The insurance industry in Brazil
Transformation and growth in a country of opportunities
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The excellence of the financial industry in Brazil is today recognized all over the world, contributing to present the country as a market attractive to all international agents.

The solid fundamentals of the organizations in this sector translate into optimum levels of profitability, diversified offers of products, increasing penetration of the less exploited tiers of the population, an enviable technological base and a distinguished risk management structure.

The insurance sector is, undoubtedly, a very important part of this healthy financial industry of ours. More than that, it today represents a vibrant market, which is strongly expanding and establishing a significant level of maturity.

The present success of our insurance market is a result not only of the promising momentum of the economy and the business environment in the country, but above all, of the capacity of the companies in this industry to permanently reinvent themselves.

Deloitte, which already achieved 100 years service in Brazil, is proud to have historically supported the organizations comprising the whole local chain of the insurance and financial market in general. As we begin our second century in the country, we remain committed to help this industry growth and continue to transform.

This collection of articles organized with the contributions of some of the main executives in this market offers us a panoramic view of one of the most promising sectors of the national economy. We wish everyone an enjoyable read.

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Deloitte – industry and business expertise
Introduction

A sector that advances with the new Brazil

To better understand the universe of transformations the insurance industry has gone through, nothing could be more helpful than a collection of articles by executives and specialists who not only have an in-depth knowledge of the sector but also have actively worked for its development.

The insurance market in Brazil is going through an unprecedented time, marked by high levels of expansion in practically all segments and types of products and, mainly, by the substantial opportunities on the most diversified fronts. A series of factors has contributed for this industry to move quickly to consolidate historic gains and realize its recognized growth potential within one of the main emerging economies in the world.

The first facilitator of recent advances in this sector is tied to the very economic stability of the country, which over the past two decades has given consumers and companies a greater ability to plan, thereby increasing interest in insurance products.

Another determining factor of this new reality – perhaps the most significant of all for its range – has been the exuberance of our domestic market with the rise in purchasing power by significant parts of the population. The so-called “new middle class”, which had already been unleashing changes in many economic sectors, is now looking for ways to preserve their acquired assets and guarantee security and a more stable future for their families. Thus, great opportunities will continue to open for some insurance segments. Microinsurance, for instance, soon to be regulated in the country, is an important alternative in this context.

Fortunately, the excellent perspectives for the insurance market are not only supported by the social and economic events of the recent past. On the contrary, there are reasons to believe in the continuation of growth in the medium and long term, as a result of ongoing
economic, market and even demographic phenomena.

The resumption of investment in infrastructure, for example – whether or not associated with the holding of sports mega events in 2014 and 2016 – is promising for segments such as reinsurance and estate insurance. The very instability present in mature economies should contribute, on the other hand, to the continued attractiveness of the Brazilian insurance sector to foreign investment, particularly in light of the opening that the local market has been experiencing. And the increasing relevance of the Economically Active Population (EAP) in the Brazilian society tends to foster what’s being called a “demographic bonus” with an increased number of people producing, consuming and generating more and more opportunities for the insurance industry.

In view of this unprecedented scenario, the insurance industry in Brazil has been fostering a continuous transformation of the most varied scope: From business strategies adopted to the introduction of more efficient operational modules, from new growth mechanisms to the use of alternative channels of distribution. It is then to address this universe of transformations in an environment favorable for growth that Deloitte decided to invite executives and experts to present their views on the development of the insurance market.

Therefore, “The insurance industry in Brazil – Transformation and growth in a country of opportunities” is a collection of articles that present the great determining factors of changes and expansion in this sector. Chapter One of the book (“Beyond the storm”) addresses the international
situation of the insurance market, with Deloitte’s global leaders for the financial and insurance industries – Chris Harvey and Joe Guastella, respectively – discussing the new determining factors of the dynamics of the sector. The five articles in Chapter Two (“The country of today reveals itself”) discuss how the new Brazilian social scenario brings unprecedented opportunities for insurance companies. The Chapter “An endless horizon” deals with the relationship between the insurance market and the paths of capital, in the world and, in particular, in Brazil.

Chapter Four, then, (“For the health of brazilians”) includes articles on health and dental insurance challenges and perspectives. Management aspects, ranging from pricing and profitability to the roles of the broker and the actuarial professionals, are addressed in Chapter Five “Modern management”. To conclude the book, the three articles in Chapter Six (“The new dynamics of the industry”) address movements typical of an industry globalized by definition, including compliance with regulations, risk management, consolidation and competitiveness.

Seen in their entirety, the 20 articles presented in the following pages constitute portraits of the present and future of an industry that has learned how to permanently transform itself through constant adaptation to the new economic times.
A history of transformation and growth

1901 Creation of the General Insurance Superintendence, that takes responsibility for regulation of the industry

1929 The first capitalization company in Brazil, Sul América Capitalização S.A., is founded

1939 The Reinsurance Institute of Brazil (IRB-Brasil Re), which would monopolize the insurance industry until the beginning of the 21st Century is created

1966 The National Private Insurance System and the Superintendence of Private Insurance (SUSEP) are created

1985 The Brazilian insurance market goes through a restructuring with the gradual deregulation of the industry

1993 The Real plan is launched, providing the bases for subsequent Brazilian economic stabilization

2010 The country ends a decade of strong credit expansion and social inclusion, enlarging the domestic market and opening perspectives for the entire insurance market

2011 The Program for Accelerated Growth (PAC) 2, together with private projects, opens opportunities for branches such as reinsurance and estate insurance

2014 The country will host the FIFA World Cup, crowning a phase of renewed investment which benefits segments of the insurance market

2020 Brazil is expected to reach the peak of its “demographic bonus”, with its economically active population representing the largest part of its society – more opportunities for insurers

Source: Susep, Época Negócios Magazine and Deloitte (public data consolidation)
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Beyond the storm
A look at the industry’s future in the world
The vectors of transformation

The most important changes underway in financial institutions all over the world are happening today in relation to four central factors: Adherence to regulations, capital, customers and competition. The weight of these changes today affects all business areas of the companies in the industry.

Four years after the onset of the global financial meltdown, much of the developed economy’s financial services industry remains largely unsettled. In the United States and Western European nations, economic, regulatory, and political uncertainty have taken their toll on consumer confidence, which is reflected in the slow economic recovery. Policymakers in both regions continue to roll out potentially costly and cumbersome regulations that confuse strategic planning efforts and may have a trickle down affect on financial institutions in developing economies.

Many of the world’s largest financial services institutions are striving to find growth opportunities as they address pressures from government, regulators and the public. We have seen restructuring and divestitures among the largest global financial institutions in order to survive. Now we are seeing the companies their business focus, strategies and markets.

While Western institutions wrestle with adverse conditions, providers in emerging economies have seen a rare opportunity to catch up. Large global and international financial services companies in Brazil and China are taking their rightful place on the international stage; each country now has financial institutions ranked among the top 25 worldwide in terms of strength and investment attractiveness.

Facing stagnant growth prospects at home, U.S. and European entities are being drawn to these emerging markets. They are seeking growth in less volatile economies and bringing with them not just standard banking products but counter-recessionary...
insurance products for uninsured and underinsured residents abroad. A number of countries are changing their regulatory and tax structure as they become more sure of the strength of their financial sectors and thus are becoming more attractive to these global and foreign entities, particularly in Brazil.

To address new regulations and expand their presence in new markets, financial organizations around the globe are evolving along with the post-recession global market. Much of the change within financial institutions is occurring around four key elements: compliance, capital, customers and competition. These changes are affecting decisions in all areas of business – operating models, risk management, governance, strategic combinations, product development, staffing, and strategic objectives.

**Compliance**

Global governments and financial institutions are both viewed with a lack of trust due to the crisis and bail-outs. The ongoing political dialogue, the threats of regulatory penalties and aggressive lobbying tactics by industry leaders has resulted in the high-level shake-up of financial institution oversight in developed nations. However, this ongoing activity has left many operational details vague and has increased the number of regulatory bodies to which financial institutions must answer.

While we have seen general agreement among the G20 around financial stability requirements and regulation, there still exists conflicting degrees of regulations among countries. These require that compliance efforts be tailored to the requirements of each jurisdiction. Non-compliance could lead to significant
penalties and represents a significant reputational hazard when the spotlight falls on sensitive areas, such as executive compensation.

A number of key adjustments are positioning companies to react to regulatory change as it unfolds. Financial institutions are moving toward an agile, scalable compliance program that is supported by data-driven technology solutions and a highly skilled workforce. Financial institution leaders are also addressing compliance proactively by anticipating penalties, quantifying competitive advantages, and analyzing scenarios that would trigger a move in location, a product exit, or an alternative compensation plan.

**Capital**
Capital is no longer a commodity that can be easily acquired. The market for commercial paper alone shrank by over one-half from 2007 to 2010. The introduction of new capital standards through Basel III for banks and Solvency II for insurers has further increased the cost of capital. As a result, the competition for cheaper, more stable sources of capital, such as insured bank deposits, is intense.

Longer-term, though, capital requirements are forcing financial institutions to focus on “return on capital” measurements in order to identify the best use of capital and the most efficient products. The net result of this movement is likely to push financial institutions to diversify into retail-style areas of the industry that have the potential to boost liquidity, and even to insurance products that generate positive near-term cash flows.

**Customers**
Customers have been bruised by the economic instability of the last four years. Economic instability has forced customers to become savvier about risk and to scrutinize the nature of financial products more closely. Economic instability has also increased customer price sensitivity, forcing financial institutions to either reduce fees or lower sales expectations.

“Financial sectors are bifurcating into a smaller number of large, leading institutions and a greater number of smaller, boutique firms.”
In the fight for market share, financial institutions are preserving margins through greater efficiency, targeting service-intensive products to less price-sensitive segments, and by shedding high-risk customer relationships. Eliminating lower quality products and leveraging viable brands keep the array of products and services offered consistent with customer quality and pricing standards.

**Competition**

The competitive landscape is dotted with new entrants, consolidations, and emerging market players. New entrants are capitalizing on their service expertise to attract financial service sector customers who are dissatisfied and untrusting of the current players. Consolidation continues to be a path toward growth in today’s anemic economies; bargain-hunting is finance’s sport of the day. In emerging markets, players are using speed and agility to develop a regional presence, forcing international providers to take notice of their ambitious plans to grow brand recognition.

New, more nimble and creative competitors with high customer service standards are motivating traditional providers to improve the customer experience and service responsiveness to keep up. Financial sectors are bifurcating into a smaller number of large, leading institutions and a greater number of smaller, boutique firms.

To address these changes, financial institutions are returning to service innovation, where improved use of technology can lead to a better customer service experience. Also, service training for front-line staff has become a higher priority to provide a competitive customer experience. Strategic acquisitions and divestitures are keep market penetration aligned with the objectives of the organization, including investments into emerging markets, such as Brazil.

Despite heightened uncertainty surrounding compliance, capital, customers, and competition, there is a degree of stability returning to the world’s financial systems. The financial crisis has highlighted the impact the financial services industry, and systemic risk, have had on economies and on consumer appetite for financial services. Institutions that stay focused on harnessing opportunities in these four key areas are strengthening their position to succeed in the new global landscape.
New paths to growth

With reduced prospects for expansion in the more mature economies, global insurance companies are turning their focus of activity and capital to the emerging markets as well as to the use of non-traditional distribution channels. They, thereby, try to maneuver more effectively in the new conditions of the global market.

The financial crisis that began in 2008 has hastened the pace of change in the insurance market as providers step up their efforts to prop up sagging revenue streams. Although the root cause of the meltdown can be traced back to banks and securities firms, contagion fear of new setbacks spread among all financial services institutions.

Insurers are faring better than most, though, due to effective risk management measures and adequate capital stores during the height of the crisis. Despite widespread problems among banks and securities firms, only a handful of insurance institutions, mainly US based, have been crippled by the financial system meltdown. Insurers also continue to rate higher with consumers in brand satisfaction surveys than other financial services institutions.

Although insurers have borne up well through the crisis, the economic downturn highlights some underlying problems with insurers’ traditional revenue streams, which have been shrinking in recent years. Insurers’ ability to generate income from traditional underwriting in developed economies has been adversely affected by high market saturation and the loss of billions of dollars in insurable risks during the economic downturn.

Investment income streams, which constitute a key source of insurance revenue, have also been under pressure from continuing market volatility. The threat of global recession has driven interest rates lower. Persistently lower global interest rates reduce the ability of insurers to generate sufficient income to cover fixed costs from investment products and limit the return that
insurers can offer to consumers on life and annuity products.

The regulatory-charged environment complicates insurers efforts to act strategically and move in new directions. Individual countries and standards-setting organizations continue to roll out regulatory action in response to the financial crisis. Internationally, measures to address industry stability such as Solvency II were already under way before the crisis. The heightened focus on regulatory reform in the European Union and the US poses many challenges including operational structure, tax-planning and compliance.

