

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

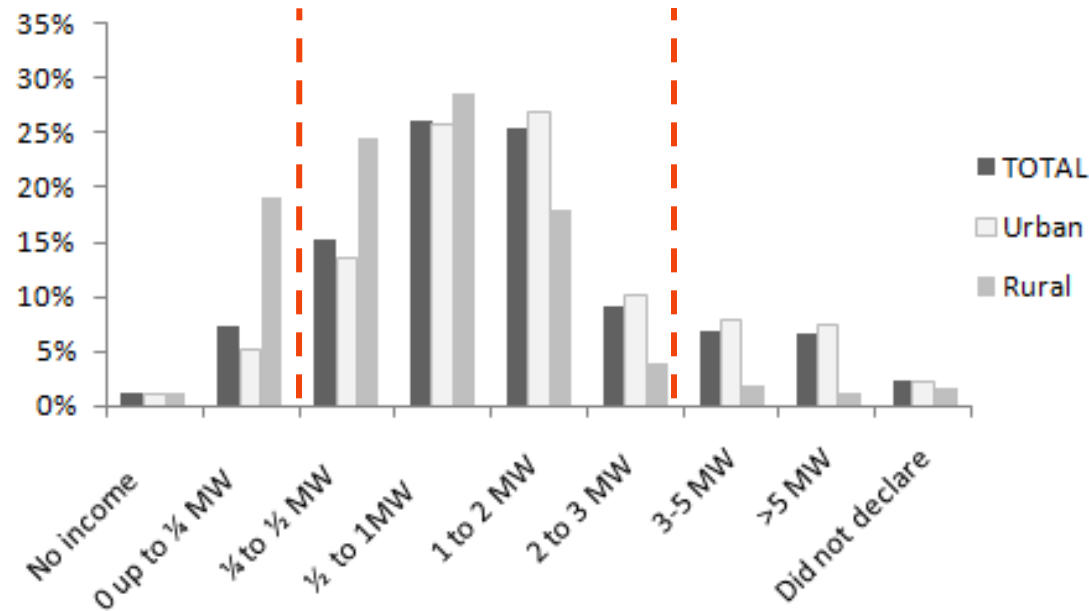
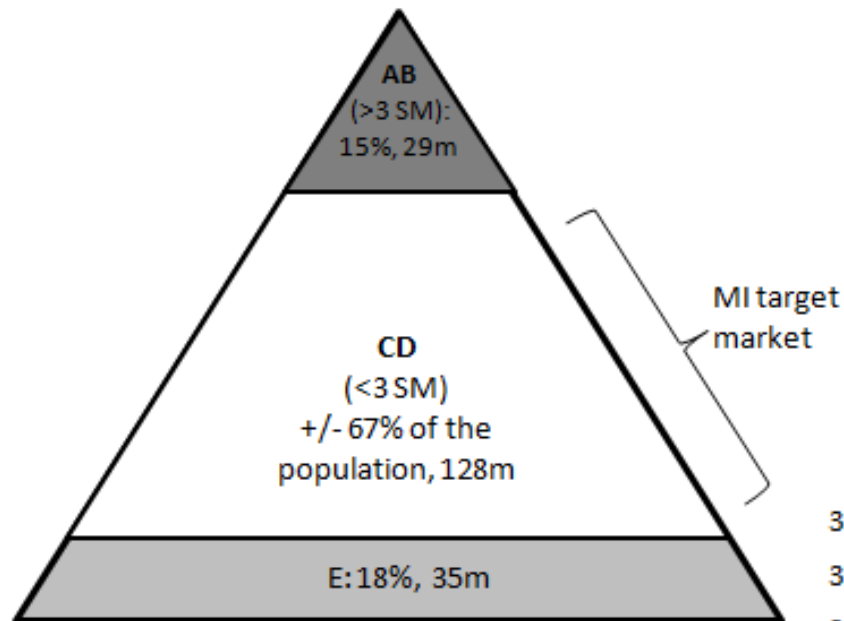
□ Methodology

- ▣ Consultations
- ▣ Focus groups
- ▣ Analyse SUSEP database
- ▣ IETS & FGV data analyses
- ▣ Consider Funenseg research
- ▣ Consider Consultative Commission reports & activities

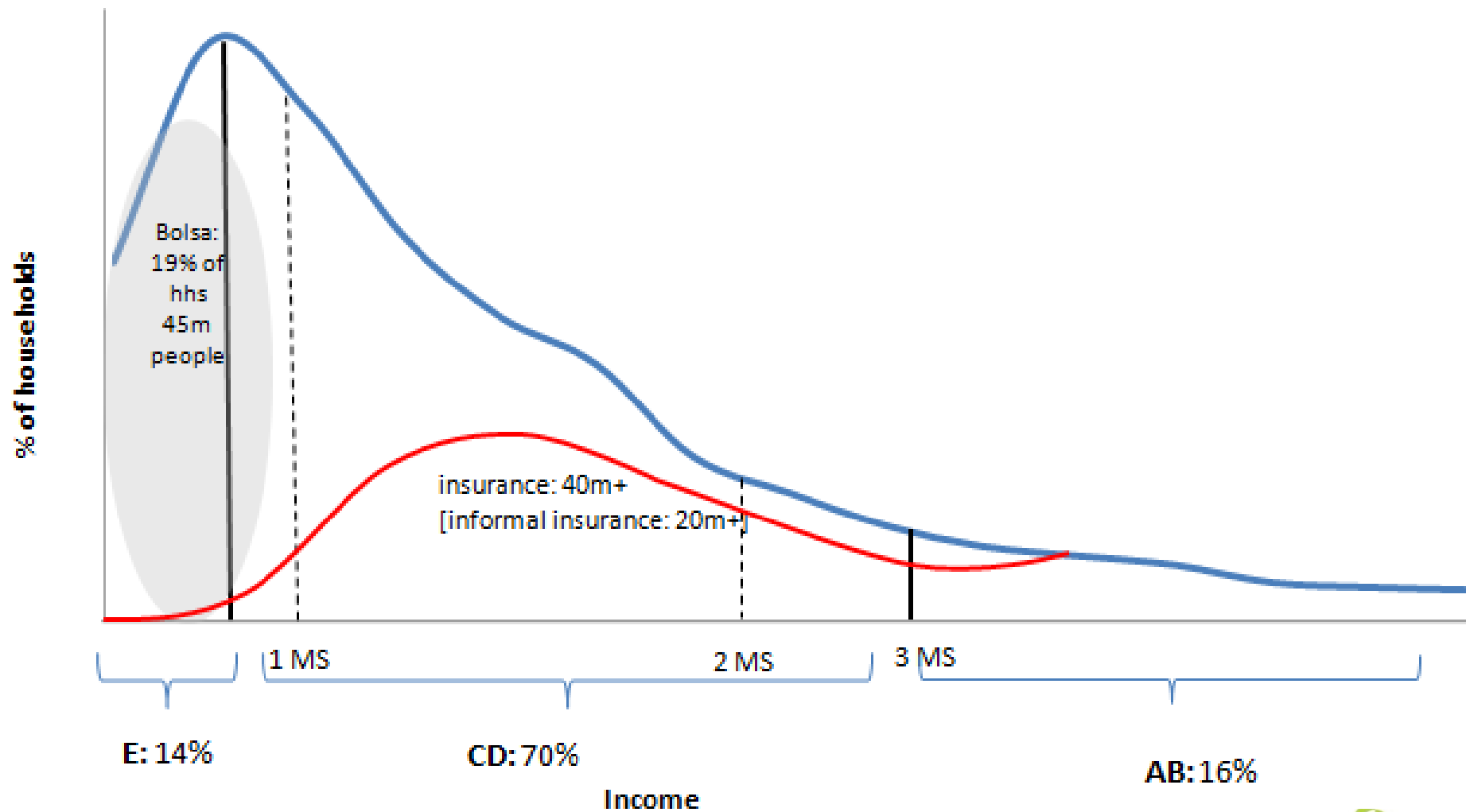
Market assessment

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

Who's the target market?



Current usage



Current usage

□ POF 2002/3:

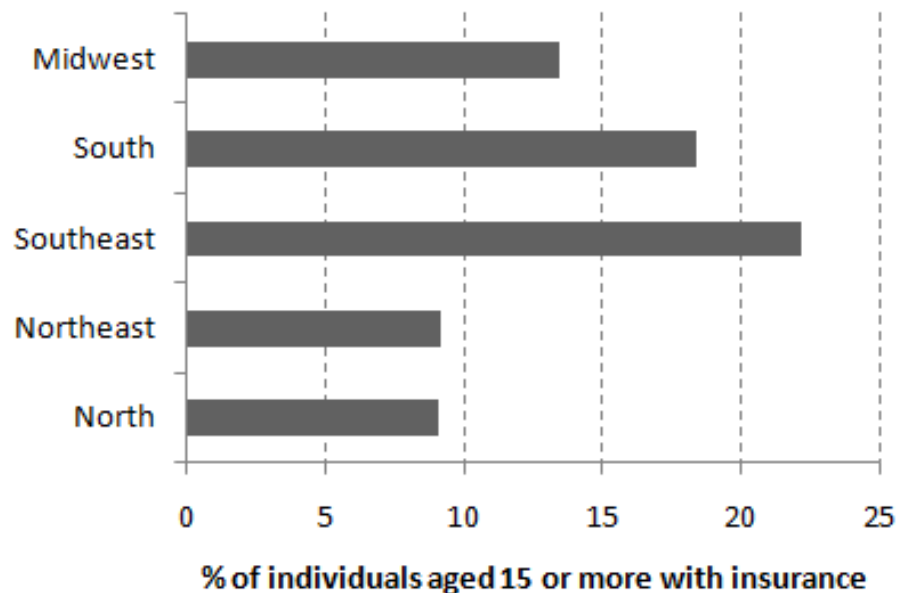
▣ FGV (2009) : >15 yrs

Individuals

	Total (%)	% of CDE
Total insurance	16.79	10.78
Health insurance	12.94	8.09
Car insurance	2.95	0.73
Life insurance	4.31	2.56
Private retirement plan	0.45	0.16
Other	1.41	1.2

