insurance companies
- Similar to markets in almost every countries.... High concentracion and under a consolidation process...
- Bancasurance has been working for 40 years
- 80.000 active Brokers / Agents, politically very well organized
Popular Insurance Development in Brazil

• In the 70ths, lack in regulation made possible to create low cost open group policies, making viable to charge low premiums
• The unstable economy limited the development of the insurance market for many years
• In parallel, during these years banks have developed highly sophisticated charging systems to prevent inflation losses
• After the end of high inflation in 1994, the insurance market starts to grow focused in corporate and middle class
• The insurance market as a share of PIB jumps from historic 1% to almost 4%
• The BOP income level grows considerably without inflation
Popular Insurance Development in Brazil

- Government social programs (Cardoso and Lula) like “Bolsa Familia” (a monthly salary to buy basically food), pension for rural families and others brings more income to low classes.
- Deficits in the official Pension System make attractive new private products (PGBL) that reaches more than 6 million clients.
- This specific business has been growing 30% a.a., collecting premiums from USD $13 in all segments of the population.
- Other products start to be sold exploring non traditional channels: retail stores, public services (telephone, electric), cooperatives, etc.
- Credit Life, including coverages for Unemployment, Temporal Disability and Lottery Tickets shows an amazing growth.
Potential Market for Microinsurance in Brazil

- 100 million people
- US$ 170 billion in total income
- 40 million homes ( “C” and “D” classes )
- 7 million people came from class D to Low Medium Class annually in the last 4 years
- Class E has been reduced quickly with the recent Brazilian achievements
DISTRIBUIÇÃO DA BASE DA PIRÂMIDE
Source FENSACOLA en Congreso de Amis/2007

RENDA AGREGADA QUE REPRESENTA A BASE DA PIRÂMIDE

POPULAÇÃO NA BASE DA PIRÂMIDE (MILHÕES)
Success Cases

Retail Store with more than 50.000 employees
Success Cases

Electrical Company CEMIG

- Desemprego Involuntário
- Incapacidade Física Temporária
- Morte Acidental
- Invalidez Permanente Total por Acidente
- Seguro Residencial
- Sorteios
Success Cases

Vivo Telephone
86% of Brazilian Territory
30 million clients
Success Cases

Retail Store

130 branches
Microinsurance Regulation in Brazil

- A Multilateral Group has been assigned by the Federal Government:
  - Insurance Superintendence Authority (SUSEP)
  - Health Superintendence Authority
  - Economy Ministry Representative
  - Central Bank
  - National School of Insurance Foundation
  - Federations
    - Of Insurance Companies
    - Of Brokers and Agents

- A complete project including laws, solvency and taxes criterias, as well as other inputs, will be presented this year.
Thank you, very much.

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