The International Accounting Standards Board’s fine-tuning of its International Financial Reporting Standards (IFRS) is likely to impact reporting and tax burdens for insurers. Insurance carriers are facing an extended period of time in which they won’t know what will be expected of them, what compliance demands and costs they’ll face, or even whether they can remain viable in certain markets.

Insurers are acting to take advantage of potential new profit center possibilities despite regulatory uncertainty. With stagnant growth in advanced economies, insurance leaders are shifting their focus and capital – financial, technological and intellectual – to emerging markets and non-traditional distribution channels where they may have the greatest opportunities to drive growth.

Insurers are looking to expand their presence in developing economies where insurance penetration is low. Brazil’s large number of uninsured and underinsured population coupled with a resilient
economy and growing middle class present an attractive new front for healthier returns.

In addition to having the fifth largest population in the world, Brazil has a number of other qualities that make sales prospects bright for insurers. These qualities include open international trade markets, consistent forecasted growth, and stable rates of inflation, consumption, tax, and public debt. Brazil is one of several countries actively changing tax and regulatory structures to attract foreign financial services companies. The domestic insurance industry has been liberalized to allow foreign investment and participation in the emerging growth of the nation’s industry. As a result, the Brazilian insurance market is forecast to grow at an average rate of almost 10 percent through 2013, far outpacing the global projected market average of about 3 percent.

Beyond new market penetration, insurers are adjusting their product and service mix to meet the types of insurance products consumers want in post-recession economies. Cash-strapped and uneasy with products they don’t understand, consumers in advanced economies are generally passing on complex or hybrid products in favor of simple products that are easy to understand and provide coverage in areas where buyers believe they cannot afford to be without protection, such as inflation proof annuities and life and health insurance. This is limiting the industry’s opportunities to make headway with innovative higher-margin products and services.

**Contrasts and similarities**

In emerging markets, the economics may be different but consumer demands are strikingly similar. Businesses and consumers have more assets to protect and disposable income to buy insurance products as a result of expanding economies.

“In emerging markets, the economics may be different but consumer demands are strikingly similar. Businesses and consumers have more assets to protect and disposable income to buy insurance products as a result of expanding economies.”
Reaching these and other global consumers initially can be problematic. Although insurers have a high rate of customer satisfaction, they have historically had a hard time connecting with new customers. Insurers are looking at improving the customer experience and expanding distribution channels to create various touch points in the virtual as well as real world.

Insurers are exploring non-traditional distribution channels to boost income streams and rebuild consumer confidence in the industry with better service responsiveness. Consumers are increasingly accessing the web to comparison shop for insurance products on the go via their mobile devices. Online aggregators are also popping up to serve as wholesalers for independent agents as well as market sources for small-business owners and personal insurance consumers.

In developing markets, bancassurance is one key to connecting insurers with customer prospects because banking is an initial contact point for those first using financial services. The banking sector in Brazil is strongly capitalized and well-regulated, the branch networks are well-established giving bancassurance a target audience with an interest in financial help. Most of the largest firms in the local insurance industry are affiliated with banks that have extensive domestic distribution channels through branch networks. Bancassurance allows insurers to sell products in markets where other competitors may not be present.

Income streams have inexorably been altered with the financial crisis, forcing insurance leaders to balance regulatory uncertainty against the pursuit of growth in new global profit centers. Insurers that lead the way to emerging markets and non-traditional distribution channels are transitioning more effectively to new market conditions. Insurers that consistently reassess and reposition their business models to take advantage of prevailing opportunities in both advanced and emerging economies have a bright future ahead.
The country of today reveals itself
The facets of the growing domestic market
The increase in the country’s working population with the so-called “demographic bonus”, brings great prospects to insurers able to offer peace of mind and safety, as well as products and means of payment accessible to the less advantaged classes.

This period of consistent economic optimism Brazil has been experiencing in recent years – and which is expected to continue – is related to a phenomenon called “demographic bonus”. This means that, for a particular period, the Economically Active Population (EAP) will exceed that of dependents, made up of seniors and children.

Therefore, over the next 20 years, we will have a greater concentration of people in the 15 to 60 year age group, who, with more employment and education, will build greater assets once their basic needs are met – and expand their dreams. This creates a magical and optimistic scenario for the insurance market, mainly for those professionals and companies that realize that it is necessary to provide peace of mind and safety, in addition to the economic aspects, offering tools and guidance for the protection of the gains and dreams of each person.

However, for the economic and socially beneficial effects of the social bonus to be fully realized, the country has to overcome some basic challenges, known and widely discussed, but which still lack effective planning and more dynamic actions with tangible results. Consistent investment in infrastructure and, primarily, in education is needed. Once the logistical bottlenecks are eliminated and quality education makes all the talent of Brazilian professionals flourish, Brazil will confirm its continental and global importance.

With regard to the insurance industry, we have three main general needs, in addition to those specific to each segment. First, product solutions and payment options accessible to
the less advantaged classes must be created. The impacts of environmental degradation, which have already begun to be felt more intensely in some regions and that affect calculations, losses and premiums, must also be considered. And there is still a long way to go in the sense of expanding the view of the importance of insurance in Brazilian society.

**Specific needs**
With regard to specific segments, today, on average, only 25% of the Brazilian fleet of automobiles is insured. The São Paulo and Rio de Janeiro markets are the most mature, but there is considerable opportunity for growth. This market is expected to grow by 9% to 11% per year through 2013. Some actions could make automobile insurance more accessible to a larger portion of the fleet, such as: reduction of the Tax on Financial Transactions (IOF) on financial transactions for vehicles older than ten years; legal changes that would allow use of generic or even used parts for auto repairs; and lastly, greater vigilance in combating driving under the influence of alcohol, responsible for a significant portion of the accidents involving vehicles.

With regard to life insurance, on one hand, people are not aware of the importance of this insurance, or even of the need to purchase capital protection appropriate for their true needs. With regard to the C and D classes, insurers should work primarily to create products with less expensive forms of payment, avoiding bank payment slips. Life and personal accident insurance can also grow annually between 9% and 11% through 2013.

With regard to private pensions, the increase in the level of awareness, with
efficient education, is what is going to lead
to increased consumption. Our country is
lacking in the consumption of goods and
services, and private pensions are still not
seen as a priority in people’s budgets. It
can also grow 10% on average per year
through 2013.

People are still unfamiliar with home
protection and there is much room for
development since the average ticket
is much less than people imagine. The
provision of added services, such as 24 hour
assistance and convenience solutions, can
increase the receptivity of this branch of
insurance. Property insurance in general
is expected to grow 7% on average per
year through 2013.

“In insurance is an
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In Brazil, shipping insurance is mandatory,
however, it is estimated that 50% of
shipping companies or 50% of cargo
shipped in Brazil is not covered by
insurance, and this is basically a result
of poor enforcement. The economic
development of the country should lead
to wider awareness in this segment,
in addition to greater investments in
infrastructure. We believe that this scenario
will result in greater professionalization and
more market demand. Growth through
2013 may reach between 5% and 7%.

High risk and performance insurance both
have great potential – with growth forecast
between 20% and 40% annually between
2012 and 2013 – due to the World Cup and
the Olympics. These forms of insurance are
more complex, offered by a few specialized
insurance companies. On the side of the
insured – which, in general, are large
companies –, there is good risk management
and competent insurance brokers. Brazil
recently eliminated the Reinsurance Institute
of Brazil (IRB-Brasil Re) monopoly allowing
several international reinsurers to offer
appropriate products to the national market
(read more about this topic on pages 46-49).

Crop-hail insurance could grow from 12%
to 20% per year through 2013, seeing how
Brazil is growing as a large global player
in the production of food and bioenergy.
However, consolidation of this insurance
depends on increases in government
subsidies.
The Brazilian age revolution

A comparison of the age profile of the Brazilian population of three decades ago with that of today and that expected at the end of the third decade of the century shows the size of the social transformation. We are heading for a “demographic bonus,” which will drive consumption of goods and services. And also insurance products.

The insurance culture

So the demographic bonus is a fact and it can provide a period of great prosperity – note that the reconstruction of Europe and Japan after the second world war was assisted by the high number of economically active people to support growth. Nevertheless, socioeconomic conditions and the work of companies need to be directed to benefit from this time.

I think we are on the right path. It is important for Brazil to continue to develop and expand income. As for insurance, it is important that the rules and resolutions allow the development of products that reach ever more consumers, in diverse niches and population segments. We also need to spread the insurance culture, both in the major urban centers and in less central regions.

Insurance is an important tool for peace of mind and protection of people’s dreams and conquests, and it should be spread in the proper way so that the gains of economic development are protected now and in the future.
The new object of desire

The growth of the insurance market reflects the increase in the purchasing power of the Brazilian population. It embraces the people that, after the first moment of their social rise, start to consume new goods and build assets. They now want to preserve their achievements and protect their families.

The Brazilian insurance, open supplemental pension scheme and capitalization market is going through great times. In the first half, these three segments together (not including health insurance) sold more than R$ 61 billion, 20% more than in the first six months of 2010.

The good news for the public was growth of 19% in total insurance premiums. Through June, insurers allocated close to R$ 13.1 billion for this purpose. This means that, from the start of the year through June 30, the market returned approximately R$ 72.7 million per day to those insured, or R$ 3 million per hour. They are funds that guarantee the survival of families in the event of the insured party’s death, ensure the continuity of business, protect investors and drive new ventures.

Almost all portfolios maintained a fast pace of growth. But, it is important to highlight personal line insurance, which grew 24% in the first half, generating R$ 9.3 billion. This portfolio reflects with precision one of the pillars of the current stage of growth of the Brazilian economy, which is the recovery of the population’s purchasing power and, primarily, the entry of the lower income classes into the consumer market.

With money in their pocket people travel more and this is reflected in the behavior of tourism or travel insurance, which stood out in the half with growth of 42.3%. The average person, faced with a favorable economic climate, also consumes more, invests in education and purchases protection for the family.
It is not by chance that credit life insurance (which guarantees payment of loans in case of death or unemployment of the insured), educational and life insurance generated premiums on the order of R$ 9.3 billion in the first half, an increase of 24% compared to the first six months of last year.

The Brazilian market has solid and solvent companies to service an ever larger – and more demanding – contingent of consumers. Proof of this is that at this time, on the website of the Superintendence of Private Insurance (SUSEP) – a self-managed entity under the Ministry of Finance responsible for the oversight and regulation of this market – there is not a single indication of any insurance company, open private pension scheme or capitalization firm undergoing fiscal review or even intervention. And even in cases of companies undergoing extrajudicial or ordinary liquidation or bankruptcy, only very old cases appear, some filed more than two or three decades ago.

The companies are sound and the model is well structured. The challenge now is to make insurance simpler and the language clearer. The client, regardless of social class, needs to understand what he/she is purchasing and what the insurance may not cover.

It is not an exaggeration to say that we are facing a large window of opportunity to make access to insurance easier in future years. We have good products and the consumer is willing to buy.

**The voice of the consumer**
Surveys show that the road is long, but the perspectives are the best possible.
Bradesco Seguros Group, for example, frequently goes into the field to determine what society is thinking and which products are appropriate for each niche of society. During this work, the Group discovered that insurance that meets the needs of poor communities in São Paulo, may not work for poorer regions of Rio de Janeiro, in spite of the geographic proximity of these two major urban centers.

This observation may be useful in the development of a micro insurance line of products, sales of which should start in 2012 according to the SUSEP, following

“...
new regulation in the final stage of analysis (read more on “microinsurance” in the article on pages 36-39). It is a market which according to analysts could attract up to 100 million people to the insurance industry. People who never had access to a policy.

However, a level above this micro insurance target public, from the point of view of financial capacity, are those people in recent years who were able to rise socially, gain greater purchasing power and begin consuming, even insurance.

This is the new middle class, made up of close to 50 million people who, according to a survey conducted by the Getúlio Vargas Foundation (FGV), rose one step on the social scale between 2003 and May of this year, making Brazil the country of the so-called BRICs (also including Russia, India and China) that best combined economic growth and reduction of social inequality (read more on “new middle class” in the article on pages 32-35).

They are people who, in the first moment of their social and financial rise, ran to consume goods and increase their possessions and who now need to hold on to this new status quo and even protect their families from misfortune.

They are consumers who need to be treated with distinction and caution. To win over these new segments, it is recommended that simpler products first be offered, such as home and life insurance, leaving more sophisticated products for later.

The study conducted by the Getúlio Vargas Foundation (FGV) further determined that Brazilians are the most optimistic people with regard to what the future holds for them. On a scale from zero to ten to measure what the researchers classified as “future happiness”, the Brazilian population surprised by giving a grade of 8.7 to how satisfied they expect to be with their lives in 2014. In the other 146 countries researched, the average was 6.5.

