THE DEVELOPING INSURANCE MARKET IN BRAZIL

Risk Management and Transfer for South American Risks

Commercial Risk Europe in association with IGREA and APOGERIS

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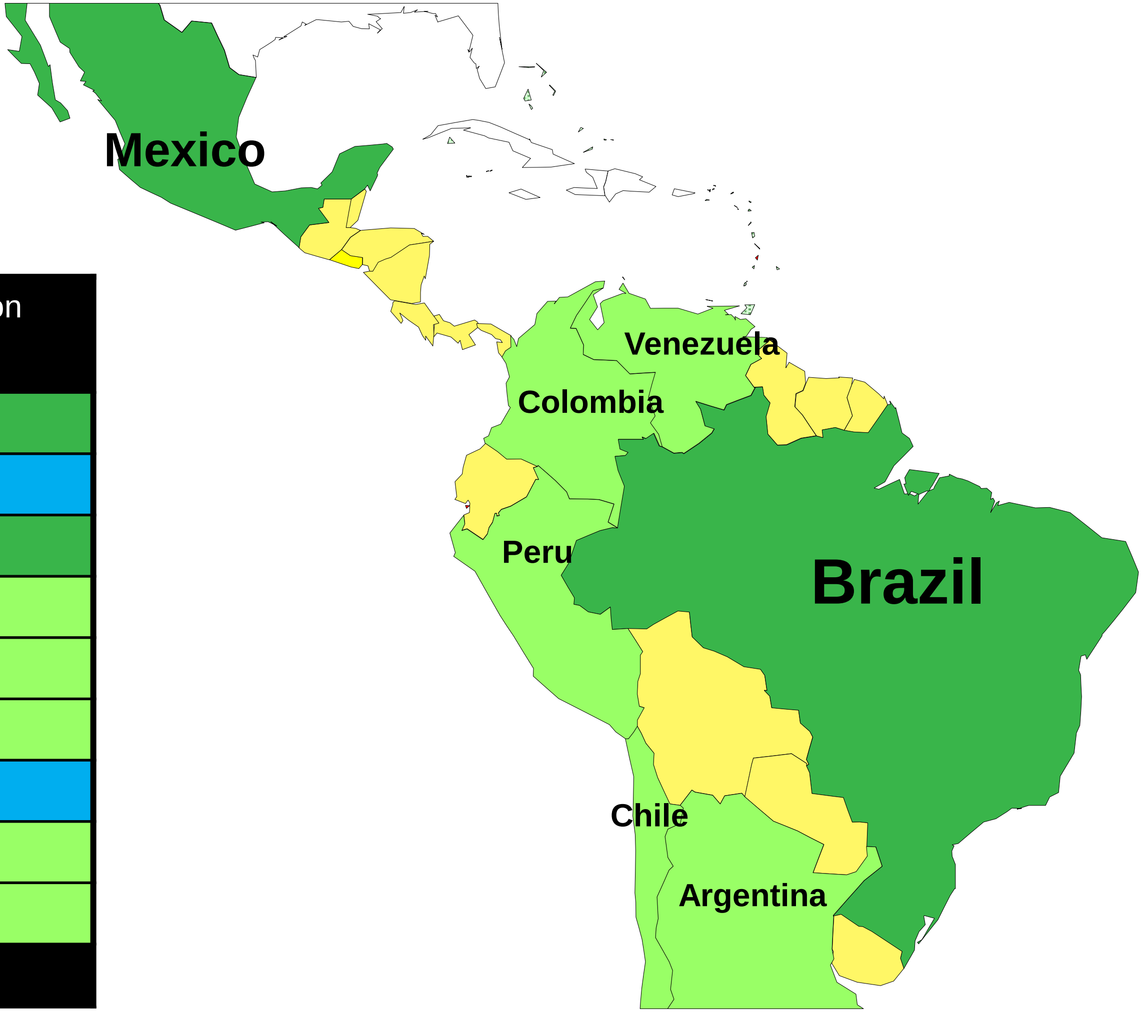
Contents

Dimension of Latin American Economies

	GDP (US$bn)	Population (mn)
Brazil	**2088**	**195**
Spain	***1409***	***46***
Mexico	**1035**	**110**
Argentina	364	41
Colombia	282	46
Venezuela	235	29
Portugal	***229***	***11***
Chile	207	17
Peru	149	29
Total Latin America	**4.779**	**584**