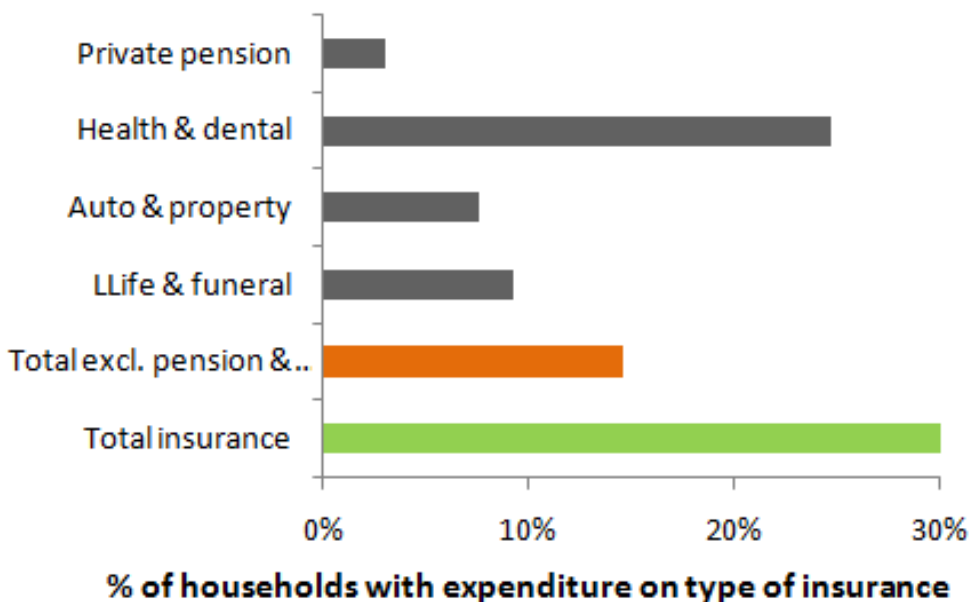
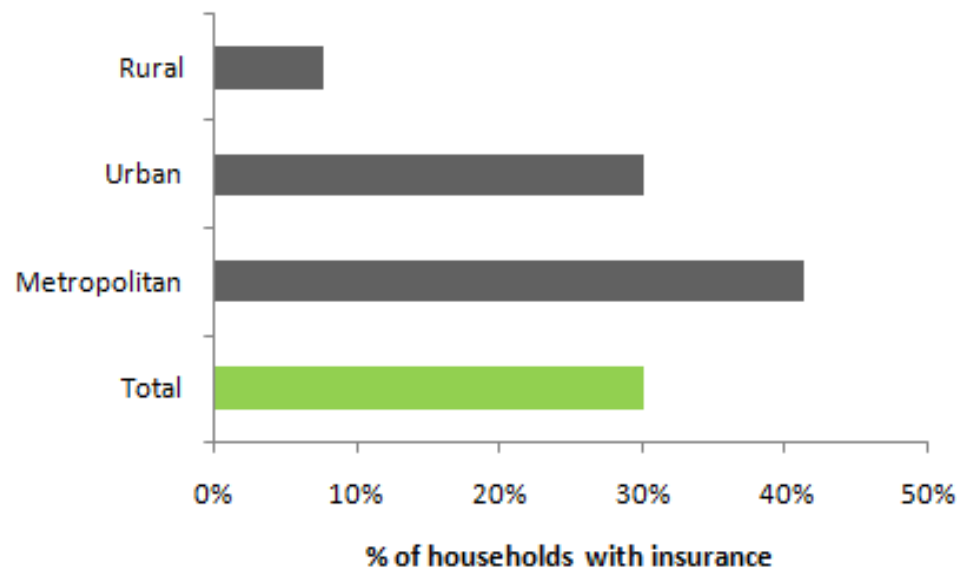
Households

Product	% usage
Insurance	35.89
Health Plan/Insurance	28.78
Auto Insurance	7.14
Life Insurance	10.75
Pension Plans Open or Closed	1.1
Property Insurance	2.32
Other	3.69
Expenditure on health	51.33



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

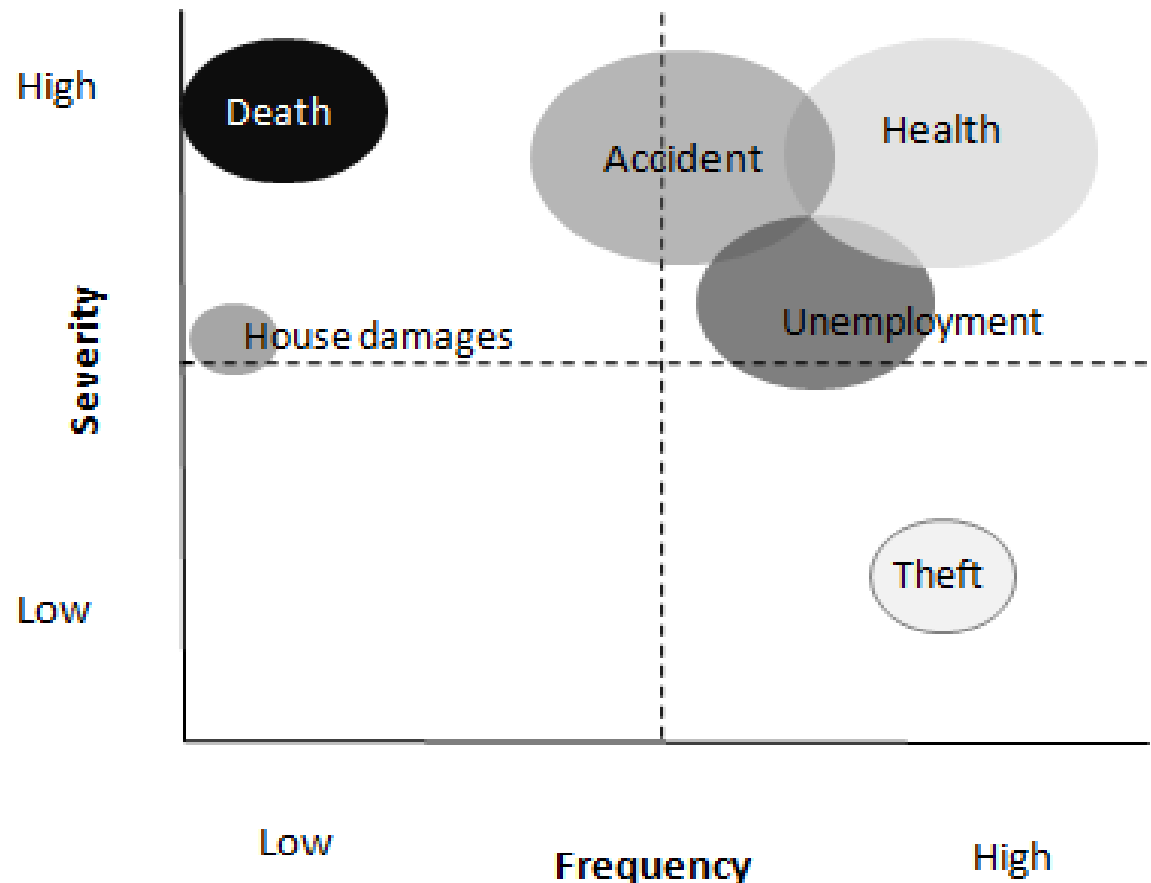
“Everything is easier now...food...We can purchase TV sets, pay monthly instalments. I was able to buy my home, which was my dream.”

“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

"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..."

"It's very 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."

"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

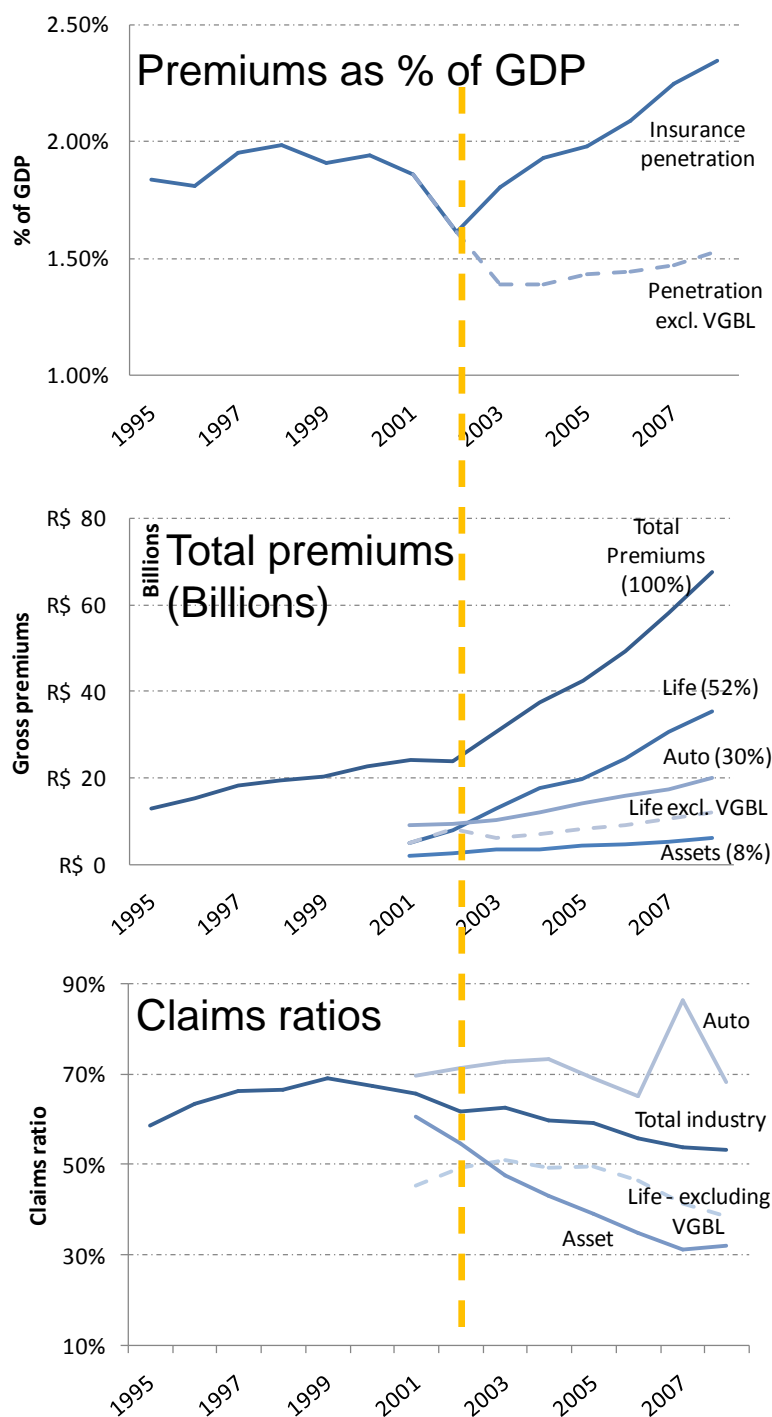
“I don’t like to speak about death. It’s like someone is cursing me. I immediately change the subject. Insurance! Don’t even think about it!”