It is an extremely favorable situation for those who, like the insurance market, want to be at the side of this optimistic person at the moment he/she goes to buy, for example, a car or home.

Thus, a process is created that resonates on the mood of all society and, consequently, on the economic and social development of the country. In this way, Brazil, inhabited by an essentially optimistic people who also feel protected, is no longer the country of the future, but rather the nation of today. A country where the social pyramid has turned into a barrel, with the flattening of the ends and the relentless growth of a strong middle class.
The new needs of the new middle class

Brazilians who have gained greater purchasing power in recent years have become players in the national economy and today represent the major factor driving the insurance industry in the country.

For many decades businessmen in the most diverse industries used the lack of a strong consumer class in Brazil as their excuse for the modest, and often low, growth rates for their markets. Businessmen yearned for a group of people who would demand large amounts of products and services to drive the national industry and reduce Brazilian dependency on the export of commodities.

The situation was no different for the insurance and pension industry. We believed that one of the engines that would drive expansion of this segment would be greater access to income. The argument that Brazilians did not have an “insurance culture” was only partly true. After all, how could there be a practice of insuring if there was no property to be protected, no standard of living to be conserved?

Consequently, insurers longed for a time in which the country would finally form a mass of people inclined to consume.

Well, in recent years it seems that the desire of Brazilian businessmen and entrepreneurs has become reality. Between 2003 and 2009, almost 30 million people entered the C class, a group that according to the Brazilian Institute of Geography and Statistics (IBGE) had a family income of up to R$ 4,854.00 in the last year of this period.

They are people that emerged from the D and E classes and left misery and poverty behind by gaining formal employment, by obtaining income through government programs and through access to credit and education.

This phenomenon, which did not happen overnight, is a result of various social
policies and numerous private sector initiatives and it drastically altered the profile of Brazilian society. The so-called “middle class” gained body and form and today it represents more than half (50.5%) of the country’s population, a total of 94.9 million people. The data I cite are from the Getúlio Vargas Foundation (FGV) study, “The New Middle Class – The Shining Side of the Poor,” based on data from the IBGE’s National Household Sampling Survey (PNAD).

As they rose socially, this contingent of millions of Brazilians began consuming. And a lot! Data from the Instituto Data Popular show that over eight years, from 2002 to 2010, spending by the C class on products and services increased 6.8 times, reaching 41.3% of total spending by Brazilians and almost equaling the combined spending of the A and B classes.

In other words, the people who belong to the Brazilian “new middle class” are today those that consume the most in the country.

These facts have made the C class the major player in the national economy. The country was supported by this new internal demand and was able to pass practically unscathed by the 2008 international crisis. The large multinational companies have come to depend much more on the results of their Brazilian subsidiaries. And foreign investors have not hesitated to deposit millions in Brazil, counting on returns coming in large part from this new mass of consumers.

**The response of the insurance market**

As have other industries, the insurance market has not ignored this social movement in Brazil. We have as an advantage the fact that security is a basic...
human need. Theories on the motivation and behavior of people show that the need for security or the stability or preservation of what one has, is second in importance among all human needs, behind only physiological needs. This need goes from the sensation of being safe within one’s home to the feeling of being protected by a health plan, automobile insurance or even life insurance.

From this perspective, the social rise of the Brazilian middle class appears as the great driver of the insurance industry. As they acquire goods which they previously had no access to, the new Brazilian consumers will become concerned about protecting them.

“In coming years, Brazil will have an insurance industry with a greater number of participants, greater diversity of consumer profiles, more diversified products and greater income generation.”
It is also worth highlighting the numerous opportunities which will result from a new market that is opening, that of microinsurance, focused on the low income segments, with products developed to protect people in the more humble social layers against risks such as death, personal accidents, illnesses and disasters, among others (read more on this topic in the article on pages 36-39).

Faced with these doors that have opened with the social changes occurring in Brazil, the insurance industry has taken steps to create new products and coverages appropriate for this new consumer profile. Test projects of companies and institutions that represent the industry have occurred in several cities in the country.

In coming years, Brazil will have an insurance industry with a greater number of participants, greater diversity of consumer profiles, more diversified products and greater income generation. And what has begun with a change in Brazil’s social structure will certainly be very positive for everyone.

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Security, the new basic need of Brazilians

In the classic hierarchy of needs proposed by the theoretician Abraham Maslow, the search for security comes right after physiological needs, those most basic to human beings. It is exactly this search for security that the insurance industry worldwide seeks to address, offering people the sensation of being protected by a health plan or life or property insurance. The new Brazilian middle class, as they gain access to goods they did not have before, now also worries about protecting them.

The Maslow Hierarchy of Needs

- Physiological: (food, water, sleep, etc.)
- Security: (protection, shelter, defense, employment)
- Social: (relationships, sense of belonging to a group)
- Esteem: (self-esteem, recognition, status)
- Self-actualization: (personal development, achievements)

To give you an idea, 2.8 million new automobiles were licensed in 2008 and by 2014 the number should reach close to 4 million. In addition, the forecast of funds for housing credit in 2014 is R$ 500 billion. They are thousands of high cost goods, automobiles and homes that will require insurance to guarantee preservation of this property. And this does not include lower value goods, equally representative of the lives of Brazilian families, like household appliances.
The rise of new consumers has led to the development of products like microinsurance in Brazil, however, in order to succeed in markets such as this, it is necessary to dive deep into the social universe of the potential consumers and create high quality solutions.

Since the launch of the Real Plan, close to 45 million Brazilians have joined the consumer market. From 2002 to 2010, the Brazilian population grew 10% while the middle class expanded by more than 30%.

A consequence of this social rise has been a reduction of mortality rates, expanding the population of seniors. At the same time, the birth rate has dropped. The combined result is a “demographic bonus” when the largest concentration of the population is in the age group considered economically active, between 15 and 64 years of old. This condition is beneficial for economic development, improvement in the quality of life and growth in the consumption of goods and services.

Insurance collection in Brazil was above R$ 112 billion in 2010, with reserves on the order of R$ 178 billion. In this period, the ratio of insurance and Brazilian Gross Domestic Product (GDP) reached 3.1% and the trend is for this proportion to increase in future years. It is important to emphasize that the insurance/GDP penetration index in Brazil is lower than in other countries, such as India (5.1%), Chile (4%), China (3.8%) and Venezuela (3.5%), a fact that shows how much room there is for growth in the industry.

In spite of the international crisis, the perspective for the Brazilian economy continues to be positive. Growth of 15% to 20% in insurance premiums is expected for the period from 2011 to 2014.

Homeowners and housing insurance will increase due to expansion of the real estate industry, whose credit reached R$ 100 billion in 2010 and is expected to hit R$ 500 billion
in 2014. Of that portion of the population classified as low income – who earn up to two minimum salaries per capita – 50% already own or are paying for their own homes and are potential customers for the two types of insurance mentioned. Life and personal accident insurance and credit life insurance are projected to grow on the order of 60% over the next four years.

**A concept to be understood**
The change in the demographic profile of Brazil has brought demand for the development of microinsurance, considered part of the microfinance policy of the Brazilian government and a valuable instrument for reducing the vulnerability the economically less favored population is exposed to.

Theoretically, microinsurance is defined as “financial protection provided by authorized providers to the low income population against specific risks in exchange for payment of premiums proportional to the probabilities and the costs of the risks involved, in compliance with the law and globally accepted insurance principles.”

A gross simplification leads some to consider microinsurance cheap insurance and nothing more. Nevertheless, the issue is more complex since it deals with a public with specific economic, social and cultural characteristics which result in varied needs and expectations. Creating a protection option (and ensuring its sale) for this segment requires, therefore, a dive into the social universe of these new consumers.

**Who the new consumers are and what they think**
The new consumers have large families and live predominantly in urban areas.
In general, they have little education and high rates of functional illiteracy. The family is the center of their lives and the source of support. Family life and financial stability are among their basic values and their own home, a car and travel are the objects most desired.

Access to financial goods and services – among which insurance is included – is seen as an achievement of citizenship, especially when they have credit in their name (“a clean name”). Nevertheless, they are cautious of banks and feel more comfortable with retail chains. Protection of their families and the goods they have acquired is welcome, but they feel the need for evidence of an immediate advantage to invest in insurance.

Appropriate insurance

The development of the microinsurance market assumes the structuring of high quality solutions that combine affordable prices and economic viability with cost reduction and simplification of the loss adjustment processes without harming the insurers.

Some solutions and differences that merit mentioning include: Life and personal accident insurance; the inclusion of drawings among the insured parties; an emphasis on funeral aid as assistance; financial protection insurance; an assistance package focused on the family, leisure and home and auto repairs, in addition to discounts on medications; and homeowners and housing insurance to keep up with the expansion of the real estate market.

With regard to the development of solutions that consider the needs of these new consumers, the moment requires further that pricing be developed based on calculation formulas that consider the differences of microinsurance, combining affordable prices with the commoditization of sales.

Another challenge is the improvement and expansion of distribution channels. In the case of the financial system, the adoption of correspondent banks significantly expanded the points of sale and brought the offer to the areas where the consumers live and work. But it is necessary to diversify

“(…) the regulatory agents also have a job: to regulate the microinsurance market, defining criteria and updating the regulatory framework to support the complete development of this promising market.”
the channels: stores, concessionary dealers and providers of public services and retail networks are other alternatives.

In the same way, communication has to be innovative. The language to be adopted, with a less formal tone and without the complicated “insurance terminology”, should strengthen brand credibility, demystify the product and present it in a clear and transparent way, giving the customer the right to decide between the pros and cons. The internal processes and sales mechanisms should be equally simplified, with the adoption of automatic sales devices, uncomplicated loss adjustment – without this implying greater risk for the insurers – and training of teams, always focused on efficiency.

To reach this improvement, the regulatory agents also have a job: to regulate the microinsurance market, defining criteria and updating the regulatory framework to support the complete development of this promising market.
After the social advances and the increase in demand, the insurance industry in Brazil has already begun to enter a new stage with a consumer emphasis on life, pension and health insurance. A typical evolution of a growing market with increased penetration of products.

Brazil today is a market watched and courted by governments, companies and investors from all over the world. Important social, economic, political and financial advances have ensured a stable environment for business and income generation, which when associated with the size of the country, has made Brazil an irresistible destination for international investment. With the seventh largest gross domestic product (GDP) in the world of approximately US$ 2.3 trillion, it plays a major role in decisions on the present and the future.

When we look more specifically at the domestic market, we see that demand is very strong, driven primarily by the growth of the middle class, which today represents consumption potential of approximately US$ 700 billion, in other words, more than the GDP of Switzerland or more than the GDP of Argentina and Chile combined.

There continues to be, however, great consumption needs still repressed, mainly in the lower income social classes. It is with this public that the sales potential of the insurance industry will be greatest in future years. Consequently, it has become a strategic challenge today to understand the profile of this consumer and get increasingly closer to this future potential client.

Those in the C, D and E classes have a relatively different and diversified spending profile. While the E class is experiencing a time of recovery after a long period of repressed consumption, more concentrated on the cycle of purchasing basic goods such as food, clothing or even household
appliances, the C and D classes already present a more sophisticated basket of purchases. The C and D classes, generally considered to be the middle class, are already thinking or investing, for example, in more expensive products, such as computers, cars and real estate.

The tendency is for a large portion of today’s E class to evolve and grow to become tomorrow’s D and C classes, thus joining the middle class. Faced with this, these classes are creating an extremely important market potential for different niches and segments of the market, both for industry as well as for services. In the case of the insurance industry, the reality is no different. The potential is so large that it has its own regulation under study, that of microinsurance (read more on “microinsurance” in the article on pages 36-39).

This project should thus create, in the relatively near future, a new segment of more popular insurance with low premiums and important sales volume, just as has occurred in other emerging countries.

The objective here is to provide lower income classes (C, D and E) with access to the different insurance products, in the sense of ensuring their present peace of mind and their future security. The culture of Brazilians seeking protection through insurance coverage is beginning to emerge in Brazil and increasingly more Brazilians are purchasing insurance products. The creativity of companies in the insurance industry in recent years in terms of launching products has helped considerably, but the major step, the most important, is being taken by the Brazilians themselves, increasingly interested in seeking and purchasing these products.
Protecting life
While some years ago the priority was on protecting goods, such as automobiles, for example, today more emphasis is being given to life protection or financial planning. This evolution is typical of a growing insurance market with increasing penetration. Thus, it is usual that in less developed countries, the non-life insurance segment, generally auto, has the largest weight. In countries where the insurance industry is more developed and advanced, life and pension insurance gain more significant importance.

It is expected then, that with the growth of activity and in the middle class in the next years, the insurance market in Brazil will be characterized by strong growth of the life and pension insurance segment, as well as health, since the government health standard is showing its limitations.

