Microinsurance in Brazil

Opportunities for market development
Agenda

1. Market assessment
   
   *Coffee break*

2. Drivers of market development

3. Strategy
“Microinsurance is not microbusiness!”

Armando Vergilio
Our brief

- **Objectives**
  - Assess the market
  - Propose a strategy
  - Consider regulation

- **Methodology**
  - Consultations
  - Focus groups
  - Analyse SUSEP database
  - IETS & FGV data analyses
  - Consider Funenseg research
  - Consider Consultative Commission reports & activities
Market assessment

- Who’s the target market?
- Current insurance usage
- Demand insights
- Industry analysis
- Product analysis
- Distribution channels
Who’s the target market?

Source: FGV (2009); Beltrao et al, 2009
Current usage

- **Bolsa**: 19% of households (45m people)
- **Insurance**: 40m+ (informal insurance: 20m+)

Income distribution:
- **E**: 14%
- **CD**: 70%
- **AB**: 16%
Current usage

- POF 2002/3:
  - FGV (2009) >15 yrs

<table>
<thead>
<tr>
<th>Individuals</th>
<th>Total (%)</th>
<th>% of CDE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total insurance</td>
<td>16.79</td>
<td>10.78</td>
</tr>
<tr>
<td>Health insurance</td>
<td>12.94</td>
<td>8.09</td>
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<tr>
<td>Car insurance</td>
<td>2.95</td>
<td>0.73</td>
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<tr>
<td>Life insurance</td>
<td>4.31</td>
<td>2.56</td>
</tr>
<tr>
<td>Private retirement plan</td>
<td>0.45</td>
<td>0.16</td>
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<tr>
<td>Other</td>
<td>1.41</td>
<td>1.2</td>
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</table>

<table>
<thead>
<tr>
<th>Households</th>
<th>% usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>35.89</td>
</tr>
<tr>
<td>Health Plan/Insurance</td>
<td>28.78</td>
</tr>
<tr>
<td>Auto Insurance</td>
<td>7.14</td>
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<tr>
<td>Life Insurance</td>
<td>10.75</td>
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<tr>
<td>Pension Plans Open or Closed</td>
<td>1.1</td>
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<tr>
<td>Property Insurance</td>
<td>2.32</td>
</tr>
<tr>
<td>Other</td>
<td>3.69</td>
</tr>
<tr>
<td>Expenditure on health</td>
<td>51.33</td>
</tr>
</tbody>
</table>
Current usage

- IETS (2009) – all ages
Current usage: squaring the numbers

2003 picture:
- Roughly 1/3 of households
- Higher metro (41%) than rural (8%), reduce by about a third for C, D & E
- North & Northeast (30% of all hhs) most underserved

What has changed since then?
- JLV (2009): 50m served
- ANS (2009): 51m health
- Conventional wisdom: 20-25m funeral
- 10m+ mass/popular
- 21m+ microcredit - % credit life?
- Datafolha survey (2009): 428 low-income hhs
  - 44% insurance (22% life, 27% health)

Total scenario:
- 40-50m (excluding health)
- 30% - 37% of adults
- Of which 23-33m MI
Demand insights

“When we made the funeral plan, everyone in the family was in favour of it, except my husband. But we went ahead anyway, and he was the first to die, poor man. The funeral plan paid all the expenses. So we were right, and he was wrong.”
Demand insights

The new reality

- A sense of transformation and new-found prosperity
  - Budgets: prioritise food & utilities, rent (but 66% own house), education, health
  - Making room for leisure

- But no savings, rather debt

“Everything is easier now...food...We can purchase TV sets, pay monthly instalments. I was able to buy my home, which was my dream.”

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

Risk experience:

- “New reality” attitude spills over into risk experience and concerns about the future
- Health risks cause most financial pain
- Unemployment beats death to 2nd place
- Fear of theft a daily reality for many
- Damages to house structures ranked last

*Note: size of bubbles denotes ranking*
Demand insights

Coping strategies all ex post

- No savings to fall back on
- Loans:
  - family & friends first call
  - Advances from employers or clients
  - Credit cards
  - Consigned credit
  - Productive credit
- Donations/”listas”
- Caixinhas
- ROSCAs (Sorteio)

“It is a great mistake for us not to have savings”

“If I can, I borrow from my sister. I repay her as I can. Sometimes, I don’t even repay the full amount. We forget about it, and don’t worry about it. But if she can’t pay a bill, I’ll pay it for her, and if I can I’ll still lend her more.”