- The challenge of converting potential demand into actual usage
- Need for tailored products and flexibility

Industry analysis

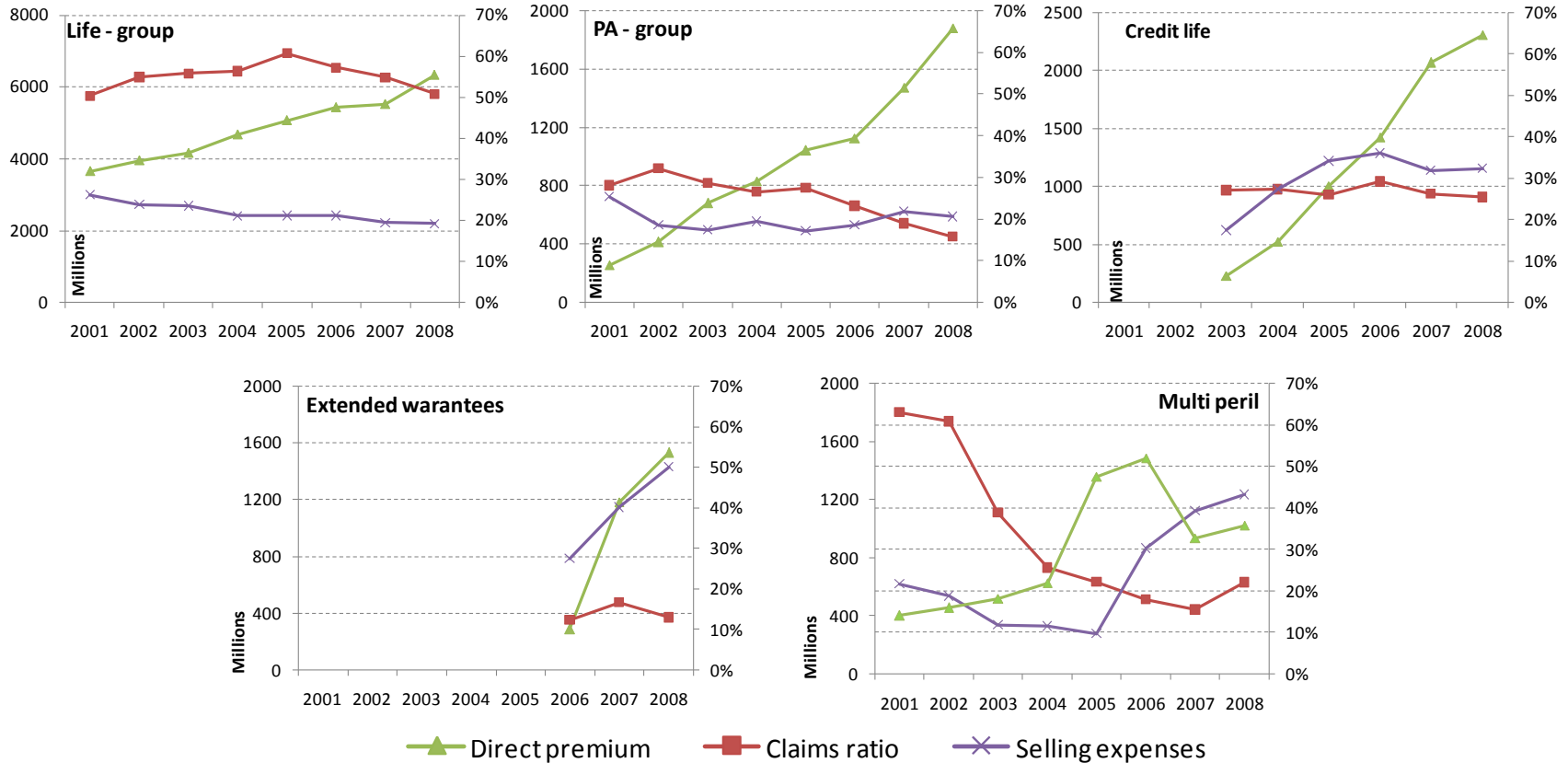
Total industry:

- 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



Industry analysis

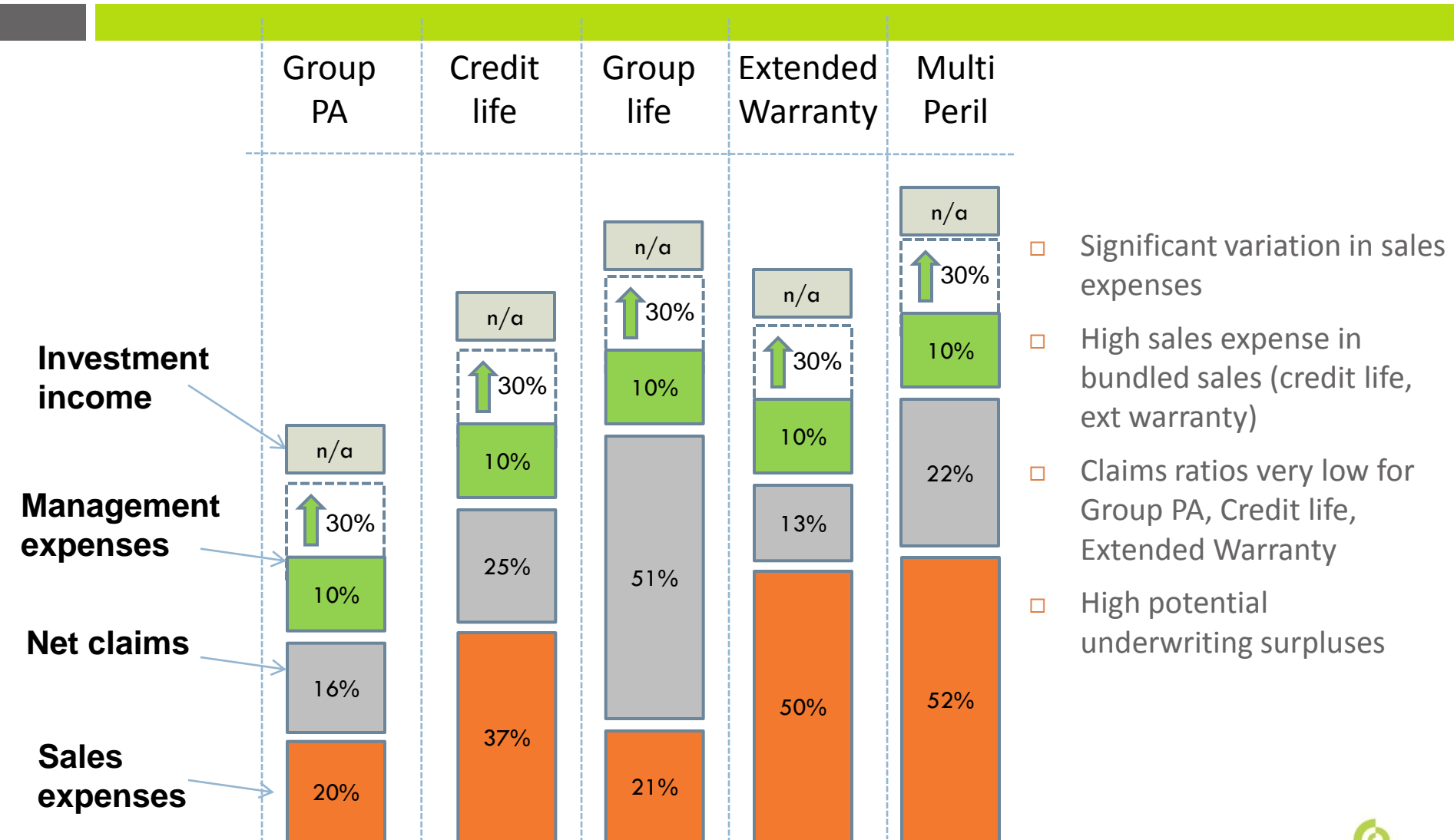
Performance of relevant product lines



- 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

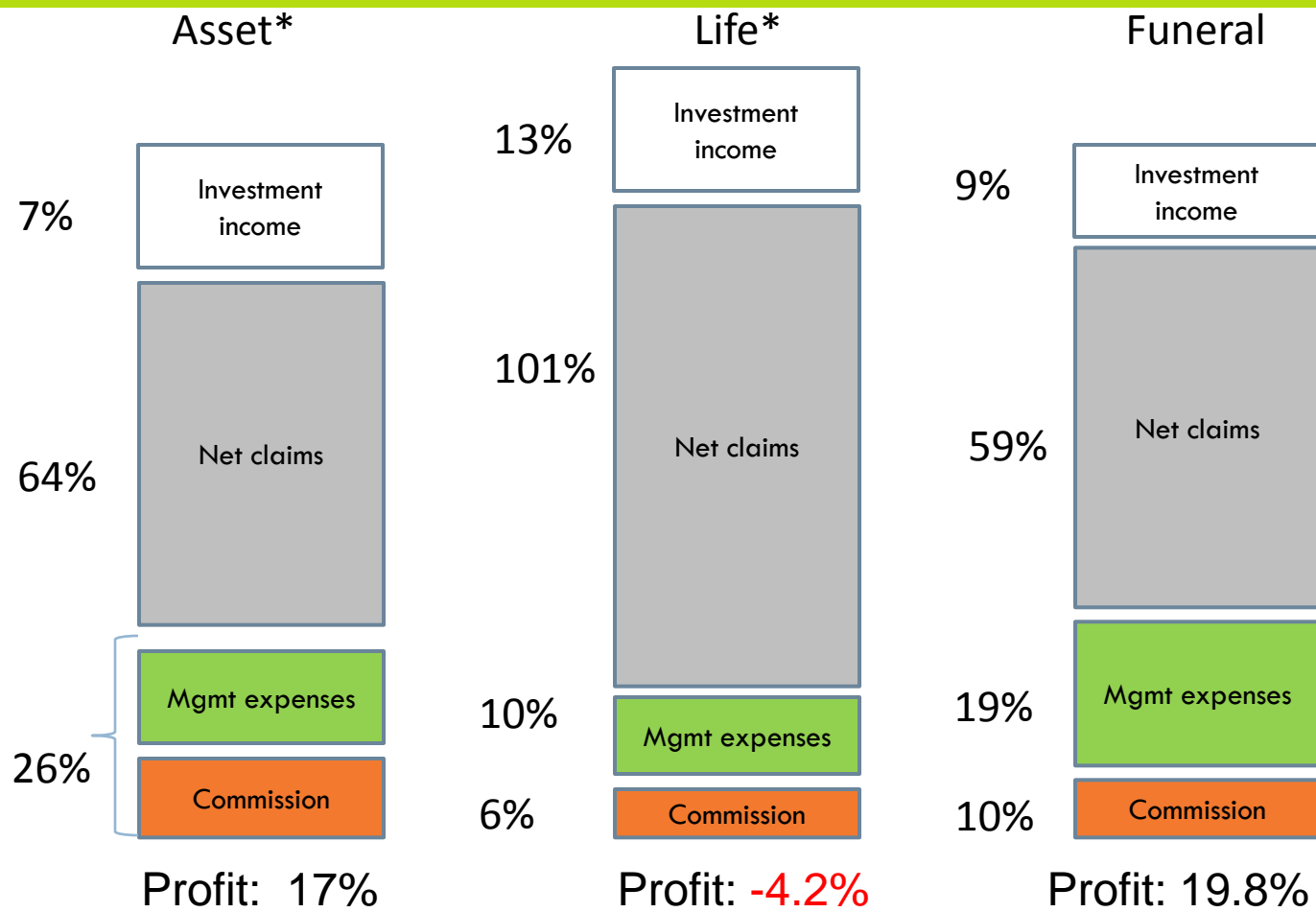
Premium breakdown: Brazil



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

Product	Monthly premium	Benefits
Retailer product	R\$7.5	<ul style="list-style-type: none"> • R\$600 life (R\$200/basket) • R\$500 PA hospitalisation (R\$50/day) • R\$10,000 accidental death (double if in public transport) • Monthly prize R\$1,500 • Up to 50% discount on medicines
Credit provider	R\$2.1	<ul style="list-style-type: none"> • R\$3,000 life • R\$840 funeral • 4 prizes of R\$1,500 per month
Utility1	R\$3.99	<ul style="list-style-type: none"> • R\$20,000 house (fire, lightning, explosion) • R\$50/month for 4 months towards electricity bill involuntary unemployment/temporary disability • R\$50/month for 1 year towards electricity bill PA • 4 monthly prizes of R\$3,000
Utility2	not available	<ul style="list-style-type: none"> • Life: R\$5,000 & 12 electricity bills of up to R\$50 each & 4 food baskets of R\$150 • Funeral assistance up to R\$2,000 • Up to 60% medicine discounts • R\$3,000 monthly draw
Utility3	R\$2-8	<ul style="list-style-type: none"> • Life & asset (home) insurance • Credit life • Extended warranties

Product analysis

Product	Monthly premium	Benefits
Funeral insurer	R\$12-30 per family?]	<ul style="list-style-type: none"> • Funeral +/- R\$1,200 • Optional life (income protection) • R\$10,000 monthly draw
Affinity	R\$10 (telemarketing) R\$1-4 (direct mail)	<ul style="list-style-type: none"> • Financial protection for unemployment • Home insurance • Assistance call centre • Capitalisation component
Employee groups	R\$5 (average); R\$15 (max) [per family]	<ul style="list-style-type: none"> • 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(?)]	<ul style="list-style-type: none"> • Credit life • Unemployment • Home & house assistance (services support) • Personal accident • Funeral • Educational insurance for children
Funeral home	R\$18 ave. [per family]	<ul style="list-style-type: none"> • Funeral assistance R\$2500 • Food aid • Discounts on medical consultations at own clinic • Discounts on pharmaceuticals • Legal advice