Source: Sigma – World insurance in 2010

Economic outlook: Latin America

On solid footing to attract growth opportunities

- Despite a decrease in GDP of 1.8% in 2009, the region has managed to weather the global recessions, with a growth rate around 6% in 2010
- Expected growth of 4.7% in 2011 and 4.3% in 2012
- US 200 Billion in new capital predicted for the region in coming year, a 50% increase versus previous year
- Main challenges:
  - weak institutions with high cost associated with physical insecurity
  - poor development of infrastructure
  - inefficient allocation of production and human resources
  - lag in innovation

Source: World economic forum global competitiveness report 2011/2012, Marsh Insurance Market report 2011

Economic outlook: Brazil

A fast, impressive and robust development

The 5th largest country and 7th largest economy in the world has the world s attention:

- 7,6% GDP growth in 2010, and 4% expected in 2011
- USD 10 Bn credit with IMF
- 2014 World Cup and 2016 Olympics
- Government Growth Acceleration program (PAC 2): USD 878 Bn to be invested in infrastructure (of which 592 Bn expected between 2011 and 2014. This is in addition to PAC 1 program (USD 383 Bn previously pledged in 2007).
- A well spread balance of trading partners as well as an even equilibrium between raw material and manufactured products, leaves Brazil less vulnerable to a worsening of economic environment
- In past 10 years, students in higher education have increased from 1.8m to 6.5m

Source: Sigma World insurance in 2010, Marsh Insurance Market report 2011, World economic forum global competitiveness report 2011/2012

Economic outlook: Brazil

Key challenges

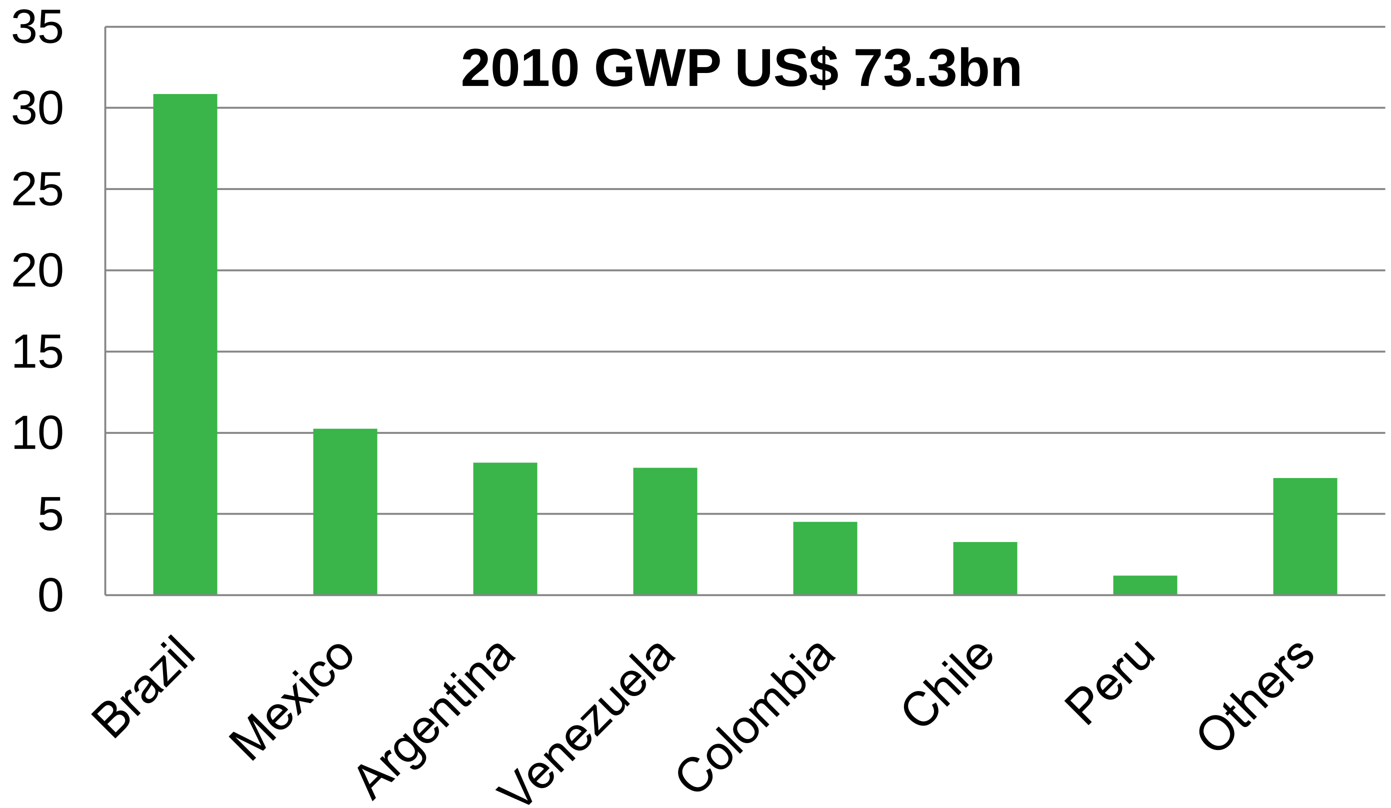
- Brazil faces some of the key challenges of the Latin American region and still suffers from weaknesses that hinder its capacity to fulfill its tremendous competitive potential