Caixa Seguros, the Caixa insurance company, is well positioned to service this new consumer market. In fact, Caixa Economica Federal is today the second largest government bank in Latin America, considered the bank of the Brazilian people. It is one of the few banks that are present in every Brazilian municipality. In addition, its banking network is complemented by a network of lottery agencies and correspondent banks also present throughout the country. There are more than 60 thousand sales outlets in all to service all the diversity of the Brazilian classes. With this, its presence and its relationship on a daily basis with Brazilians are very intense.

For Caixa Seguros, this translates into important market niches. With approximately 9 million customers, the insurance company has a very large potential to introduce insurance products, certainly one of the largest in the Brazilian market in the next years, considering the 54 million Caixa customers, the diversification of its portfolio, its experience in terms of products and, primarily, the confidence of the Brazilian people in the Caixa brand. It is important to remember that Caixa Seguros was the first company to launch massive sales of popular insurance products into the Brazilian market in 1995, such as Caixa Fácil.

“It is important to understand the role of the insurance industry, not only with respect to a person or family or even a company, but to all of society.”
“In countries where the insurance industry is more developed and advanced, life and pension insurance gain more significant importance.”

Acidentes Pessoais (Easy Personal Accident) and Caixa Fácil Residencial (Easy Residential) insurance. Today, the group has a variety of popular products available for Brazilians, such as, for example, the “Vida da Gente” (Our Life) life insurance offered through the Caixa network, Amparo (Shelter) insurance and the “Super X Cap” savings certificate through the lottery network. Caixa Seguros has, in fact, the ability to become one of the largest insurers in this segment.

It is important to understand the role of the insurance industry, not only with respect to a person or family or even a company, but to all of society. When the links of the economic and social chain are protected, a powerful network guarantees a seamless operation within this structure.
An endless horizon
Doors open to investment
The economic scenario, infrastructure projects and large events are driving the reinsurance sector in Brazil, whose current legislation contributes to the strength of the national market by protecting insurers from the financial instability abroad.

The economic scenario for Brazil is quite promising, despite the numerous challenges presented by the international financial crisis. Inflation under control, an adequate level of reserves and a favorable trend in the ratio of debt to Gross Domestic Product (GDP) are some of the macroeconomic conditions that point to the continuity of the economic growth cycle, the distribution of income and the reduction of regional inequalities.

As a result of this context, the Brazilian public and private sectors have regained their capacity to invest in infrastructure – notably in energy, transportation and sanitation – and to hold mega sports events, such as the FIFA World Cup in 2014 and the Olympic Games in 2016. Not to mention the investments needed for the exploitation of the pre-salt oil which, due to its magnitude, merit a separate chapter.

For Brazilian society to realize all these achievements a wide offer of well structured insurance at reasonable prices will be required – in addition to considerable planning, determination and work.

The insurance companies, in turn, due to the large technical and financial capacity needed to cover such undertakings, have sought protection for their portfolios through reinsurance.

Fortunately, the reinsurance industry is prepared for this. After 70 years of monopoly, the Brazilian reinsurance market was opened to national and foreign competitors. Currently there are almost 100 companies registered with the insurance
regulatory agency in Brazil. There is plenty of capacity, knowledge and desire to be part of this positive time for the country.

Even more important than the simple opening of the market was the fact that the 2007 legislation ensured the survival of a vigorous and fit national reinsurance market that is able to offer reinsurance protection to the insurance companies operating in Brazil. This aspect is essential since an international crisis could suddenly remove liquidity and the appetite for risk on the part of global reinsurers, just as happened at the end of 2007 and the beginning of 2008, and in this adverse scenario, preservation of a strong local market ensures not only that jobs, expertise and taxes remain in Brazil, but also that there is financial capacity to contribute to the development of the country.

IRB-Brasil Re (Reinsurance Institute of Brazil), as a state-owned reinsurer, ex-monopoly company and current leader of the open market, has also done its part, making reinsurance solutions feasible, like the coverage for construction of the Angra III plant, for example, and the largest deal in the Brazilian market in 2011. To better serve its customers in Brazil and abroad, the company is going through a large transformation, characterized by the review of all its policies and guidelines for acceptance and risk management, by the updating of all its work processes and by the complete modernization of its information technology systems.

The actions of IRB-Brasil Re, the creation of Brazilian capital reinsurers and the arrival in the country of dozens of global reinsurers demonstrate the success of the new rules which discipline reinsurance in Brazil and

By Leonardo André Paixão
President of IRB-Brasil Re
“Even more important than the simple opening of the market was the fact that the 2007 legislation ensured the survival of a vigorous and fit national reinsurance market that is able to offer reinsurance protection to the insurance companies operating in Brazil.”

reaffirm the confidence of private agents and the Brazilian government in a future full of opportunities – not only for reinsurers, but for all those who, directly or indirectly, are involved in the process of improving our infrastructure and, in a wider sense, in the construction of a country that is economically stronger and socially more just and supportive. ●
“The actions of IRB-Brasil Re, the creation of Brazilian capital reinsurers and the arrival in the country of dozens of global reinsurers demonstrate the success of the new rules which discipline reinsurance in Brazil and reaffirm the confidence of private agents and the Brazilian government in a future full of opportunities.”

**Greater competition**

Following the opening of the domestic reinsurance market to the entry of domestic and foreign competitors in 2007, the number of active reinsurance companies in Brazil has grown.

**Evolution of the number of reinsurance companies**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Companies</th>
</tr>
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<tbody>
<tr>
<td>2008</td>
<td>38</td>
</tr>
<tr>
<td>2009</td>
<td>67</td>
</tr>
<tr>
<td>2010</td>
<td>82</td>
</tr>
<tr>
<td>*2011</td>
<td>94</td>
</tr>
</tbody>
</table>

Source: Research – Deloitte (based on SUSEP data)

* Data through October

Note: two reinsurers had not provided the date of registration/authorization
The changes that have taken place in the economy and in the business environment with a new investment cycle, the arrival of foreign companies and the opening of the reinsurance market, today offer a solid base for expansion of estate insurance.

The Brazilian insurance market today is supported on pillars that can sustain powerful growth of estate insurance. We are experiencing perfect circumstances for Brazilian economic growth to reflect and reinforce the accelerated penetration of this type of insurance in the country.

Starting with the structural framework of the market, which went through a large transformation in 2008 with the opening of the reinsurance market – thus creating a more competitive and free environment – through the consequences of the “new discovery of Brazil,” with a new cycle of investment and the arrival of foreign companies.

The insurance market needs financial resources, disposition to take risks and creativity as the basis for its operation. This opening brought new energy to the market.

On the other hand, Brazilian economic growth over these past eight years has been characterized by a very interesting combination of factors that has contributed considerably to the strong growth of the estate insurance market. In first place, wider distribution of income has allowed the B, C and D classes to acquire goods and property. They need insurance to protect these assets and meet the demands of credit suppliers who need this tool in order to mitigate the exposure of these operations.

This type of insurance, better known as “commoditized”, offers insurers in the market a component vital to their operations, since it is the so-called
“cushion” that allows them greater dilution of their risks, so necessary for the operation of these companies.

On the other hand, just as important, regular investment in the Brazilian industrial park, whether by Brazilian or foreign companies, represents an important pillar for the insurance industry since growth of the activity requires answers and solutions from this market due to the complexity of the inherent risks.

With this heated activity and the need to offer solutions for the most diverse types of products – that range from a simple standardized program for financed real estate, for example, to the complex structure of multiple coverages for industrial units – the Brazilian insurance market is going through a transformation without precedent. Numerous foreign companies are opening operations or strengthening their existing structures, investment funds are creating insurance and reinsurance companies, and insurance intermediation is becoming a more advisory and creative activity.

As a consequence, the visibility of this market is much more intense. It is becoming a more interesting option for businessmen, entrepreneurs and, and primarily, for young people looking for career opportunities.

As long as the country maintains economic balance, keeps inflation under control and continues to distribute income and promote the growth of trade and industry, forces will conspire to favor the Brazilian insurance market. ●
With the intense globalization of world trade, export credit insurance is expected to increase in importance in the relations of Brazilian companies with the foreign market, helping the first to protect themselves against potential risks.

Export credit insurance is a significant tool both to help create new markets and make business possible with buyers that until then were out of reach for exporters. It provides a mechanism that facilitates the assessment and assumption of risks, that is, it makes it possible to choose between favorable and unfavorable risks, thus creating growth potential – not only for exporters but for the economy as a whole.

Growth in Brazil depends greatly on the development of international trade. The country needs to export and import products, either primary commodities, services or manufactured goods. However, credit is necessary for the production, distribution and consumption of goods. The exporter is exposed to risk of nonpayment during the credit period and insurance is an integral part of the export financing process.

In order to continue in business, companies may be forced to grant credit for their exports. Exporters, as a way of protecting themselves from the risks involved, may offer secure credit lines, increasing their sales and, with that, gaining a competitive advantage, as they put themselves in a strong position to grant credit to buyers.

The uncertainties of the international market imply additional risks and higher business costs than those existing in the domestic market. Credit insurance, on the other hand, guarantees the continuity of the company against external factors and, in doing so, functions as a tool to facilitate international trade.

Approximately 5% of the Brazilian Gross Domestic Product (GDP) is estimated to have credit insurance coverage, while in countries
where the culture for this type of insurance is more developed, the percentage reaches close to 60% of GDP. It’s worth mentioning that in countries such as France and Germany, their respective administrations take advantage of insurance as one of their main gear for economic development.

The principles behind this type of insurance
The insurance covers the capacity, not the refusal to actually make payment. The exporter may file a loss claim resulting from insolvency or late payment, that is, immediately after it is evident that the buyer is insolvent (declared bankrupt) or payment has not been received (unless there is litigation) after a grace period as provided for in the insurance policy.

Exporters can obtain through insurance a policy for turnover or short-term global activity covering business or political risks. In addition, the turnover feature of the policy is compulsory, requiring the exporter to insure the entire activity or parts of it as objectively determined by the exporter, in order to gain a reasonable dispersion of the risk. With this, the exporter requests a specific credit limit for each of its buyers. A renewable credit limit is issued as an amendment to the policy after risks of the buyer and country have been assessed.

Policies usually have a standard term of 12 months from their issue date, covering a maximum of 90% of the shipping invoice value. The policy offers post-shipment coverage, and the use of the policy endorsement as a financing guarantee, as well as a guarantee for receivables advance operations is a practice that is becoming gradually more common in the market.
The policy itself is only a framework through which the actual coverage is implemented. It starts when the credit limit is granted to individual buyers, with their respective countries included in the policy.

Key features
In short, the following distinctions may be made among types of credit insurance:

• **Short, medium and long-term credit** – Short-term credit is that up to one year. Medium to long-term products, such as capital goods and construction works, are normally not considered negotiable in the reinsurance private market. Consequently, the most common term for these operations is one year at most;

• **Specific transactions insurance** – One of the most important principles is that insurance should be offered to cover total transaction activity, bringing in all efforts to avoid any anti-selection of risks;

• **Business and political risks** – Business risks are those connected with the buyer and its ability to pay. Political risks are those in connection with events or situations that may arise in the buyer’s country, preventing it from paying or transferring payment to the exporting country;

• **Pre and post-shipment risks** – The exporter may have financial risk in connection with the buyer or the buyer’s country even before shipment of goods. Such risks arise when the goods are specially manufactured for a given buyer (pre-shipment). After shipment, the exporter awaits payment of its invoices (post-shipment risk).

Policy management
Daily management control by the insurance carrier and the insured is critical for adequate coverage of the transaction since credit limits are granted based on each buyer’s sales volume. Turnover must be shown and past due payments should be notified. Therefore, there is shared management of risks between the insurance carrier and the insured business.

Credit insurance directly affects the client’s and the export company’s businesses, as part of their commercial procedures. It is critical that both brokers and insurance carriers involved seek to act together.

Information on debtors and appropriate subscription procedures should guarantee that only ordinary risks are covered, although this is not what is actually seen. Some of these risks may deteriorate, giving rise to loss claims.
The collection of amounts not paid by buyers is something that the majority of exporters leave to the insurance carriers. Besides which, the insurance carrier involved in the collection of pending insured payments has the opportunity to minimize losses, to the extent that the collection activity is professionally managed. The insurance carrier is better able to manage the collection activity, and, depending on the particulars of each situation, may collect directly from the debtor or outsource the process.

**Competition and competitiveness**
Within the current scenario, credit insurance is facing certain competition from some bank products, but the predominant situation is called “own retention” that is, simply the decision of a company not to contract insurance for itself. Experience shows that, to the extent that exporters get to know their clients over many years and understand them as “good and sound,” they decide that credit insurance is not needed. This attitude is frequently found in the regular sales process, and technically, the exporter will include certain reserves on their balance sheets to compensate for potential losses from doubtful accounts.