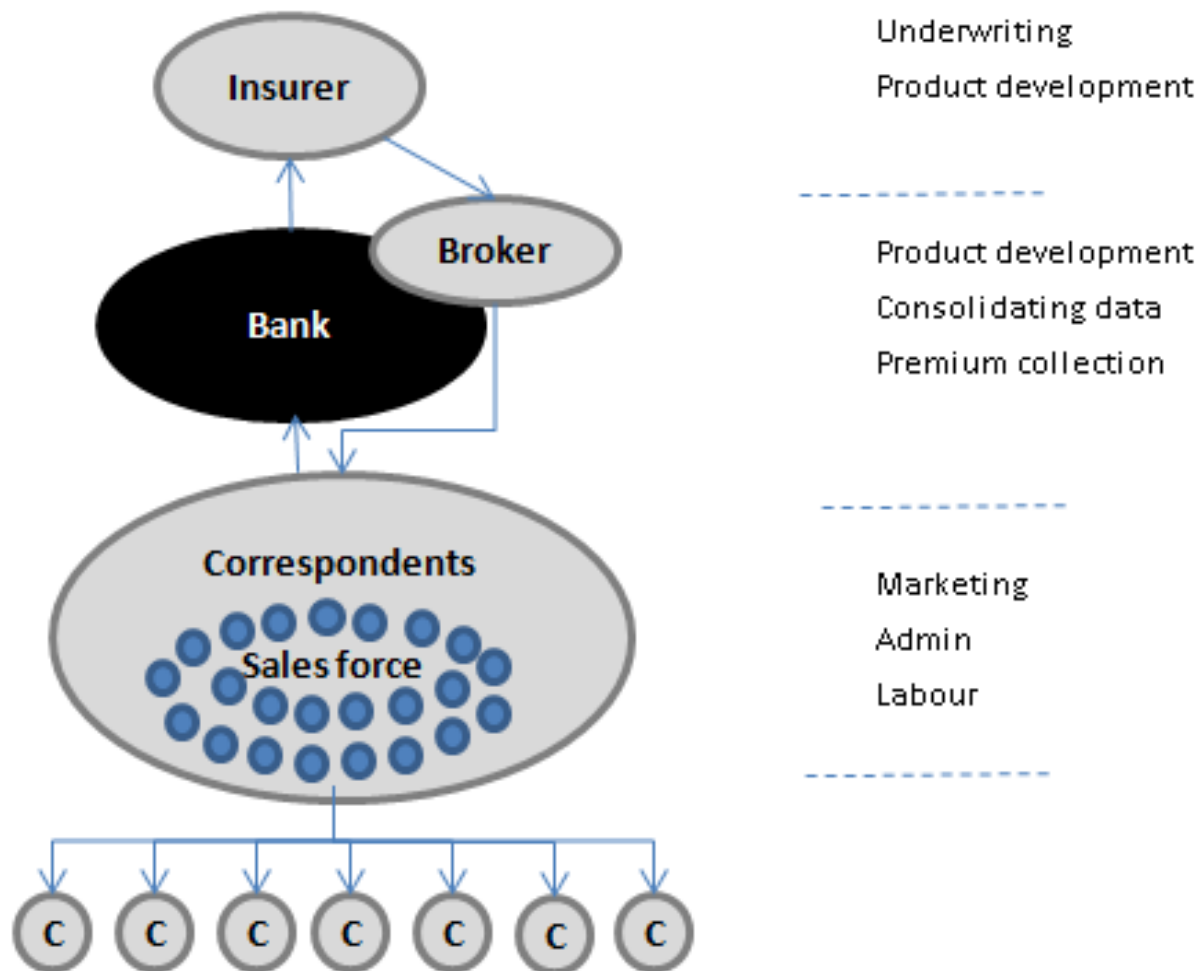
Distribution channels

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

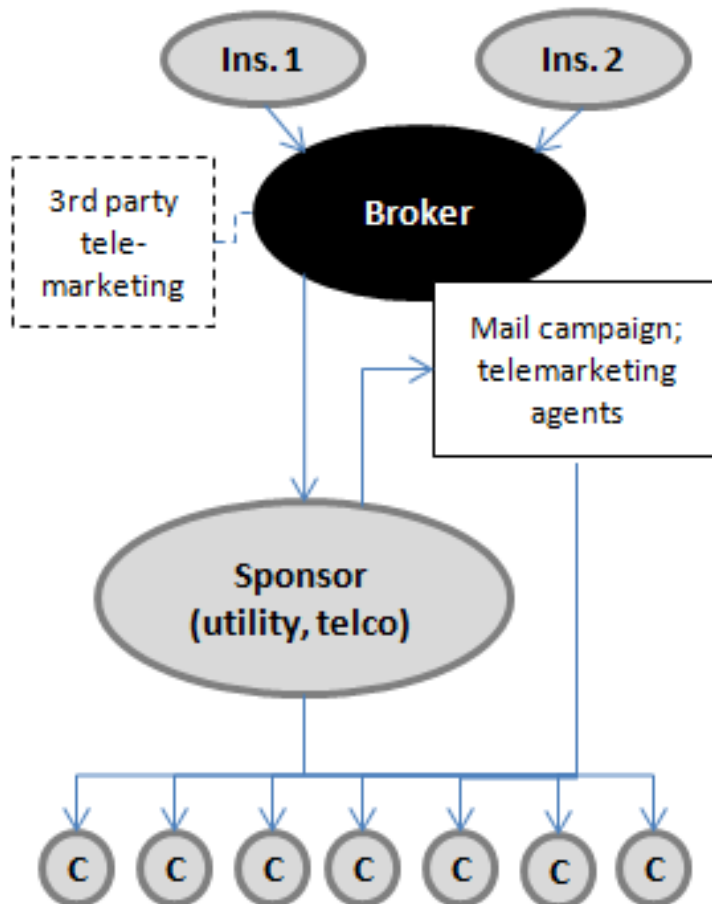
Distribution channels

Channel 1: banking channel



Distribution channels

Channel 2: Database selling



Roles

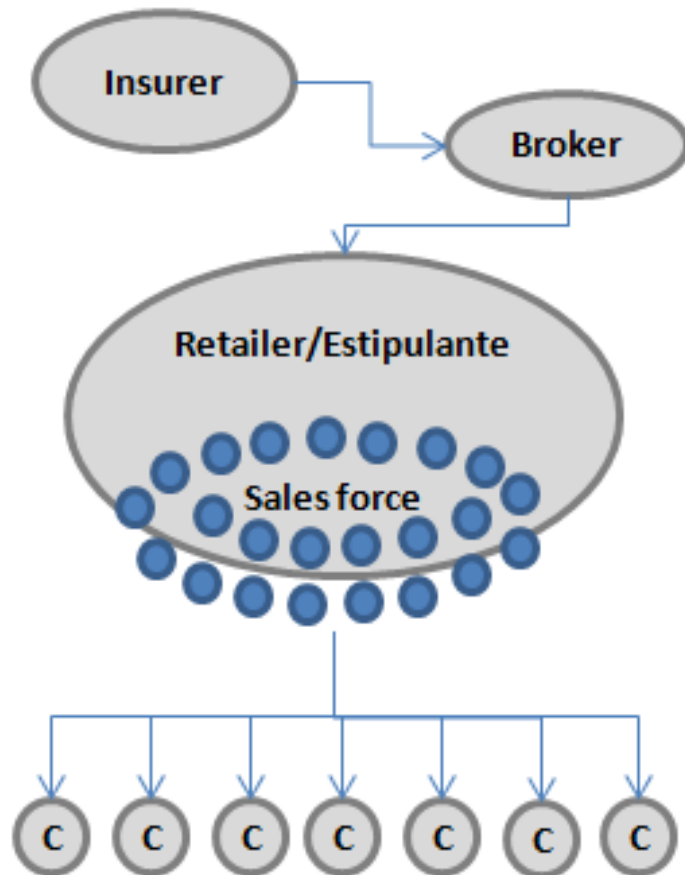
Underwriting
Product development

Facilitating relationship
Mining market intelligence
Marketing
Product development
Labour

Database
Premium collection
Admin

Distribution channels

Channel 3: Retailer



Roles

Underwriting
Product development

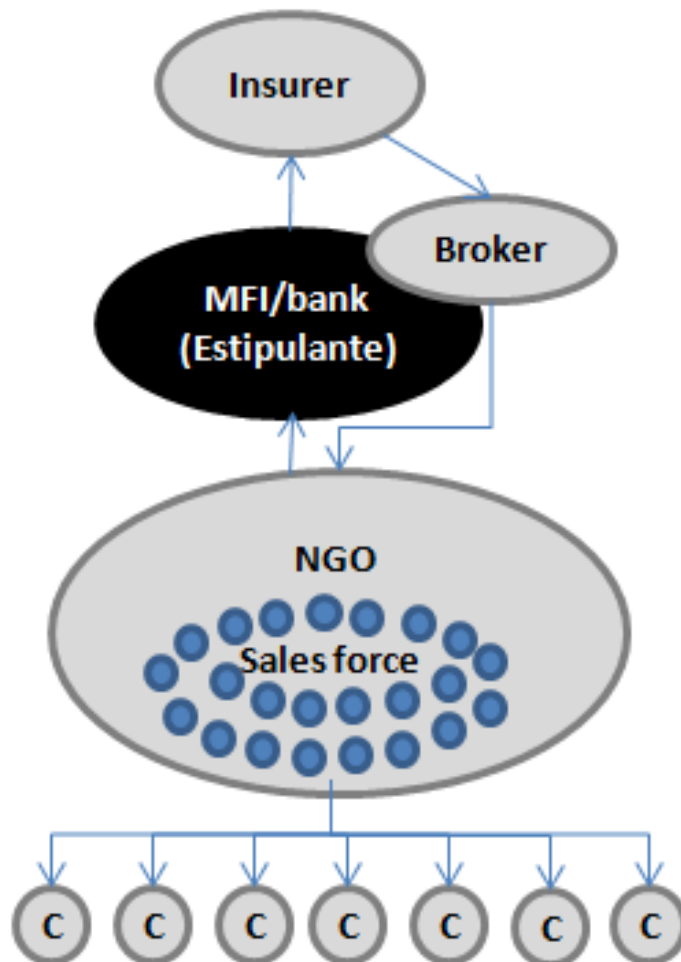
Facilitating relationship
Consolidating data

Marketing
Admin
Labour
Product development
Client intelligence
Premium collection

Distribution channels

Channel 4: Credit agent

Credit agent model (CrediAmigo example)



Roles

Underwriting
Product development

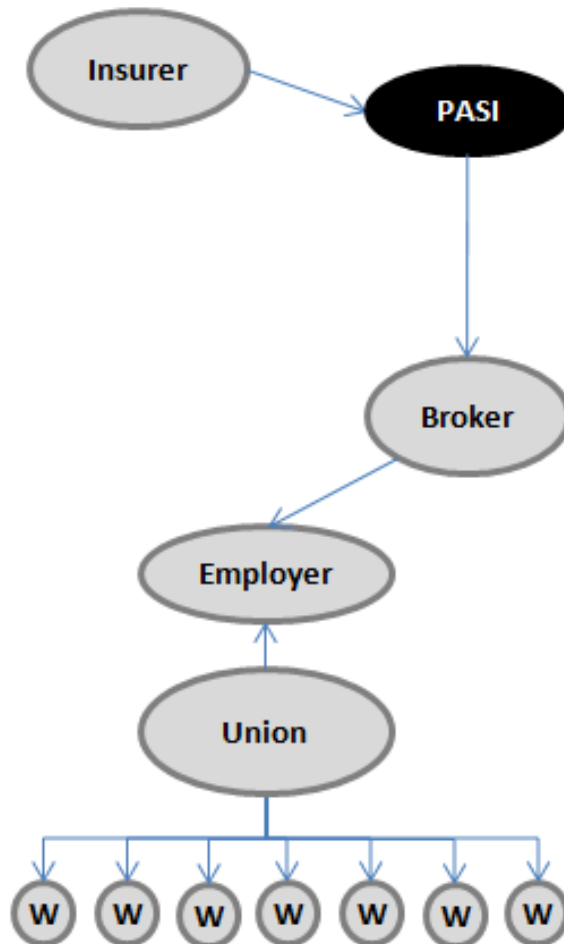
Product development
Consolidating data
Premium collection

Marketing
Admin
Labour

Distribution channels

Channel 5: Common bond

PASI model



Roles

Underwriting

Estipulante

Product development

Marketing

Claims processing

Admin (contract maintenance;
logistics)

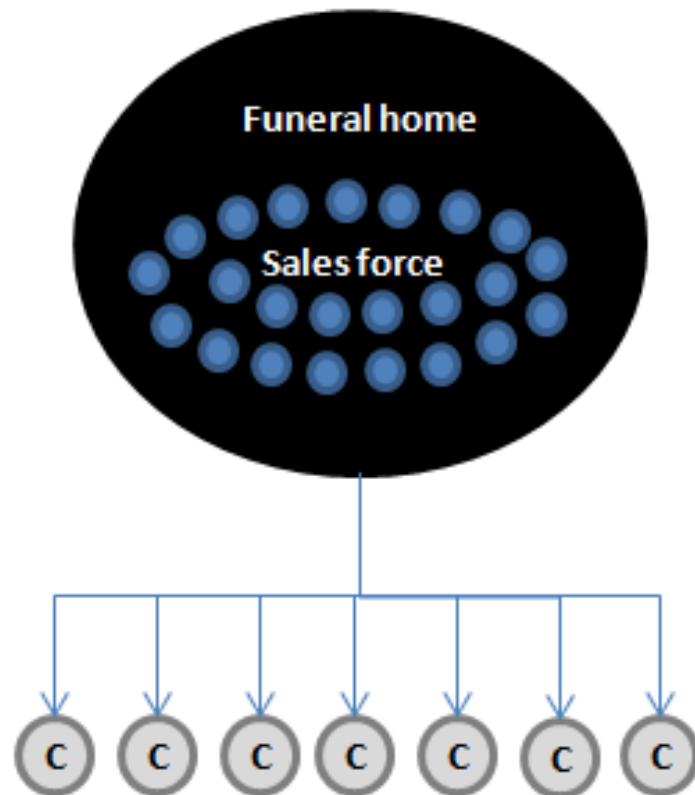
Facilitating relationship
between PASI and employer
Suggesting product modules to
employer

Pays premiums

Pressures company to provide
benefits

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)

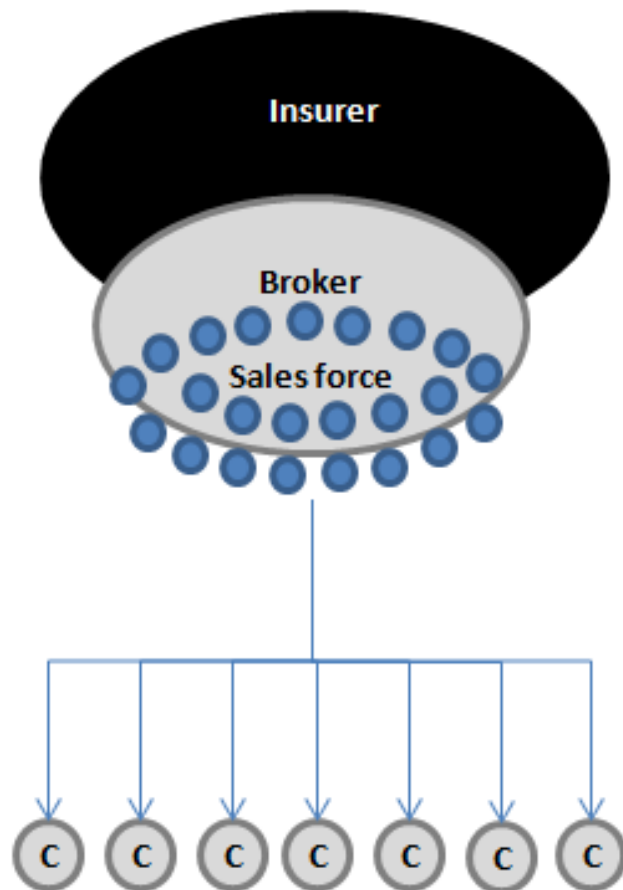
Collection

Claim payment in form of funeral service

May include other benefits "in life"