- In 2011, out of 142 countries listed, the World Economic Forum ranked Brazil as follows:
  - Lagging quality of infrastructures (104th)
  - Its macro economic imbalances (115th)
  - Rigidity of Labor Market (121st)
  - Insufficient Progress to boost competition (132nd)
  - Worst performer on the burden of government regulation (142nd)

Source: World economic forum global competitiveness report 2011/2012

Insurance market overview: Latin America

Non-Life (USD Bn)

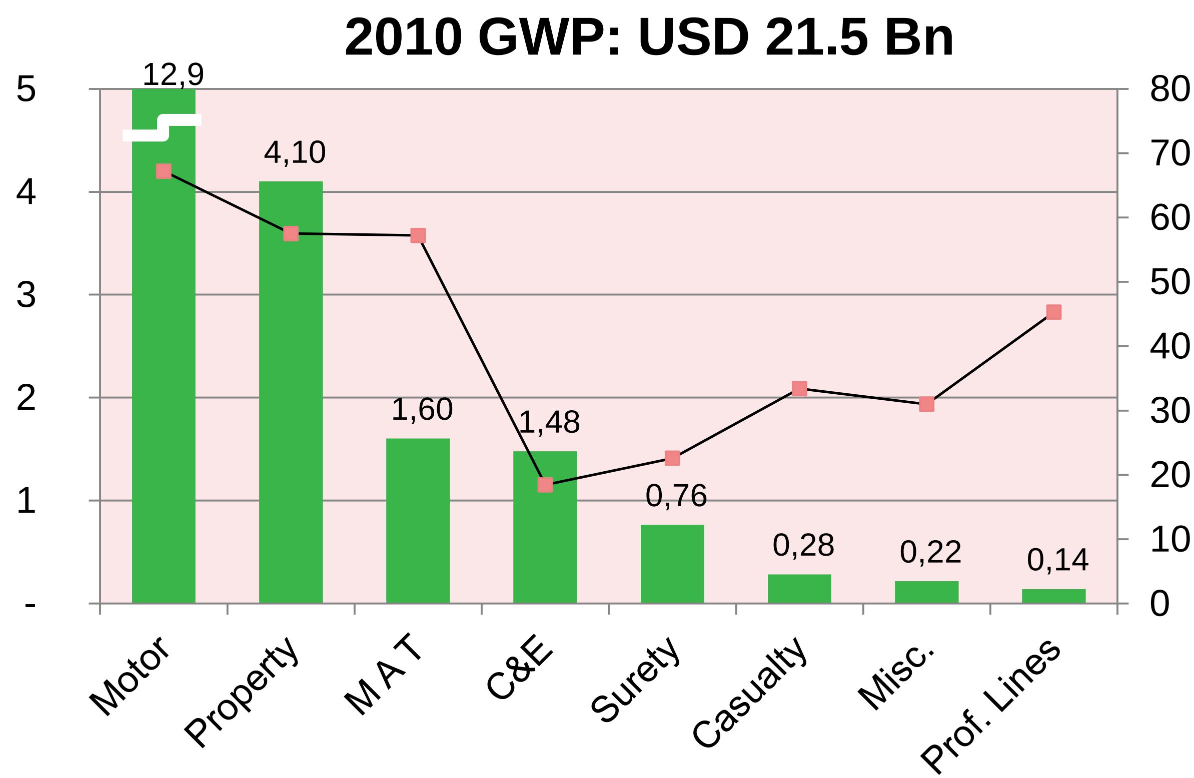


Brazil represents 42% of non-life premiums of the region

Source: Sigma – World Insurance in 2010

Insurance Market Overview: Brazil

Distribution per P&C lines (excluding PA and Health)