To conclude, competition is fierce and insurance carriers are expected to help their insured companies in their competitive efforts, offering a quick response to their concerns and needs. To the extent that the international environment brings more emphasis on the speed of transactions – combined with precision –, credit insurance carriers in Brazil have been proving their capacity to meet and supply such demands at the levels practiced in the global market.

“The exporter is exposed to risk of nonpayment during the credit period and insurance is an integral part of the export financing process.”
For the health of Brazilians
Alternatives for the industry of life
Growth and inclusion opportunities

With accessible prices and high perceived value, dental plans and insurance have all they need to keep their fast expansion going. But the industry now needs to focus on new products, better control and distribution.

A lot is being said about the historical time the country is experiencing. Expressions such as “demographic bonus”, “emerging middle class” and “strengthening of the domestic market” have been incorporated to the speeches and strategic planning of numerous public and private entities. The question that comes to mind now is: what are the real ambitions of this new universe of consumers and what is the best way to satisfy them. It is not difficult to conclude that the majority of companies navigate on seas never before sailed, teaming with both risks and opportunities, which few are really prepared to face.

It is known that in recent years, millions of Brazilians began to practice minimum standards of consumption. It is not only about redistribution, but effective generation of wealth with real wages growing 15% in the 24 months ended July 2011, reaching R$ 35 billion. In the same period, while the real average salary increased 9%, unemployment fell to a mere 6%. Maintaining this tendency in a sustainable manner is the country’s great challenge for the next decades.

This new public, matching the size of some European countries, presents both opportunities and challenges for the insurance industry. No one disagrees on the fact that these people will increasingly demand insurance products appropriate to their profiles, to provide them with protection and services which were not affordable to them in the past. One should expect, therefore, that the share of premiums in the Gross Domestic Product (GDP) is going to grow.
However, it seems that some segments should fare better than others. First, because their prices are more consistent with the new level of income achieved. That is, they are more affordable to people. Second, because they facilitate access to services that would otherwise be less affordable. In short: Affordable prices and high perceived value. Dental plans and insurance seem to fit very well with regard to these two aspects.

In fact, for a monthly premium that is a fraction of other insurance products, beneficiaries can count on a service that, as revealed by various surveys, is one of their consumption priorities, with broad appeal not only for health reasons, but for well-being and self-esteem as well.

**A long way to go**
It is still a segment in its early stages. Dental plans today reach only 16 million Brazilians, 8% of the population, or close to one third of those already insured by health plans and insurance policies. Nevertheless, the rate of beneficiary growth, an 18% annual average in the last 10 years, as well as the increasing interest from key operators and insurance companies, well suggest the potential of the segment.

However, historically the focus of the close to 400 companies in the industry has always been corporate – the employer, preferably large and sophisticated, which grants the plan as a benefit to its employees and their dependents. At the most, individual plans (a little more than 16% of the total) and those for small-sized companies are offered through the same distribution channels of high value-added products, such as health plans, used to reach people with compatible incomes.

By Randal Zanetti
President of OdontoPrev
That is, generally speaking, the market does not yet have the necessary experience to exploit this new opportunity. For example, little is still known about the effects of the greater complexity on the control and management of the health assistance related to this public. In addition to which, in general, the appropriate and low cost means of distribution that is indispensible is not yet available. Together with a challenging regulatory environment, these facts make for a very complex scenario.

To be successful in this new market, the dental plans and insurance sector will need to adapt. New products will need to be developed. Re-thinking existing distribution channels and exploiting alternatives, as well as making management and control tools more sophisticated, will increasingly rise in importance. Growing regulatory demands will require sounder, dependable and capillary assistance networks.

“The opportunity to reach the new Brazilian middle class is historic and should not be wasted.”
The opportunity to reach the new Brazilian middle class is historic and should not be wasted. To allow more and more people access to quality dental services is an important factor of social inclusion. In a country with more skilled dental surgeons than anywhere else in the world, it is not reasonable that large segments of the population have such limited access to these services. The challenges that are presented are the correct understanding, planning and strategic positioning for this new horizon for the industry.

**Growth much higher than the industry average**

In the interval of only a decade, the portion of dental insurance beneficiaries in Brazil jumped from one-tenth to one-third of the total people assisted by health plans.

*Evolution of the number of health private plan beneficiaries (in millions of people)*

Source: Research – Deloitte (based on SIB/ANS/MS data)

* Data through June 2011
The Brazilian health insurance market is growing, but it is confronting problems that reflect the very dynamics of the sector – from legal discussions about price adjustments and the reach of coverage to growing costs. The solution will result from the search for sustainability of supplementary health and alignment of all agents in this chain.

One of the most important branches of the Brazilian insurance market is that of health. Arising, above all, as an option to the decline in quality of public medical assistance, it has been under development for a long time. Recently, however, successive legal discussions, ranging from price adjustments to the real reach of coverages, have been cause for concern, both for consumers and for companies.

This sector has also been going through several changes, primarily with regard to its organizational and operational structure. Key players in this environment include health assistance providers and health care operators. Recent years have been marked by several mergers and acquisitions which have ended up intensifying the process of consolidation of the private health market in Brazil. This restructuring phase is due primarily to greater interference of the National Supplementary Health Agency (ANS). Changes such as the increase in the offer of services, procedures and coverages are forcing many smaller companies out of the market, leading to a consequent concentration of beneficiaries in the more capitalized groups.

The insurance, open supplementary pension, supplementary health and capitalization market grew strongly in 2010 in comparison to the prior year. The gross sales of the general insurance group grew 14.2%, the life group (including pensions) expanded 18%, supplementary health, 11% and capitalization, 20%. These are very positive results, considering that they exceed the Gross Domestic Product (GDP) growth rate of 7.5% in 2010.
Another factor in the analysis of health insurance is its separation into personal (or individual) and corporate (or group) segments. In the first case, there is a direct relationship between the citizen and the insurance company. Here, there is more regulation, since business negotiation takes place on unequal terms. The direct interference of the government (especially the ANS), with the participation of the judiciary as well, is concerned above all with issues of price adjustment and breadth of insurance coverage.

In the second case, there is simply a business relationship between two companies, with much more flexibility and periodic contract renegotiation. The numbers show a decline in individual insurance participation, even with the existing legal restrictions when this type of contract is terminated. The insurers, in practice, lost significant interest in selling this type of product and have restricted themselves to managing already existing insurance portfolios. A result of this behavior has been the concentration of income in the hands of a few companies.

The scale of costs
In terms of income, measured by monetary considerations and premiums earned, the final 2010 data show the sector exceeding the mark of R$ 70 billion and recording growth slightly higher than that of GDP. Nevertheless, on the other side of the equation, the evolution of health costs continues to be a concern. Assistance costs continue to grow at rates higher than the general price index, whether due to the increased frequency of use and by the introduction and spread of new technologies, especially materials and drugs, or by the expansion in mandatory
The inflationary dynamic in health has not been the object of public containment policies, which is reflected in greater costs and monthly payments.

Losses in the sector, currently at 80%, are still at a level higher than what is actuarially recommended: 75%. The management of assistance costs is increasingly decisive in the success of a health plan. It is worth emphasizing that, in 2010, 70 new procedures were added by the ANS, the solvency rules were changed with the end of the Provision for Unearned Premium (PPNG) and risk provision, with required conversion of provisions and pro rata die accounting (proportional charges, calculated daily, when the due date of a contribution is different from the plan start date, guaranteeing the beneficiary coverage).

This regulation could have caused a decline in industry income, especially during the first quarter of 2010. Also, in 2010, the portability of grace periods for new individual plans was started, according to the geographic region of the plan and the assistance segmentation. More recently, with publication of the 252/11 regulatory resolution, the ANS expanded the portability rules to adhesion group plans and eliminated some technical restrictions considered important to avoid the problem of anti-selection.

Nevertheless, the most important in regulatory terms was the presentation by the ANS of the Regulatory Agenda for the 2011/12 biennial, with a set of strategic actions important for the definition of the regulatory framework for this year.

With respect to the age group pyramids that characterize the beneficiaries of health assistance plans in Brazil, the portion of the population insured is concentrated in groups between the ages of 20 and 55 years, corresponding to the economically active population. In spite of the percentage representing only 25% of the total Brazilian population, the number of people insured by operators is considerable, in absolute numbers, causing structural changes in the health market which directly affect the most varied types of private service providers.

The impact of new technologies
Health insurance is the second most important non-life branch, with 27.2% of the total. It grew 33% between 2002 and 2010. Thus, even though new technologies can contribute both to increase and decrease health costs, there is a consensus that, as a whole, new technologies raise total costs.

“The inflationary dynamic in health has not been the object of public containment policies, which is reflected in greater costs and monthly payments.”
Evaluation of the impact of new technology on health costs depends on various factors. For example, the impact of the treatment cost of a single patient. In addition, it must be verified whether new technology complements or replaces (partially or completely) existing technology and whether it impacts the cost of other services, such as hospital stays. In an ideal situation, new technologies would be evaluated individually, leading to objective measurement of their costs and benefits and facilitating the process of deciding whether to adopt them.

Another important factor is the level of use of the new technology, associated with its ability to treat problems previously untreatable, diagnose a greater number of people for already existing treatments or extend treatment to new conditions. Obviously, there are technologies that reduce use of certain medical procedures. Finally, it should be noted that the complexity of the topic increases when the time effects of introduction of new technology are considered. This could increase present costs, but lead to savings in the future. It could also raise life expectancy for people and, therefore, change the profile and volume of health costs over the course of its life cycles.

It should be emphasized that Brazil, on average, applies fewer resources to health research and development (R&D) than do the developed countries, or rather, Brazil is an importer of technology in the health area. The incorporation of technology in health represents an important source of pressure on our medical costs. In addition, the country is going through a quite accelerated demographic transition – much more so than the European countries, where the effects of an aging population have already been felt for some time. This, combined with the fact that national income is at an intermediate level (in the ranking of countries), moving toward higher levels, indicates that we will have a strong increasing health cost trend, suggesting that Brazil should urgently adopt measures capable of effectively dealing with this trend in the future.

In conclusion, to maintain the viability of the health system, the average growth of GDP, general inflation, income distribution and the real income gains of the population should be taken into consideration, in other words, monitor and forecast economic indicators to permit future projection of the health economy. Simultaneously, reduction of waste is needed, encouraging the promotion of health, as well as the prevention and rationalization of the use of assistance and promotion of the sustainability of supplementary health, with consequent alignment of the interests of all the links in the health chain and maintenance of minimum and egalitarian rights for everyone.
The health plan of the future

With consumers ever better informed about their rights and duties, and also more demanding and qualified, companies in the supplementary health field are already being challenged to respond to the needs of a future that will be based on the information-consumption-health trinomial.

Since the Consumer Protection Code issued in the 1990s, the markets have been improving in the exact pace of the qualification of consumption. In other words: Consumers that are more qualified, demanding and aware of their rights make for better prepared and more qualified markets.

In the health field, the theme has special importance since we live in times of improvement of and reflection on the public system, at the same time that we see the consolidation of the second largest private market in the world. Today, we are more than 62 million consumers of health plans and insurance, whether medical or dental plans.

There are certainly dilemmas to be resolved, particularly when increasing the efficiency of health spending – of private and public sources alike. However, citizens are more and more aware of their citizenship and consumption rights. We therefore have a great challenge ahead: What will the consumer of the future be like with respect to supplementary health? If we had to answer this question with only one adjective, we would say: An informed consumer.

Informed about what? His/her rights and duties – with regard to purchasing a health plan or insurance? Would that alone be enough? In our opinion no, since differently from other markets, the supplementary health market deals with something that is – and has to increasingly be – part of the daily affairs of this consumer: the health concern with his/her health.

Let’s imagine how the consumer of the future might be different from the consumer
of today. Currently, if we need medical assistance, what do we do? We take out our health plan’s “participating physicians list” or search on the internet through a list of names and addresses for a doctor or clinic.

How might it be in the future? Based on where we are located – or even a point of reference – we will look up the closest service providers on a geographic-referenced portal in the same way we find today a restaurant or a shopping mall using a cell phone and a GPS.

Except that, since we are talking about health – our health – not about restaurants, it is not enough to have only the location of a professional that might see us. It is indispensable that we also have access to information on this service provider and particularly on the quality of service it provides.

**Increasingly closer**

This future is not very far away and those with small dreams may feel already fulfilled. But we are not in the category of small dreamers: Our consumer of the future has, besides every type of information on the assistance network, all the health information he/she needs through an electronic chart online – and this consumer alone will authorize who will attend him/her and have access to information on his/her health condition. This is real information and this is the consumer of the future.

We all know that health care cannot be thought of only in times of illness. The consumer’s health should be a permanent concern of the health plan of the future. Is the individualized health project being carried out? Is the consumer engaged in programs of active aging? Is the consumer taking care of his/her life environment?
One cannot forget that, thanks to advances in medicine and to the better living conditions of our population, there has been a significant change in the demographic profile of our country, which is expected to continue. The proportion of seniors today almost doubles that of 40 years ago, and it will triple in the next 40 years. From the health point of view, there is a lot of thinking to carry through since we know that elderly people spend much more on health than young people.