Distribution channels

Channel 7: Door to door



Roles

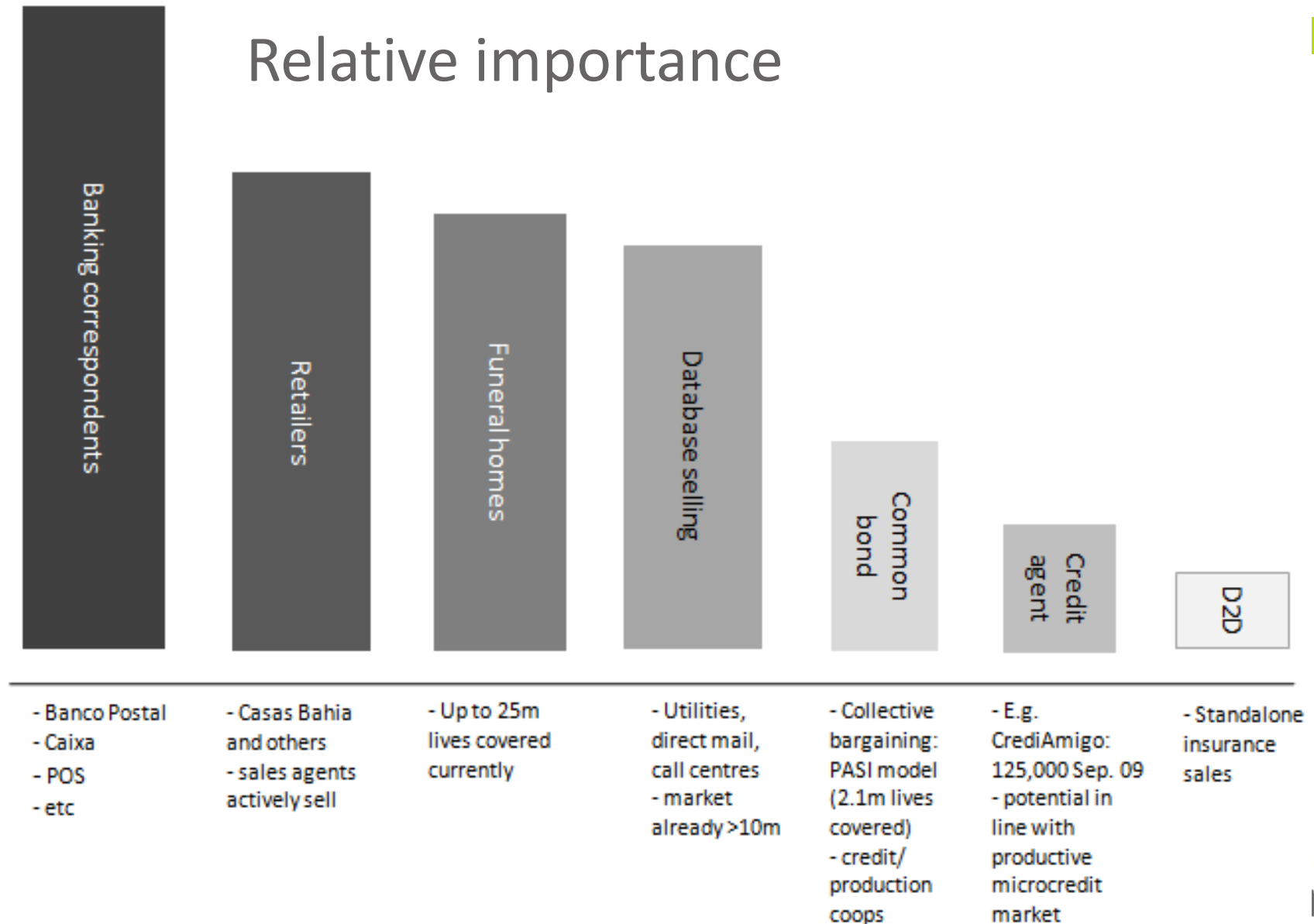
Underwriting
Product development
Client/market intelligence
Admin

Marketing
Labour

Premium collection via
correspondents/bank

Distribution channels

Relative importance



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

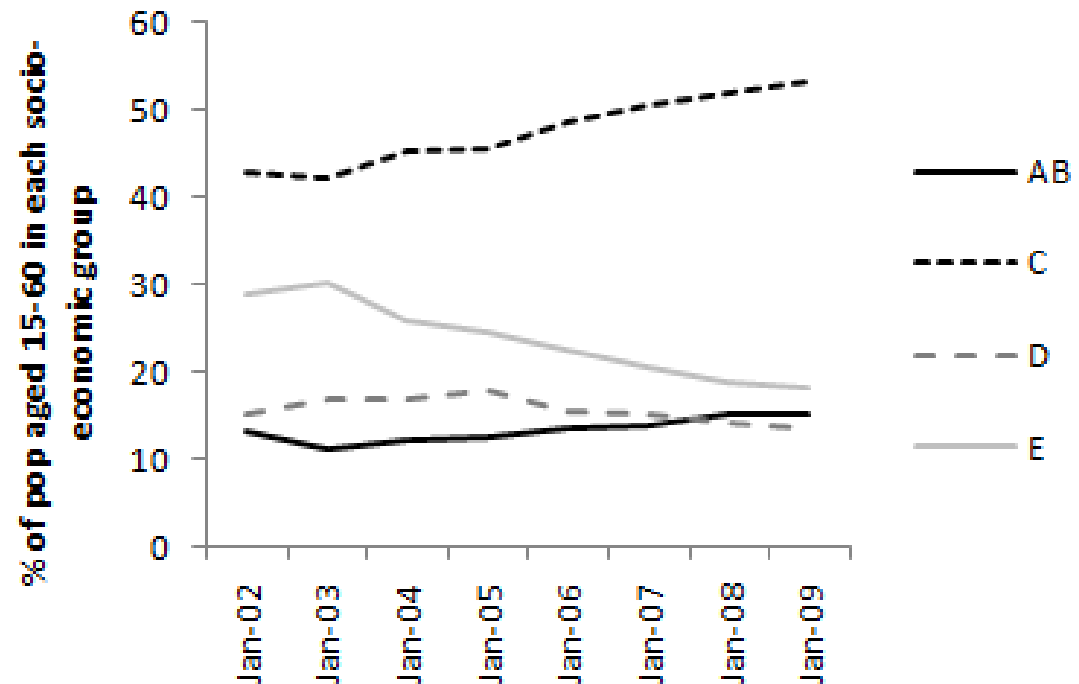
1. Economic growth increases income
2. Stability: regaining trust in long-term financial products
3. But inflation expectations persist
4. The need to rebuild cash-savings (VGBL)

Social inclusion

Upward mobility:

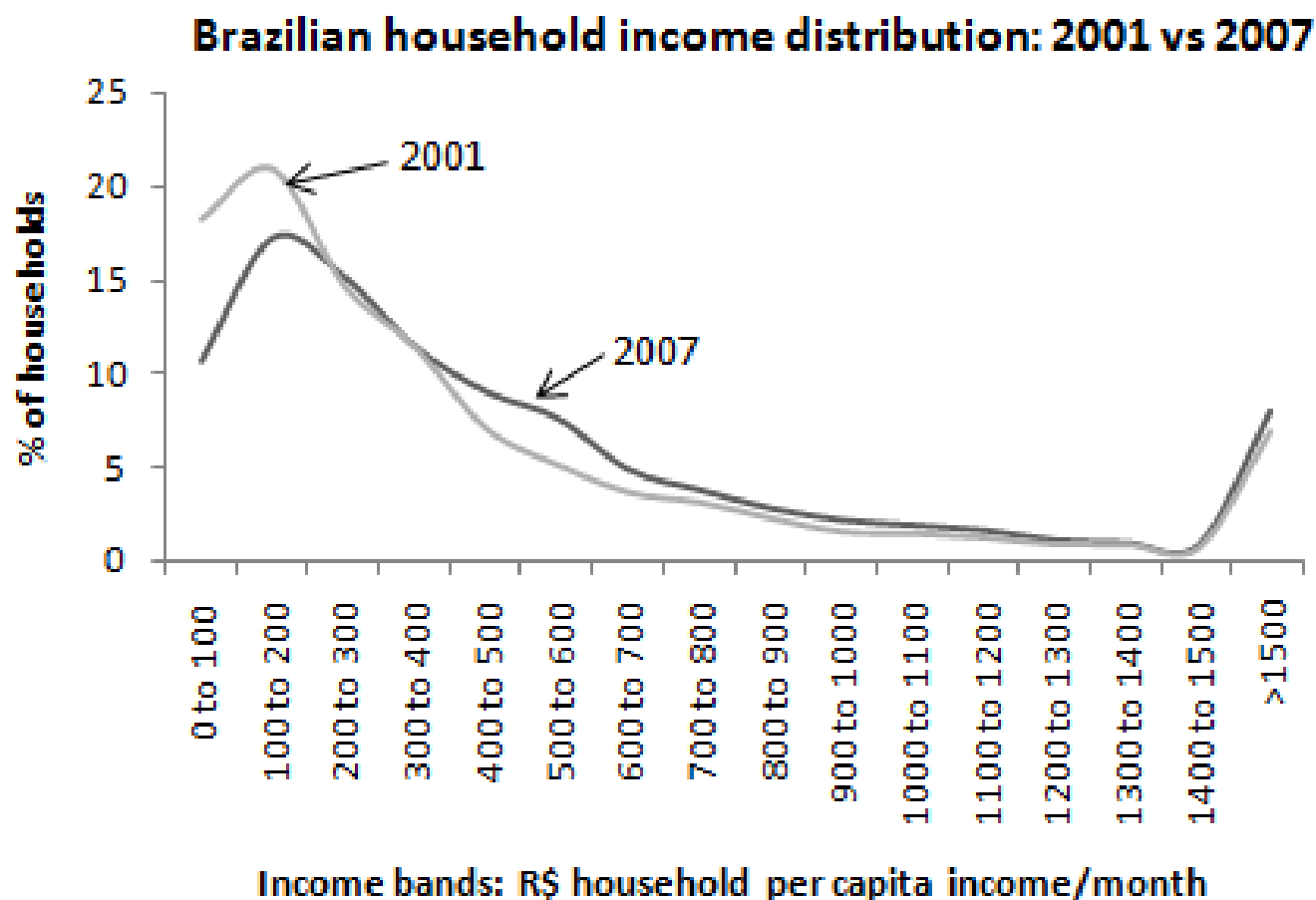
2003-8:

- 27m into ABC
- 24m out of ED



Social inclusion

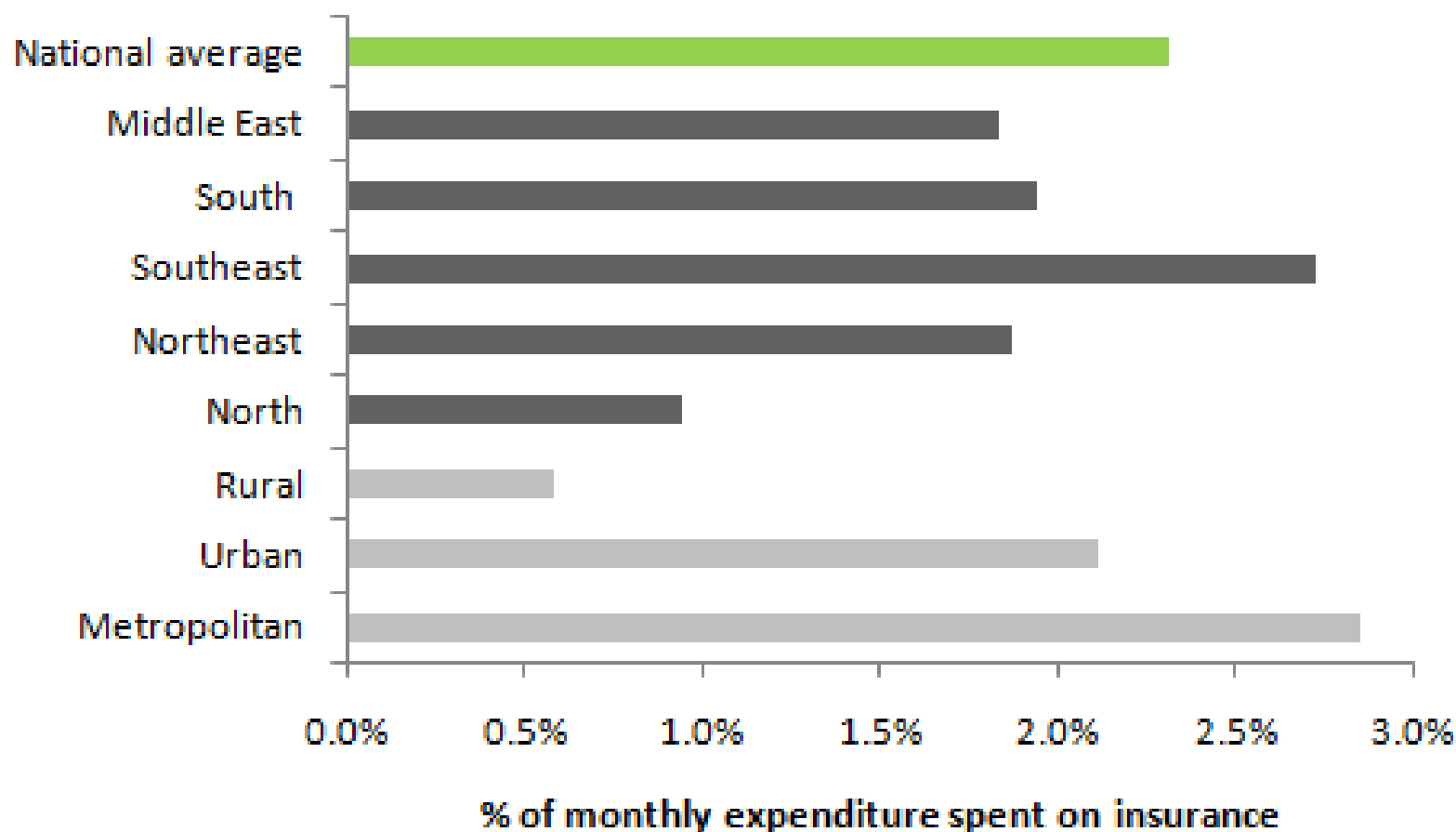
Decreasing inequality:



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

Social inclusion

Room in the budget for insurance:

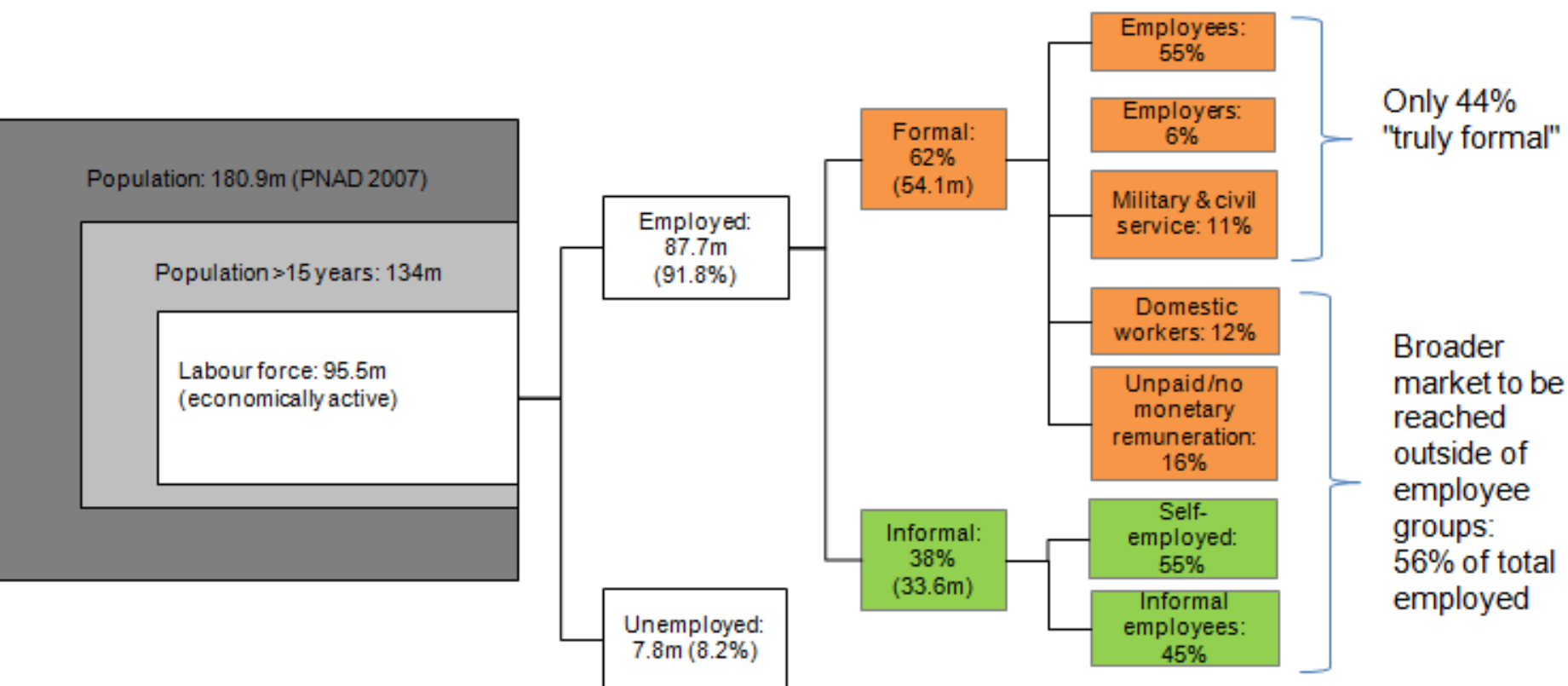


Public & private infrastructure

- 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



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

Type of tax	Applicable Rates	On what is it levied?
IOF	Life - 0.38% Health - 2.38% Rest - 7.38%	Gross premium,
PIS-COFINS	4.65%	Premium income net of claims payments, but not net of other costs.
CSLL	15%	After tax income.
IRPJ	25%	Net income

Regulatory drivers

Tax model: large company

		Premium breakdown	Group PA	Extended warranty	Group life	Multi peril	Credit life
Profit	Gross premium (Earned premium) Direct premium (retained earned premium)	Re-insurance premiums paid*	3	3	3	3	3
		Admin expenses*	12	12	12	12	12
		Claims	16	13	51	22	25
		Commission	20	50	21	52	37
		Underwriting profit/loss	52	25	16	14	26
		Investment return*	10	10	10	10	10
		Impact of current tax regime	% impact	% impact	% impact	% impact	% impact
		% of gross prem	26.1%	24%	12%	19%	17%
		% of direct premium	27%	24%	12%	20%	17%
		% of before-tax profit	43%	70%	47%	84%	47%
		% of underwriting profit	52%	98%	76%	143%	66%
		% of claims	168%	188%	24%	91%	68%
		Impact new MI tax regime	% impact	% impact	% impact	% impact	% impact
		% of gross prem	0.7%	1%	1%	1%	1%
		% of direct premium	1%	1%	1%	1%	1%
		% of before-tax profit	1%	4%	2%	5%	2%
		% of underwriting profit	1%	5%	4%	9%	2%
		% of claims	5%	10%	1%	6%	3%