“I immediately think of my credit card. I draw from it straight away, without having to explain myself to anyone. I just cannot delay the repayment, because the interest is so high I’ll lose my shirt.”

“If someone has a problem, they can negotiate an exchange with the winner. So they take the money, and then when their names are drawn, they repay the person that made the exchange with them.”
Demand insights

Insurance awareness & perceptions:

- Insurance not spontaneously mentioned as a mitigation strategy
- Despite quite high penetration
- Across the board awareness, but detailed understanding lacking
- Fine print remains a challenge

“Insurance is like savings, it is money that one sets aside for when one needs it. But right now we cannot save; the money that we earn is not enough yet for us to save.”

“If there is any trickery, any fraud, they don’t pay out. I think that this is fair. What isn’t fair is that they don’t pay out if premiums are in arrears.”

“I think it was the fine print that complicated the situation when my father became an invalid. Neither he nor we understood that he was entitled to a disability pension. We only found that out after he died.”
Demand insights

Insurance awareness & perceptions:

- Most uninsured remain suspicious & bad “word of mouth” publicity
  - “Insurance is good, but half complicated. In my case I pay, but I don’t know if I’ll ever be compensated.”
  - “Some say insurance isn’t trustworthy. Their car was stolen, and the insurance didn’t pay out.”

- But the insured are won over & see insurance as “disciplined savings”
  - “Insurance leaves you feeling more comfortable about the future. You sleep better at night, because you have fewer worries.”
Demand insights

- Perception of cost

1: 100

- “focus group participants imagine the cost of insurance to be in the ratio of 1 (monthly premium) to 100 (compensation)”
Demand insights

Insurance awareness & perceptions:

- Yet not only for the rich
- Value for money, especially if benefits are tangible
  - Funeral assistance
  - Food baskets
  - Health plans in high demand, but expensive
    - Medicine discounts valued as alternative
  - Extended warranties
- Relatively high persistency

“It’s not just for the rich. But first we need to sort out our expenses. Once we have managed that, it will be easier to start thinking about life insurance, for example.”

“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. “

“The insurance offered by Coelce is very good. It covers fire, life, unemployment, the basic food basket, and even discounts for medicines bought at pharmacies.”
Demand insights

Insurance distribution is pervasive (pushy?)

- Premium payment is easy
- Insurance sold close to everybody

“Premium payment is easy. Insurance is sold on every street corner. There are stalls at shopping centres, in the middle of the isles, at the bank...”
“Everyone knows someone who works in insurance. It’s easier than playing the lottery.”

“If you enter a bank, immediately there is a salesman trying to sell you insurance. If you speak to the manager, if you request a loan or a credit card, he almost forces you to buy insurance.”

“I have credit cards. At every opportunity they try to sell me insurance.”

“The insurers send direct mail, with promotional offers, or saying that the premium was paid... they send magazines; they try to please... they try to sell you more insurance... they phone my husband to find out if he would like to take out other insurance...”

“Here in São Paulo, a Kombi stops in the street, various young ladies descend, and then go from door to door selling a funeral plan.”
Demand insights

- Thinking of life rather than death
  
  “I don’t like to speak about death. It’s like someone is cursing me. I immediately change the subject. Insurance! Don’t even think about it!”