One of the main challenges of organized societies at the beginning of this century will be the sustainability of a health system which will demand increasing and continuing funding, and that will need – for this very reason – since funding is not infinite – to be organized, consistent, consequential and efficient.

Companies in the health plan sector will be asked to make a deal with their consumers: A deal for health, a deal for prevention, a deal for life. Life with quality of life.

In 1616, Galileo Galilei had his heliocentric theory condemned by the Inquisition – the legend says that, after the Inquisition’s verdict, he whispered: “eppur se muove”. Translated: “and, nevertheless, it moves”.

Almost four hundred years later, we are experiencing a similar situation: That of old dogmas being quickly outdated. Some still try to hold on to an assistance model that is only reactive.

However, time has come for the trinomial: Information-consumption-health. This is the future. 

“(…) we therefore have a great challenge ahead: What will the consumer of the future be like with respect to supplementary health? If we had to answer this question with only one adjective, we would say: An informed consumer.”
“Companies in the health plan sector will be asked to make a deal with the consumer: A deal for health, a deal for prevention, a deal for life. Life with quality of life.”
Modern management
Operations in search of efficiency
Recent advances in technology and statistical tools provide new possibilities for obtaining information on the insured and constructing pricing models. In this scenario, insurers tend to focus more on understanding the insured than on direct capture of information.

We are going to discuss the subject of “pricing” more precisely from the point of view of the efficiency of the insurance market and of management of “loans”. Naturally this leads to reflection on one of the great dilemmas we confront in this market: The search for balance between the level of assertiveness in measuring risk and how much this could cost from various perspectives. Believe it, Mr. Insured: It is not the intention of the insurance companies to bore you or make a “joke” at the time of the loss. Knowing as much as possible about each risk we assume is fundamental for proper pricing, but it cannot be denied that the processes that lead to this information generate costs and take time for all the parties involved. It is essential to observe that better risk measurement benefits good risk considerably, permitting a balance between expected losses and making a more appropriate price feasible.

But the good news is that technological development tends to make access to this information, or even to data that allows us to infer it statistically, increasingly simpler and less dependent on filling out questionnaires, not uncommonly of reasonable length and, not rarely, having more than one possible interpretation. Insured parties leave trails where they pass, and these trails, when well studied, are transformed into precious information for management of the loan.

Issues of information asymmetry and adverse selection are inherent to insurance. After all, it is practically impossible for an insurance company to have access to
any and all aspects related to each of the risks it assumes, regardless of how hard it tries, for example, using questionnaires to evaluate risk. The first questionnaires developed were based on common sense, involving questions that, intuitively, seemed to represent differences in risk levels. Many of them were proven reliable as excellent indicators and they continue to exist in questionnaires even today. However, the main problem then was not the selection of questions, but knowing how to measure their weight in the reduction or increase of the risk evaluated, something that only became possible from the start of development of data bases and adequate statistical tools.

If today, much more is known about the participation of each factor in the differentiation of risks, the problem has increasingly become how to reconcile the completion of questionnaires with the limited time available in modern life. On the other hand, this set of information allows measurement not only of the level of risk, but also of the chances that the deal will be signed and the highest level possible of premiums are earned, without losing competitiveness.

With automobile insurance, for example, information like how the vehicle is used, its model, where it is kept, the region in which it circulates and the age of its drivers are statistically combined with other information, such as income level, relationship with financial institutions and education level, allowing development of sophisticated models of propensity for insurance contracting, as well as models that allow evaluation of the sensitivity of each individual to price variations, known as elasticity models. Less risk exposure and

By Ney Ferraz Dias
Executive Director of Itaú Auto e Residência S.A.
higher income, when combined, tend to provide satisfactory results, guaranteeing operational continuity.

**Simplification and assertiveness**

Basically, the question now is how to combine the importance of this information to characterize risks – and the development of these models – with the difficulty involved in obtaining them. However, as said at the start, future trends point to the simplification and greater assertiveness of the sales processes, since technological advances allow access to this information without direct statements of the insured even being needed, and the trend is to reduce direct questioning. As examples, we have credit scores, bureaus, registration bases and relationships with other business lines of financial conglomerates, since this information is strongly correlated statistically with risk profiles.

Telemetry systems also stand out, which should provide insurance companies with vehicle monitoring in real time, giving them direct access to information like mileage driven, conditions of the vehicle itself, streets traveled, whether it is kept in a garage, if it is driven in areas where auto theft and robberies are more frequent, even including dynamic pricing systems in which the premium is calculated based on mileage driven.

In summary, regardless of the fundamental importance that directly obtaining objective information on insured parties continues to have - even today - for construction of insurance company pricing models, the signs point to a change in the manner of operation. Technological advance opens room for other ways of access, in addition to the development of increasingly efficient statistical tools. In this new scenario, the insurance companies have the role of reinventing how they operate with the insured, beginning to invest efforts that were previously spent directly capturing information, in strengthening the relationship with them, better understanding their needs and offering them products and services that represent new business opportunities.

“Insured parties leave trails where they pass, and these trails, when well studied, are transformed into precious information for management of the loan.”
In conclusion, I hope to have contributed to a vision of what the future should bring us on an issue that has been with man since the times of Babylon, as shown in cuneiform writing, the famous Code of Hammurabi. But that is another story! For now, you will continue to live with questionnaires, since they are still the best tool for discriminating risks.

“It is essential to observe that better risk measurement benefits good risk considerably, permitting a balance between expected losses and making a more appropriate price feasible.”
The professional management of costs as a business and profitability variable – a routine already disciplined in other economic sectors – is a complex process, although vital to ensure business strategies generate appropriate returns in the insurance market as well.

A process already common in manufacturing activities, the professional management of costs as a business and profitability variable is a disciplined routine for these economic segments. There is no way to guarantee strategies to provide appropriate returns without the correct understanding of actual costs, whether direct or indirect, involved in the many operations of all companies. There is no decision without costs. There are no actions or strategies without costs. Results can obviously be positive or negative, but, in some way, there will always be a certain value allocated that theoretically supports an action. Some automobile manufacturers, for instance, adapt their products and strategies so that the same platform and the same components can be customized for various models and lines (commonality). With advantages and disadvantages, this is an example of how manufactures have been pursuing product strategies and production coordination on the path to improve profitability.

The insurance industry has taken this same path. Classic internal questions are constantly revisited when designing alternatives and strategies, such as how to diversify or specialize, whether to open new fronts, as well as many other examples of questions inevitably addressed in business plans. Obviously each company’s DNA reflects the strategy adopted for its business and, therefore, decisions will also reflect their “genetic load”. However, independently of callings, present demands for profitability contemplate new operational safety scenarios and a new regulatory environment, besides modifying the cost equations in insurance operations,
generating not only a new standard, but a new dynamic of fund management for purposes of profitability. 

And what are these new cost standards in the insurance market? Undoubtedly, insurance technicians’ lives and duties have greatly changed. Not long ago, the notion of the profitability of an insurance operation considered almost exclusively the direct technical variables, leaving the related complementary additional costs to the financial area. Notwithstanding the obligatory analysis of fundamental costs, new dimensions of non-returnable costs are now a matter of analysis for the definition of profitability. These new dimensions alter the decision flow of operations, adding an important thoroughness to the understanding of profitability with the allocation of actual costs which are, however, often “ethereal”.

The matter of analysis of these costs breaks with the traditional operational flow, directly impacting the selection of strategies. Items such as frequencies, average indemnification costs, budgeted reserve development and administrative costs were added to other costs that, in truth, have always existed but have never really been identified and interpreted for the correct analysis of profitability in insurance operations. Most of the time, the economic result, at its first level, has always guided the strategies and defined priorities. Many of these results may fail to support an analysis of the cost of risks that are implicit and that when mitigated and later quantified are capable of modifying the result of operations which traditionally are profitable, and fund-generating. 

In spite of efforts made by the regulatory entities to control financial risk exposure
from the management of reserves, the greatest risk has always been concentrated within a dimension of the business itself. It is, obviously, difficult to measure and quantify the cost of risk in operations, primarily in a market where the goods sold are the very risk variable, and for this reason, it is difficult to understand that, besides the risk as merchandise, there is an additional risk, that of the operation itself, and of the way it is managed. As mentioned before, there is no decision or strategy that will not in some way impact risk and, consequently, in some form of cost. The task is to quantify and allocate it.

If it is not easy to understand that the profitability of an operation may not withstand a mathematical analysis of its risks, the application of new grounds brings a virtuous practice of quantification and allocation of the decisions cost of the risk. Thus, running an insurance business may not only demand reserves and appropriate pricing, but also, additional guarantees translated into capital needs. For example, an ingenious reinsurance operation for mitigating risk exposure may be potentially expensive for the financial risk involved. In times when innovative operations have been proven attractive from the competitive point of view, mitigation and quantification of risk costs and their final impacts on the need for capital have shown to be an important measurement for their profitability analysis.

In this process, some additional operating costs rapidly left the scope of risks to be directly allocated as functional prerequisites. Consequently, it is unthinkable today for an insurance company to operate without physical contingencies for operational risks and these grounds have already become directly allocated costs, having their impacts identified in the very structure of the business costs. Other

“(…) present demands for profitability contemplate new operational safety scenarios and a new regulatory environment, besides modifying cost equations in insurance operations, generating not only a new standard, but a new dynamic of fund management for obtaining profitability.”
operational costs are also directly allocated, becoming a fundamental part of any insurance operation, such as, for example, antifraud units, workflows, operational controls, acceptance controls, etc.

In other words, these basic demands, in addition to being required by regulations, are also required by the essence of the business, since the cost of risk inherent to its non-existence or fragility, directly impacts the results. In modern times, it is impossible to disregard the cost allocated to support appropriate practices for conducting operations in the profitability equation.

The question which naturally elapses then is, once the costs allocated to support the insurance operations are normally considered, which determining and additional costs should be included in the correct profitability equation of an insurance operation? The answer would be in the correct calculation and allocation of strategic risk costs and not determined by the traditional mitigation of operational risks. Thus, risks such as credit, financial, asset inadequacy, probability errors in determining reserves and pricing, the economic and political situation, competition factors and potential strategic errors have an extremely significant weight in the measurement of profitability of an insurance operation, and for this reason, need to be modeled and allocated, having their effects reflected in the profitability of the deal. It is certainly a management exercise.
In a market as diversified as the Brazilian market, the insurance broker is an essential agent in the industry, required to fulfill the needs for specialization, always connected with the changes and helping to create solutions that meet client expectations.

Independently of the fact that by law, the broker is the representative of the insured party when dealing with the insurance company, the belief is already well established in the country that insurance without a broker is not a good deal for the insured. After all, it is the broker’s responsibility to act as a specialist who, aware of the client’s needs, can suggest the best options in terms of products, coverage and values.

The insurance broker is a key player within the insurance industry for his role in identifying the needs of the insured and seeking the best coverage options offered by the insurance companies. However, to contextualize the role of the insurance broker, we have to understand the size of the market and its respective range of products and services. Currently, we have more than 170 insurance companies and more than 130 insurance lines (see table on page 83) and, to provide exclusive assistance, the broker needs to act in accordance with his target-public.

We will start by analyzing the market for individuals, which is notably driven by the personal automobile insurance, in which price is the chief factor in the policy choice. In this market, the broker is required to understand what the insured is looking for, since there are insurance companies that, besides offering automobile insurance with traditional coverage, also aggregate a large range of services, such as plumbing, electrical, locksmith, and others alike. After understanding what the insured is looking for, the broker will choose which insurance companies best meet his client’s needs. The broker’s credibility is often as important as that of the insurance companies participating in the competition process.
Since this market requires quick assistance response and ability to act promptly in the event of loss, the broker should help the insured communicate with the insurance company, but cannot slow the provision of solutions to the insured. The market for individuals requires automated processes, efficiency, scale and productivity, and the broker should leave this task to the insurance companies that invest millions every year in the enhancement of their products and services.

It is within the corporate framework, however, that the role of the broker is even more challenging because in addition to be technically knowledgeable about commercial terms, coverages, exclusions, deductibles, limits, terms, losses etc, the broker has to be a specialist, understanding the industry and the market the client is dealing with, what macroeconomic variables impact the client’s business, how these impacts affect the insured values and how this influences the insurance industry, locally and internationally.

Specialization is, therefore, necessary, since each company needs to have a singularized vision, a deep knowledge of the risks involved and chiefly, to find ways to mitigate them. This is how the avoidable risks will be mapped and the client’s insurance program will be priced (underwriting). An experienced broker, with up-to-date historical data and identified market (local and international), will make all the difference in the process of risk placement.