Current tax impact

- 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:

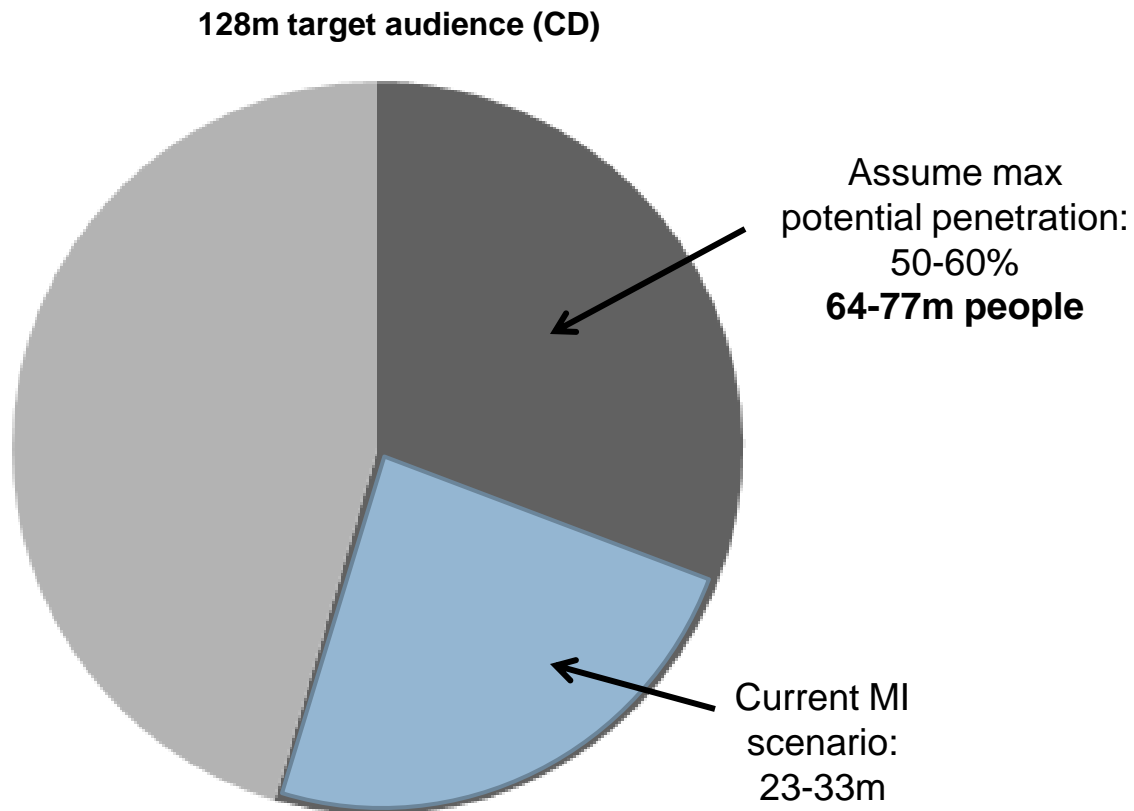
- Tax burden per product line is between 16 to 35 times lighter for large company and between 9 to 30 times for small company
- 1% of direct premium
- 1% to 5% of before-tax profit for large firm (1% to 14% of small co)
- 5% to 10% of claims for large firm (1% to 9% for small co)

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

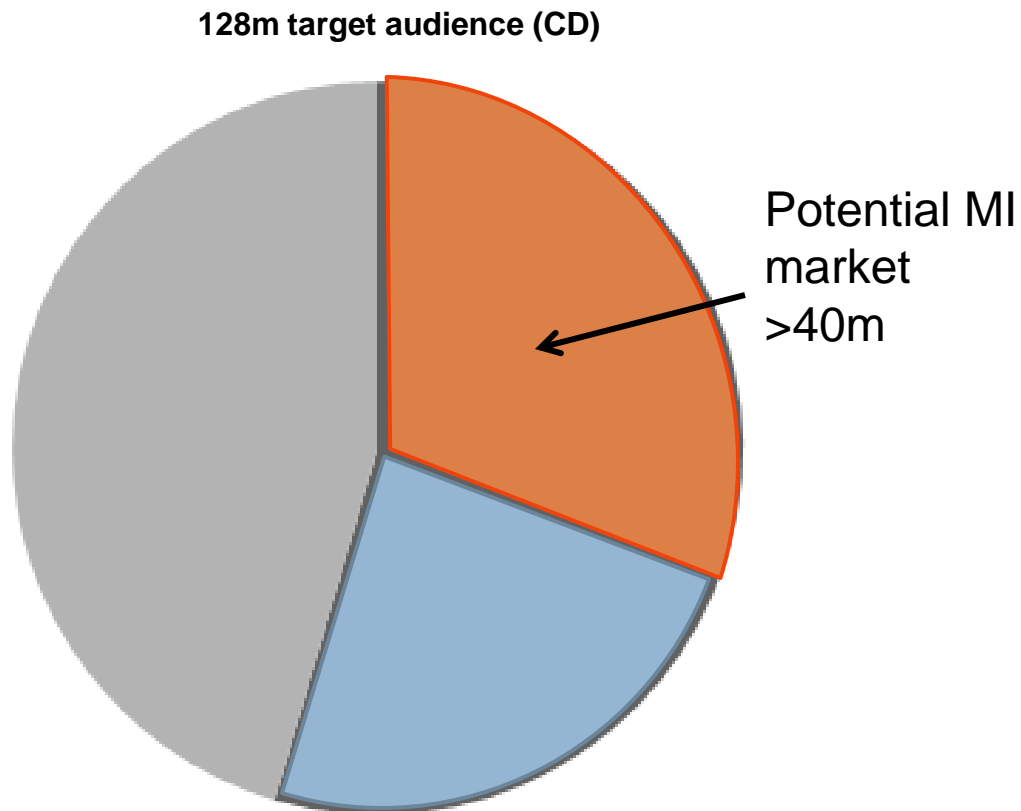
Strategy

Potential MI target market



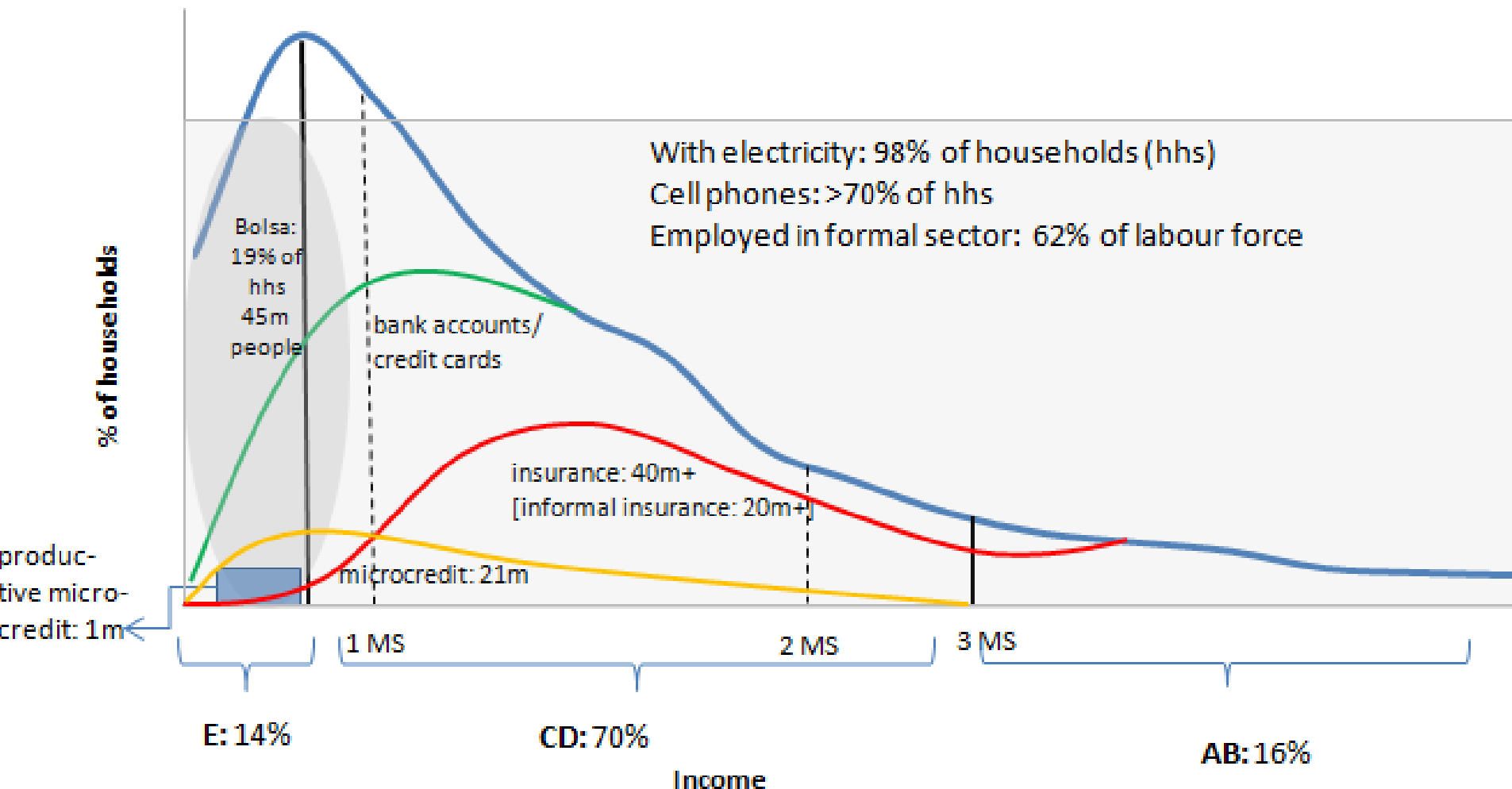
Strategy

Potential MI target market



Strategy

Potential MI target market



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:

hennie@cenfri.org

christine@cenfri.org