- The challenge of converting potential demand into actual usage

- Need for tailored products and flexibility
Industry analysis

Total industry:

- Strong growth since 2003 largely driven by VGBL
- VGBL contributed 62% of premiums in 2008
- Claims ratios reduced significantly in both life and asset categories
- Sales expenses for total period remained between 15-20% over the period
Increasing client coverage, decreasing value to consumer

Strong premium growth in all these categories

Claims ratios dropping and/or very low

Sales expenses increasing and very high on credit life and extended warranties (bundled products)
# Industry analysis

## Premium breakdown: Brazil

<table>
<thead>
<tr>
<th></th>
<th>Group PA</th>
<th>Credit life</th>
<th>Group life</th>
<th>Extended Warranty</th>
<th>Multi Peril</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment income</strong></td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Management expenses</strong></td>
<td>10%</td>
<td>25%</td>
<td>51%</td>
<td>10%</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Net claims</strong></td>
<td>16%</td>
<td>37%</td>
<td>21%</td>
<td>50%</td>
<td>52%</td>
</tr>
<tr>
<td><strong>Sales expenses</strong></td>
<td>20%</td>
<td>37%</td>
<td>21%</td>
<td>50%</td>
<td>52%</td>
</tr>
</tbody>
</table>

- **Significant variation in sales expenses**
- **High sales expense in bundled sales (credit life, ext warranty)**
- **Claims ratios very low for Group PA, Credit life, Extended Warranty**
- **High potential underwriting surpluses**

*Source: SUSEP database (year ending June 2008)*
Industry analysis

Premium breakdown: SA

Average results for 5 years ending Dec 2008
Source: FSB (2008)
* Based on results for “typical” life or asset insurers defined as those writing business across most product lines
# Product Analysis

<table>
<thead>
<tr>
<th>Product</th>
<th>Monthly premium</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailer product</td>
<td>R$7.5</td>
<td>- R$600 life (R$200/basket)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- R$500 PA hospitalisation (R$50/day)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- R$10,000 accidental death (double if in public transport)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Monthly prize R$1,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Up to 50% discount on medicines</td>
</tr>
<tr>
<td>Credit provider</td>
<td>R$2.1</td>
<td>- R$3,000 life</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- R$840 funeral</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- 4 prizes of R$1,500 per month</td>
</tr>
<tr>
<td>Utility1</td>
<td>R$3.99</td>
<td>- R$20,000 house (fire, lightning, explosion)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- R$50/month for 4 months towards electricity bill involuntary unemployment/temporary disability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- R$50/month for 1 year towards electricity bill PA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- 4 monthly prizes of R$3,000</td>
</tr>
<tr>
<td>Utility2</td>
<td>not available</td>
<td>- Life: R$5,000 &amp; 12 electricity bills of up to R$50 each &amp; 4 food baskets of R$150</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Funeral assistance up to R$2,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Up to 60% medicine discounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- R$3,000 monthly draw</td>
</tr>
<tr>
<td>Utility3</td>
<td>R$2-8</td>
<td>- Life &amp; asset (home) insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Credit life</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Extended warranties</td>
</tr>
</tbody>
</table>
## Product analysis

<table>
<thead>
<tr>
<th>Product</th>
<th>Monthly premium</th>
<th>Benefits</th>
</tr>
</thead>
</table>
| Funeral insurer          | R$12-30 per family?         | • Funeral +/- R$1,200  
  • Optional life (income protection)  
  • R$10,000 monthly draw |
| Affinity                 | R$10 (telemarketing)  
  R$1-4 (direct mail) | • Financial protection for unemployment  
  • Home insurance  
  • Assistance call centre  
  • Capitalisation component |
| Employee groups          | R$5 (average); R$15 (max)  
  [per family]         | • Natural & accidental death  
  • Disability  
  • Birth (with congenital disease)  
  • Work-related illnesses  
  • Maternity food assistance  
  • Funeral cover in case of accident at work |
| Bank                     | R$15-50 [per family(?)]    | • Credit life  
  • Unemployment  
  • Home & house assistance (services support)  
  • Personal accident  
  • Funeral  
  • Educational insurance for children |
| Funeral home             | R$18 ave. [per family]      | • Funeral assistance R$2500  
  • Food aid  
  • Discounts on medical consultations at own clinic  
  • Discounts on pharmaceuticals  
  • Legal advice |
Distribution channels

Overview

- Innovative mass distribution models
- 75,000 individual brokers; 35,000 corporate brokers
- Insurance proposals sourced through (Decree-Law 73/66):
  - Clients directly
  - Their legal representatives
  - Brokers
- 7 main channels have evolved
Distribution channels