**In tune with changes**
Besides the characteristics mentioned previously, the insurance broker must be connected with the world, since in the
globalized market in which we live, all natural, business, financial, political, and social and economic events can influence price formation and, therefore, the ability of the broker to make the risk subscription capacity of local and international markets (reinsurance) available, will be vital for offering clients the best cost-benefit ratio.

To build client loyalty, the broker, in addition to offering a clear and transparent value proposition, should play a determining role in the loss adjustment process. One can say that the loss event is the moment of truth, the time at which the work of the broker is put to the test. This does not mean that all

“The insurance broker is a key player in the insurance industry for his role in identifying the needs of the insured and seeking the best coverage options offered by insurance companies.”
damage suffered by the insured from an unexpected event must be paid for by an insurance company and that the broker will only be successful if indemnification is paid, but the process of loss adjustment will show whether the coverage and deductibles recommended by the broker were adequate, whether the clauses were prepared to reflect the client’s operations and whether the risk mitigation alternatives recommended by the broker were actually followed by the insured.

In addition to the aspects addressed above, the insurance broker has the capacity to help the market create new solutions, adapt products and services to client needs, design new coverages and promote industry development, since insurance, besides guaranteeing the basic principle of risk transfer – the economic protection individuals seek against random needs – can also be a source and an alternative for the economic viability of funding that will support the construction of our country’s infrastructure.

If we take into consideration the fact that Brazil will host the two major sports events in the world – FIFA’s World Cup in 2014 and the Olympic Games in 2016 – the need for investments in infrastructure –

The market and the broker

The size of the insurance market and the diversity of its products and services today determine the dimension of the challenge and the very role of the insurance broker, who needs to act in accordance with his target-public.

<table>
<thead>
<tr>
<th>Main competitors in the insurance market</th>
<th>Number</th>
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<tbody>
<tr>
<td>Insurance companies</td>
<td>115</td>
</tr>
<tr>
<td>Capitalization companies</td>
<td>19</td>
</tr>
<tr>
<td>Private pension entities</td>
<td>25</td>
</tr>
<tr>
<td>Insurance companies specialized in health¹</td>
<td>13</td>
</tr>
<tr>
<td>Insurance brokers</td>
<td>69,672</td>
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<tr>
<td>Registered reinsurance companies</td>
<td>94</td>
</tr>
<tr>
<td>Authorized reinsurance brokerage companies/brokers</td>
<td>32</td>
</tr>
</tbody>
</table>

Note: last available data
¹ Until June 2011

Sources: National Federation of Private Insurance, Reinsurance Brokers, Capitalization, Private Pension, and Insurance and Reinsurance Brokerage Firms (Fenacor), Brazilian Association of Reinsurers (Aber), The Superintendence of Private Insurance (SUSEP) and the National Supplementary Health Agency (ANS)

roads, railroads, high-speed trains, ports and airports – and the demand to quickly develop the Brazilian oil industry, we come to the conclusion that the insurance broker will be a key agent in the development of the country, adding expertise to make these projects viable and, at the same time, acting as a catalyzer to mobilize the financial capacity of local and international markets.
New roles for the actuary

The gradual implementation of the IFRS, the global accounting model, has brought new challenges and opportunities for actuaries in the insurance area, who have now gained strategic importance in the determination of business risks and greater weight in insurance company decision making.

With the gradual implementation of the International Financial Reporting Standards (IFRS) in the Brazilian market, many challenges have arisen and will continue to appear for actuaries in the insurance area. The first of them occurred in Phase I of the “IFRS 4 – Insurance Contracts”, that established a specific definition for insurance and reinsurance contracts, presented various changes in insurance contract accounting and required greater disclosure of future cash flow and risk exposure.

The introduction of the specific definition of an insurance contract resulted in the reclassification of certain contracts as financial instruments. Among the main changes presented in Phase I are the requirements that insurance companies account for embedded derivatives (example: guarantees for return of premiums, offered as part of a life insurance policy) and record them at “fair value”, as well as the elimination of the equalization and catastrophe provisions used in some countries.

Phase I of the insurance project also required greater quantitative and qualitative disclosure with regard to risk exposure – for example, explanation of amounts recorded, including information on accounting policies, significant assumptions and relevant changes related to insurance liabilities, reinsurance assets and differed acquisition costs (DAC). In addition, it required the disclosure of risk management policies and the terms and conditions that have a relevant impact on the amount, the time and the uncertainties of insurance companies’ cash flows. By means of these
changes, Phase I allowed users of financial statements to better understand the nature of the insurance and how the changes in assumptions and external factors, such as credit exposure, might affect the evaluation of assets and liabilities.

The differences in the way insurance is accounted for vary from country to country and these differences are quite significant in some cases. Consequently, users have difficulty comparing and understanding insurance business results on a global level. This fact, together with the complexity of the industry and the attention that is being given to account integrity, imposes the need for a common base for disclosure of financial information by companies in the insurance sector.

Phase II of the project introduces comprehensive standards that deal with recognition and measurement of insurance contracts.

The main proposition is that all insurance liabilities – including direct insurance and life and non-life reinsurance – should be measured using the “Current Exit Value” (CEV), by way of three basic blocks:

- **Current estimates** – explicit, non-biased, consistent with the market, based on probabilities and on current estimates of contractual cash flow;
- **Time value of money** – discount rates current in the market that adjust the estimate of future cash flows considering the time value of money;
- **Margins** – an explicit and non-biased estimate of margin that market participants require to decide whether to assume risk (risk margin) and whether to provide other services, if any (service margin).
The approach proposed by the International Accounting Standards Board (IASB) for valuing insurance liabilities is the best discount estimate (and consistent with the market) for explicit liabilities and margins of risk and services.

If adopted, this approach will mean a significant change in the way liabilities are valued and will introduce more subjectivity and volatility. It should raise costs related to disclosure of financial information, since new actuarial techniques and systems would be necessary to estimate the CEV.

However, the basic blocks of the CEV approach are being increasingly used by insurance companies in their business management, such as the evaluation of credit and market risks, and specifically in Brazil, legal risk; therefore, the valuation bases for report preparation and business management should converge.

The main objective is to make the disclosure of numbers and risks by insurance companies more realistic. As a result, financial performance will become more transparent. The proposal to include risk and service margins as part of liability measurement is a new approach that differs from the predominant business model.

The market recognizes the lack of observable evidence for calculating these margins, and evolution of the industry will be essential for application of these proposals in a way that increases the consistency of the financial information to be disclosed.

The level of uncertainty involved in insurance operations gives the actuary considerable independence to determine these margins, nevertheless, good sense and skeptical judgment in the adoption of these margins should be the leading factors. In addition, the lack of observable data to determine the risk and service margins will lead to a significant degree of subjectivity. The challenge for actuaries will be to document and justify the judgment applied.

The detailed disclosure of assumptions and methodologies used to calculate risk and service margins will be essential for the disclosure of financial information when trying to promote the development of established market practices that favor the consistent estimate of these margins.”
and service margins will be crucial for the disclosure of financial information when trying to promote the development of established market practices that favor the consistent estimate of these margins.

From there, the actuary loses his role as executor within the insurance company and becomes strategic to the continuity of its operations.

Phase II of the project determines that insurance contracts be recorded at their CEV or the amount that would be received today if the entire obligation was sold to third parties. To determine the CEV, insurance companies will need to provide current estimates of future contract cash flows, apply an appropriate discount rate for the time value of money and estimate the margin that market participants would require to assume the risk (risk margin) and provide other services, if any (service margin). In addition, the cash flows should be explicit, as consistent as possible with observable market prices, as well as incorporate all the information available on the time and uncertainty related to the cash flows resulting from contractual obligations in an impartial way, and be updated based on conditions at the end of the disclosure period.

This Phase II certainly presents a great challenge in the area of actuarial modeling for many insurance companies. In comparison, in Europe, the movement to calculate fair value based on the European Embedded Value (EEV) led insurance companies to develop stochastic models. These models require additional assumptions for how management and insured parties might react under different economic scenarios. These assumptions normally should be taken into consideration in the absence of concrete data and they
introduce subjectivity. In addition, while the use by the European insurance companies of embedded value in line with the market has already removed a large part of the subjectivity from economic assumptions, subjectivity still remains in insurance risk assumptions. The insurance companies need to feel comfortable with providing appropriate assumptions, consistent with the market and with the specific portfolio characteristics.

For example, by estimating market values consistent with insurance liability cash flows, the lack of observable data for some items (example: the loss frequency and the occurrence in certain lines of insurance) can force some insurance companies to develop more sophisticated actuarial models. It is already difficult to estimate liability cash flows and these difficulties are even greater when the actuary needs to consider the possibility of extreme market movements and deficiencies in the availability of observable data that will adequately represent financial values. The challenges will be greater for long-term life insurance and lines of casualty insurance that are characterized by emergency standards, possibly high payments and great volatility. The insurance companies will need to get familiar with these techniques and work to continually test the models under new conditions and refine them.

**Impacts of the new reality**

Below are some of the challenges unleashed by the recent regulatory changes that have taken effect in the insurance market:

- The convergence of the insurance liability modeling, from the point of view of accounting, regulatory, risk and price management, so that basic modeling techniques can be embedded in the business and provide consistency in the disclosure of financial information and measurement;
- The introduction of new systems, resulting in high costs (this cost should be worthwhile if these systems can be used in all areas of the company, for various purposes, and not just for the purpose of disclosing financial results);
- The need for insurance companies to train their actuaries so that they are prepared for the new techniques and market demands.

**A broad vision**

The actuary should have a broad understanding of his products, examining all his business portfolios to enable classification of products as insurance contracts or financial instruments. As insurance companies become increasingly aware of these factors, the additional information resulting from the adoption of IFRS will lead them to adequately determine the price of embedded derivatives and
make them at “fair value”. Consequently, some life insurance and pension products will be discontinued, redesigned or will have their prices increased.

The actuary will have the chance to provide companies with the vision necessary for them to substantially improve their internal controls. And, above all, better transparency will lead to higher levels of responsibility with regard to risk management.

Hence, the actuary will also have a strategic role in improving business management. The need to improve the information available will allow insurance companies to review the profitability of their business portfolios and will help them to better understand the risks and uncertainties associated with the individual business lines.

By reaching what could be considered a more “realistic” view of the business, insurance companies will be able to make better strategic decisions about whether and how to continue to offer certain product lines.

At the same time, trends related to solvency will also strengthen the relation with better risk management by the insurance companies. For example, in Europe, the simultaneous evolution of IFRS and Solvency II structure has been causing greater disclosure of management practices and risk margins, making these practices more consistent and rigorous, from the perspective of capital adequacy.

In a general way, the actuary will have great strategic importance in determining business risks and will have great weight in insurance company decision making. He will be responsible for understanding the business risks and should have expertise with regard to investments, risk management, securitization and, chiefly, with respect to complex modeling. After all, every decision will affect the risks of the business, the value of premiums, provisions and the need for investment returns. Consequently, the actuary should understand the operation of the entire insurance cycle.

The actuary who understands the insurance risks and manages his business in an efficient manner, in accordance with the new guidelines, will have a clear advantage in relation to others.

“The actuary will have a chance to provide companies with the vision necessary for them to substantially improve their internal controls.”
The new dynamics of the industry
How to advance in an extremely globalized industry
Benefits and challenges of the new standards

The efforts to adjust the insurance industry to international accounting standards and the general principles of Solvency II have assisted the industry’s entrance into the global market, making it more attractive to investors and expanding its potential for funding.

The Superintendence of Private Insurance (SUSEP) has, in recent years, been making efforts towards the adoption of the international accounting standards issued by the International Accounting Standards Board (IASB), known as International Financial Reporting Standards (IFRS), in addition to seeking alignment with the general principles of Solvency II, a prudential and solvency regime of the European Union (EU) for private pension, insurance and reinsurance entities.

With regards to the IFRS, the government agency has been acting together with representatives from the supervised segments – open supplemental pension, capitalization, insurance, and reinsurance companies – as well as independent auditors, for regulation of accounting practices, to promote adjustment of financial reports to IFRS principles.

Initially, cultural change played a bigger part than the accounting practices. Accustomed to the rules, the supervisor and all those supervised had to exercise the art of making judgments. Essence over form became the new metric. While this was clearly the major impact on our industry, others must be mentioned: the gain in the quality of the parts in the financial reports, the rich content of the explanatory notes through further detailing, realistic thinking about the economic efficiency of the business and the increase in competitiveness of domestic companies, among other factors.

As for Solvency II, the government agency has been seeking alignment through general principles established by the three pillars that support the entire prudential
and solvency process. The first, of a quantitative character, addresses capital requirements and assessment of assets and technical reserves. The second, qualitative in approach, addresses the needs for governance and risk management, in addition to the supervision process. The third, focusing on market discipline, addresses the need for disclosure and transparency.

Solvency II creates a system based on risk, through which quantitative supervision is complemented by qualitative and disclosure aspects. By aligning with Solvency II, a direct impact on capital requirement processes based on risk, disclosure, internal controls, efficiency in the management of risks, assessment consistent with the market, corporate governance, supervision of conglomerates, macro-prudential supervision, intra-group transactions and self-assessment of risks and solvency is expected.

Controls and governance
SUSEP has advanced considerably with regards to internal controls and corporate governance. There are appropriate rules and a fully developed process of supervision. It is worth emphasizing that the two topics are already part of the companies’ culture, together with management of risks. Further with regard to corporate governance, one cannot forget that IFRS financial reports are recognized internationally as a good governance practice and that these reports have significantly enhanced the quality of the disclosure process.

We should note the contribution of the Asset Adequacy Test established by IFRS 4 – Insurance Contracts, which was useful for verifying, in a realistic way,
“SUSEP together with the insurance industry should be prepared for the coming challenges of intensive training, in addition to participating in presentations, seminars, technical groups, chambers and technical commissions (...).

In particular, with regard to risk-based capital requirements, we highlight the regulation of additional capital for risks for subscription of damage insurance, whose capital has already been absorbed by the domestic industry, and the regulation of the additional capital for credit risk, the latter for the whole insurance industry and with a deadline of January 2014 for compliance.
In addition, required surveys, market debate, impact analysis and the proposal of regulation of additional capital for life and pension subscription risks have been concluded. Industry and actuaries are currently discussing additional capital for capitalization subscription risks and the survey on additional capital for market and operational risks, which is in its final phase.

The accounting records and financial reports following IFRS together with Solvency II alignment have brought the insurance industry into the international market, turning it into a global competitor, making it more attractive to international investors and enabling it to receive more financial funding. As a final result of this process, we will see a demonstration of the vitality of the insurance industry companies.

SUSEP together with the insurance industry should be prepared for the coming challenges of intensive training, in addition to participating in presentations, seminars, technical groups, chambers and technical commissions for discussion of topics both within the scope of their federations and of the agency.

We emphasize that SUSEP has been cautious regarding application of the solvency rules: Granting time for the necessary adjustments; anticipating impact scenarios; discussing issues with the supervised companies in groups, chambers or technical commissions; holding meetings - before publication of standards - with the affected companies to explain the standards and the reason for the potential impact, including the potential adjustments that would reduce the impacts of application of the standard.

Finally, the challenge of developing efficient processes for risk management, evaluation consistent with the market, supervision of conglomerates, macro-prudential supervision, intra-group transactions and self-assessment of risks and solvency is left to the technical department of SUSEP, in its supervision of solvency.
The global financial instability has left some lessons that can also be applied to the insurance industry – which is doing well in Brazil, but not immune to the crisis. The list of concerns is long in the new dynamics of the industry: Regulation, risk management, consolidation and much more.

The recent financial crisis has reminded us how seriously market conditions can impact the solidity of the financial sector. The sequence of the bursting of the housing-bubble, the credit crisis, the lack of liquidity and stock decline, has hit all companies in Europe and the United States hard, in spite of the unprecedented rapid response of coordinated intervention by central banks and governments around the world.

Clearly, this crisis was primarily originated in the commercial bank sector and in the business of credit-connected derivatives. So far the insurance companies have weathered the storm. Nevertheless, the insurance industry is not immune to the crisis and can easily learn from the errors and successes of the global banking industry.

Each company should review its risk management processes and tools, in order to make a sounder assessment of the real risks that affect its business. The insurance companies have learned the importance of adopting a general view of the balance – involving assets and liabilities – of their capital position. The constant need to update policies, processes, methodologies and structures for risk mitigation should be noted as well, to deal with a new reality present in the day-by-day of insurance companies, combined under the umbrella of compliance actions, internal controls and risk management.

The issue, at this point, is the correct balance between costs and benefits of a solvency capital regime and a market-based system. Such a dilemma is difficult to measure and even more difficult to monitor, since it needs to be based on
a deep understanding of the risks each company faces.

Higher capital demands certainly contribute to reduce the insolvency risk of an insurance company individually, and, thus, help to promote better protection for the insured. Nonetheless, when attaching “prudency over prudency” the regulation inevitably will soon reach a point at which the marginal benefits will be less than the marginal costs.

Changes in organization and behavior
Excessive demands of capital affect the price and the design of products, as well as the subscription and the ability to invest. Not to mention monitoring and risk management structures that increase the insurance company costs. More specifically, the series of reactions resulting from a significant increase in capital demand threatening to reduce business profitability below the company’s Weighted Average Cost of Capital (WACC) will present the insurance sector with the following challenges.

- **Operational excellence** – Companies are reviewing their technological and process structures in order to improve productivity, thus reducing operational and administrative costs, in search of market share and/or scalability;
- **Transfer of demands for additional capital** – Through increased use of reinsurance;
- **Redesign of products** – To include greater transfer of risk to the insured;
- **Reduction of credit risk** – Increased allocation of conservative assets.

Post-crisis transformations have increased the degree of complexity in the global business environment and created new
and bigger challenges. However, it is important to highlight that companies can turn difficulties into opportunities, that is, companies need to incorporate agility and innovation into their corporate cultures and develop flexible structures to manage market demands (some causes of complexity and opportunity for companies in the industry appear on the table on page 99). Faced with so many challenges, the insurance industry is naturally moving toward consolidation. This process has already been taking place for some years, having accelerated mainly in the past two years in response to demands for additional capital. The market still awaits the publication of new demands of capital for market and operational risks, which will put even more pressure on insurance companies profitability, with broad repercussions on the other value chains in the insurance market.

What is needed to win?
Thanks to solid economic fundamentals, together with growth in consumption and the mega sports events on the way, the volume of foreign investment in Brazil has been vigorously rising. The excess liquidity in the international financial system, mainly from 2001 through 2008, aggravated the crisis, but, on the other hand, it brought millions of new consumers, eager to consume, into the world economy – a process known and verified in many countries by the entry of millions of people into the middle class.

This new international situation has expanded the demand for food and mineral resources, mainly benefiting the Brazilian economy, highly competitive in these two sectors. It is important to highlight the highly positive pension bonus which backs up the growth of domestic savings needed to support the necessary investment to overcome the economic bottlenecks represented by the inadequate Brazilian infrastructure, which on the other hand, will require major investments for construction and expansion of ports, airports, roads, public sanitation networks, schools, hospitals, etc.

The entry of 30 million people into the Brazilian middle class will lift the critical and political level of society, demanding better services and products from all public

“(…) companies need to incorporate agility and innovation into their corporate cultures and develop flexible structures to manage market demands”.

and private entities alike. In the insurance industry, it is not only the opportunities for new business that are driving market growth. The major factor in the increase and sophistication of products is the insurance culture, the main consequence of which being the increase in demand for more sophisticated, better quality and price-competitive products.

The search for new distribution channels will require insurers and brokers to be more agile in the employment of new technologies, including ways of relating, such as social media and affinity groups. Many brokers, already reacting to this reality, are acting as integrators, teaming with insurers to launch products via the internet. It is clear that to deal successfully with this new market dynamics, insurers will need the ability to react quickly and strategically – quickly to position themselves strategically to reduce costs and quickly to offer products, together with quality and the incorporation of new services in the insurance policy that exceed consumer expectations.

Strategy should always meet the increasing demands of the insured, who are eager to preserve the incomes and property they have gained through the new winds of the Brazilian economy, by the addition of new services in the insurance policy, in order to charm them in the acquisition of their insurance protection.

**Hurdles and prospects**

**Internal factors generating more complexity in competition:**
- Regulation;
- Information management;
- Increase in the speed of information;
- Tax policy;
- Geographic expansion;
- Mergers and acquisitions;
- Bureaucracy.

**Opportunities to explore in the new scenario:**
- Gain competitive advantage;
- Create new and better strategies;
- Develop new markets;
- Make the company more efficient;
- Create new products;
- Focus on the current business strategy;
- Improve corporate governance.

To meet these objectives, one more challenge will have to be overcome, the lack of qualified labor. Human resources investment by the insurance companies in order to compensate for structural deficiencies in employee training is a priority.

The new dynamics of the insurance industry, driven by economic growth, will double the sector’s share of Gross Domestic Product (GDP) in the next years and the search for growth by insurance companies will be accompanied by efforts to improve efficiency and mitigate risks for the safe development required by the regulatory agencies.
The risk that became an opportunity

Competition in the insurance industry is connected to the ability to measure and analyze risk, in furtherance of new opportunities. In the pursuit of competitiveness, some factors merit a special treat: From people to internal processes, from partnerships to new competitors.

No risk is so bad that it cannot be priced and accepted.” This is an effective phrase for raising the issue that, sometimes, some insurers refuse a risk simply because they consider it to be bad. They do not consider that a bad risk, independently of what it is, can be turned into an acceptable risk. This should be understood as part of a reflection on competitiveness – on how some insurers, in turn, assume certain risks seen as unacceptable and are able to turn them into profits.

People, people and people

This is one of the leading factors to guarantee that deals and important policies are brought to the company. Competitiveness is linked to the business numbers; everything is measured based on them. But one cannot talk about numbers without keeping in mind that everything starts with and progresses through by the actions of people.

When talking about people, some features are inseparable: Leadership, Competence and Daring. To be a leader, it is necessary to be charismatic and, if competent, it
is intrinsic that leadership is pursued in the segment of operation. Competition is synonymous with daily life, and to be competitive is to be daring. Daring to innovate; daring to believe in what is new.

**Internal processes**
A well-managed company has organized its processes, and among them is the control and understanding of its database. Effective and well exercised control can increase production, for instance, through the analysis of clients, checking for potential products that may be offered as a result of the synergy found.

**Partnerships**
A company is dependent on partnerships for distribution and representation of its products. Without these partnerships, the possibility of reaching the top ranking of the market does not exist. In former times, the synonym for distribution was the insurance broker. Many insurance companies still practice exclusive distribution. Today, to have and to achieve leadership in premiums (contributions), it is necessary to count on a range of distributors of products that are sometimes sold in places never before thought of.

Insurance policies are being sold in retail stores, dealers, churches – that is, wherever there are people, insurance policies can be sold. For each locality there is a specific type of insurance depending on the target-public. Many insurance companies have already realized the immediate profitability of these points of sale and this is driving the competitiveness among them – competitiveness that, sometimes, is won by the difference in the compensation paid to the policy holder. This issue, however, like
any other, is not the only way to win the competition, since success also depends on how and by whom the contract is negotiated.

Pursuit of perfection in the assistance and benefits provided by a partnership, looking not only at present but at future prospects, makes it hard for a company to lose a deal.

**Defining the area of operation**

To be competitive, an insurance company must decide in which field of operation it will distribute its products, since offering various products requires more people, thus implying an increase in fixed costs without necessarily increasing premiums and profit. If proper planning is lacking, the product may not be delivered when expected by a demanding client. What is agreed is not expensive and it must be provided.

To be competitive, the insurance company has to be an expert in what it offers the market. The expansion of outlets will happen as a result of the natural growth of the company, with headquarters deciding how much it wants to grow and profit, since expansion requires investment of capital, as growth does not exist without the so-called “collateral asset”. This asset is a guarantee allocated to the business, that is, the insurance company assumes a risk, and payment of this risk, if it occurs, is legally guaranteed, when covered.

**Threats**

Thinking of being a leader, being competitive, being ahead, being innovative – is all important to moving a company forward. However, in addition to the competition already known, there is the danger of new competition. It is necessary to pay attention to these companies, understand who they are, identify the level of their operations, and watch their crazy efforts to gain new clients at any price. And this provides a lesson – it is necessary to reflect on how long this insanity lasts or how long one will continue to be sufficiently lucid to avoid engaging in the same craziness through not thinking properly. Much may be gained in a moment, avoiding future losses.

Everything is time. Decisions and reflection must be quick. One moment and time flies.

“Competition is synonymous with daily life, and to be competitive, one has to be daring. Daring to innovate; daring to believe in what is new.”
Deloitte wishes to thank all the companies and institutions represented in this work by their executives for making the collection of these articles possible.

Juarez Lopes de Araújo  
President of Deloitte

Clodomir Félix  
Deloitte leader in Brazil for financial industry
At the end of its first century of operation in Brazil, Deloitte assembled a group of well-known personalities in the insurance market with the aim of presenting in a single publication their thoughts on the most significant issues for the development of this industry.

With the support of the guest authors representing private companies, government institutions and Deloitte itself, the pages of “The insurance industry in Brazil – Transformation and growth in a country of opportunities” reveal the dynamics of a complex sector experiencing strong growth in the country, within a scenario of significant changes throughout the world.

An indispensable read for those accompanying and participating in the advances of the entire Brazilian financial services industry.