Channel 1: banking channel

Roles
- Underwriting
- Product development

Product development
- Consolidating data
- Premium collection

Marketing
- Admin
- Labour

- Insurer
- Broker
- Bank
- Correspondents
- Sales force
Distribution channels

Channel 2: Database selling

Roles
- Underwriting
- Product development
- Facilitating relationship
- Mining market intelligence
- Marketing
- Product development
- Labour
- Database
- Premium collection
- Admin
Distribution channels

Channel 3: Retailer

Roles

- Underwriting
- Product development
- Facilitating relationship
- Consolidating data
- Marketing
- Admin
- Labour
- Product development
- Client intelligence
- Premium collection
Distribution channels

Channel 4: Credit agent

Credit agent model (CrediAmigo example)

Roles
- Underwriting
- Product development
- Product development
- Consolidating data
- Premium collection
- Marketing
- Admin
- Labour

Insurer

Broker

MFI/bank (Estipulante)

NGO

Sales force
Distribution channels

Channel 5: Common bond

**PASI model**

- **Roles**
  - Underwriting
  - Estipulante
  - Product development
  - Marketing
  - Claims processing
  - Admin (contract maintenance; logistics)
  - Facilitating relationship between PASI and employer
  - Suggesting product modules to employer
  - Pays premiums
  - Pressures company to provide benefits

**Diagram**

- **Insurer**
- **PASI**
- **Broker**
- **Employer**
- **Union**
- **W**
Distribution channels

Channel 6: Funeral homes/cemeteries

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"
Distribution channels

Channel 7: Door to door

Roles

- Underwriting
- Product development
- Client/market intelligence
- Admin

---

- Marketing
- Labour

---

Premium collection via correspondents/bank
Distribution channels

Relative importance

- Banking correspondents
  - Banco Postal
  - Caixa
  - POS
  - etc

- Retailers
  - Casas Bahía and others
  - sales agents actively sell

- Funeral homes
  - Up to 25m lives covered currently

- Database selling
  - Utilities, direct mail, call centres
  - market already >10m

- Common bond
  - Collective bargaining: PASI model (2.1m lives covered)
  - credit/production coops

- Credit agent
  - E.g. CrediAmigo: 125,000 Sep. 09
  - potential in line with productive microcredit market

- D2D
  - Standalone insurance sales
Drivers of MI market development

1. Macroeconomic conditions
2. Social inclusion
3. Pervasive public and private infrastructure
4. Labour legislation and broker regime
5. Cultural drivers
6. Regulatory drivers
Macroeconomic conditions

1. Economic growth increases income
2. Stability: regaining trust in long-term financial products
3. But inflation expectations persist
4. The need to rebuild cash-savings (VGBL)
Social inclusion

Upward mobility:

2003-8:
- 27m into ABC
- 24m out of ED

Source: FGV (2009)
Social inclusion

Decreasing inequality:

Source: authors, based on IETS (2009) analysis of IBGE PNAD 2007 data
Social inclusion

Room in the budget for insurance:

Source: authors, based on IETS (2009) analysis of IBGE POF 2002/3 data
Public & private infrastructure

- Ubiquitous, cash-friendly payment system
  - 3.2m POS devices
  - 130,000 banking correspondents (mostly payments)
  - 126m deposit accounts (2008)
  - 208m debit cards
  - 132m credit cards
  - 144m store cards
  - 150m+ mobile phones

- Bolsa Familia infrastructure
  - Unified database (CadUnico)
  - 5,500 municipalities
Labour legislation & broker regime

The largest market is outside of formal employment

Source: authors, based on IETS (2009) analysis of IBGE PNAD 2007 data
Labour legislation & broker regime

- Longer distribution chains & larger costs
- Disproportionate power to aggregators
- Product design driven by aggregator interests
Cultural drivers

- Aspiring poor – the growth of consumerism
- Brazilians are passionate about life, not death
Regulatory drivers

1. Flexibility to adjust regulation
2. Increased compliance costs
3. Restrictive health regulation
4. Large tax burden
Regulatory drivers

Flexibility to adjust regulation

- Modular capital requirements
- Demarcation not restrictive
- Ability to change registration and compliance requirements based on semi-standardised product categories
- Scope for ticket sales
- Can facilitate new distribution models
Regulatory drivers

Compliance costs

- Bank-based premium collection
- Registration requirements
- Reporting & other requirements
Regulatory drivers

Restrictive health regulation

- Prescribed minimum benefits
- Price controls
- Micro health plans not allowed
### Regulatory drivers

#### Current tax regime

<table>
<thead>
<tr>
<th>Type of tax</th>
<th>Applicable Rates</th>
<th>On what is it levied?</th>
</tr>
</thead>
<tbody>
<tr>
<td>IOF Life</td>
<td>0.38%</td>
<td>Gross premium,</td>
</tr>
<tr>
<td>Health</td>
<td>2.38%</td>
<td>Premium income net of claims payments, but not net of other costs.</td>
</tr>
<tr>
<td>Rest</td>
<td>7.38%</td>
<td>After tax income.</td>
</tr>
<tr>
<td>PIS-COFINS</td>
<td>4.65%</td>
<td></td>
</tr>
<tr>
<td>CSLL</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>IRPJ</td>
<td>25%</td>
<td>Net income</td>
</tr>
</tbody>
</table>
Regulatory drivers

Tax model: large company

<table>
<thead>
<tr>
<th>Premium breakdown</th>
<th>Group PA</th>
<th>Extended warranty</th>
<th>Group life</th>
<th>Multi peril</th>
<th>Credit life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Re-insurance premiums paid*</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Admin expenses*</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
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<tr>
<td>Claims</td>
<td>16</td>
<td>13</td>
<td>51</td>
<td>22</td>
<td>25</td>
</tr>
<tr>
<td>Commission</td>
<td>20</td>
<td>50</td>
<td>21</td>
<td>52</td>
<td>37</td>
</tr>
<tr>
<td>Underwriting profit/loss</td>
<td>52</td>
<td>25</td>
<td>16</td>
<td>14</td>
<td>26</td>
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<tr>
<td>Investment return*</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

**Impact of current tax regime**

- 12-27% of direct premium for large co (6 to 21% for small company)
- 43% to 84% of before-tax profit for large firm (46% to 178% of before-tax profit for small firm)
- 25% to 188% of claims for large firm (13% to 144% for small firm)

**New Tax regime:**

- Tax burden per product line is between 16 to 35 times lighter for large company and between 9 to 30 times for small company
- 1% of direct premium
- 1% to 5% of before-tax profit for large firm (1% to 14% of small co)
- 5% to 10% of claims for large firm (1% to 9% for small co)
Strategy

- Public policy imperatives
  - Large uncovered risks for poor households
  - The income risk produced by the new reality: credit growing but savings not
  - Sting in the tail of mass distribution: high cost to distribution channel, low value to client

- Suggested policy objectives
  - Reduce costs
  - Ensure value to clients
  - Extend risk cover
Strategy

Potential MI target market

128m target audience (CD)

Assume max potential penetration:
50-60%
64-77m people

Current MI scenario:
23-33m
Strategy

Potential MI target market

128m target audience (CD)

Potential MI market
>40m
Strategy

Potential MI target market

- Bolsa: 19% of households (hhs)
- 45m people
- With electricity: 98% of households (hhs)
- Cell phones: >70% of hhs
- Employed in informal sector: 62% of labour force

- Bank accounts/credit cards
- Microcredit: 21m
- Insurance: 40m+ (informal insurance: 20m+)

1 MS: E: 14%
2 MS: CD: 70%
3 MS: AB: 16%
Strategic issues

1. Defining microinsurance
   - Product-based definition
   - Define benefit levels as high as possible (approximately R$30,000?)
   - Do not jeopardise bundled products
   - Limit regulatory arbitrage
Strategic issues

2. Intermediation
   - Unlock banking correspondents
   - Improve relative power of insurer vs. aggregator
   - Strengthen non-aggregator sales channels
   - Capitalise on existing sales forces
Strategic issues

3. Reduce costs
   - Tax burden
   - Compliance duties

4. New entry
   - Second tier of microinsurance
   - Formalisation
Thank you

Questions or comments:

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