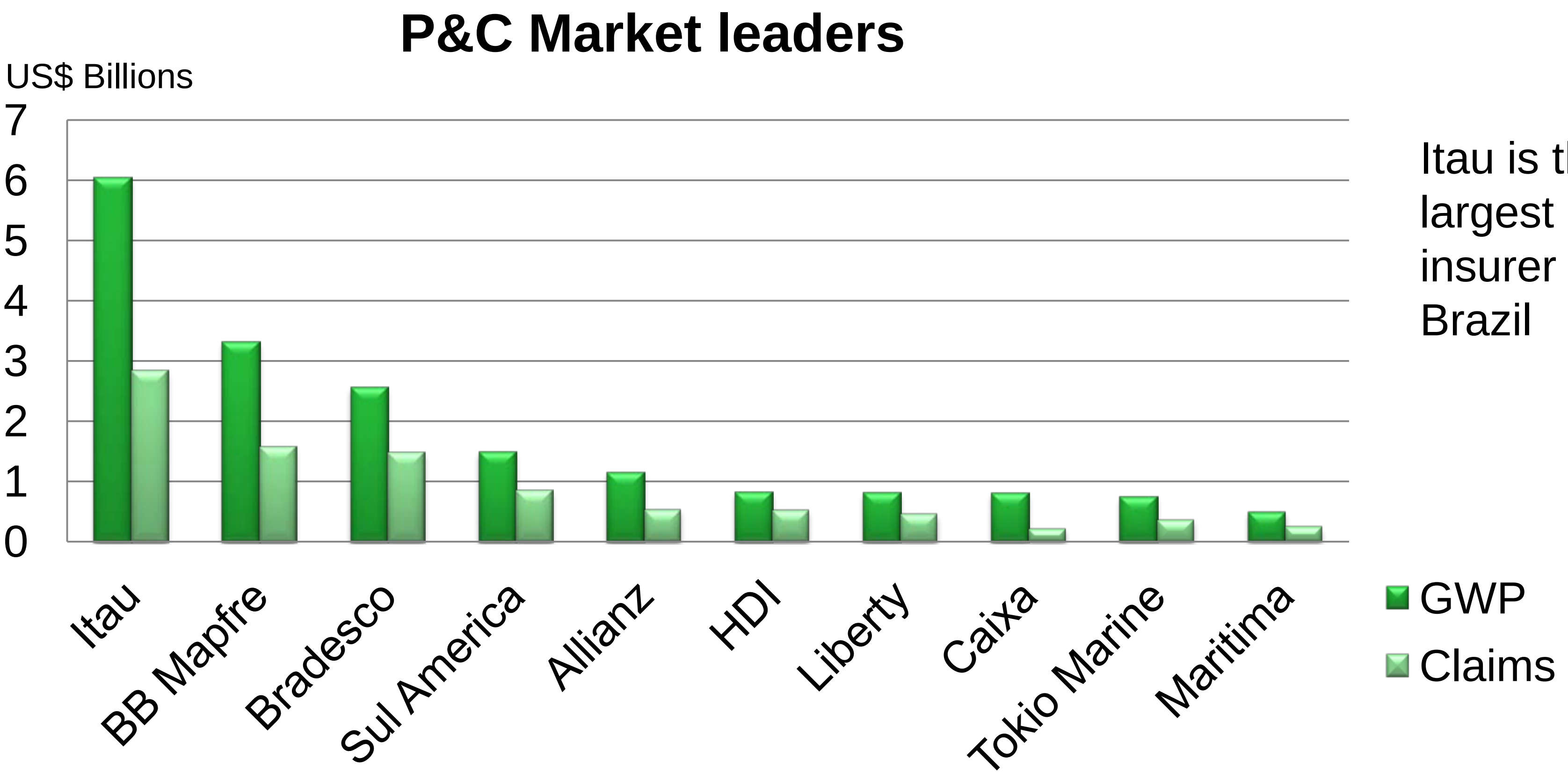
Motor and commercial property are the main lines of business in the Brazilian P&C market

- 5 years average: 18% market growth and 47% loss ratio
- AON studies forecast that Brazil non-life market size could reach USD160 Bn by 2030, similar to the projection for Germany.

Source: AXCO, Inpoint study 2010

Insurance market overview: Brazil

Top 10 Non Life Insurance Groups



Itau is the largest P&C insurer in Brazil

- Top 10 make up 78% of market.
- Mapfre has established its way through the local champions

Source: SUSEP, Lloyd Market presentation (October 2011)

Reinsurance market overview: Brazil

The 3 types of reinsurance licenses

A license is required to operate as reinsurer in Brazil and is subject to official registration process through the regulator SUSEP (Superintendencia de Seguros Privados)

- **Local reinsurer:** Local establishment in Brazil (Head office or subsidiary). Since March 31st 2011, Insurers shall contract with Local reinsurer at least 40% of each reinsurance cession

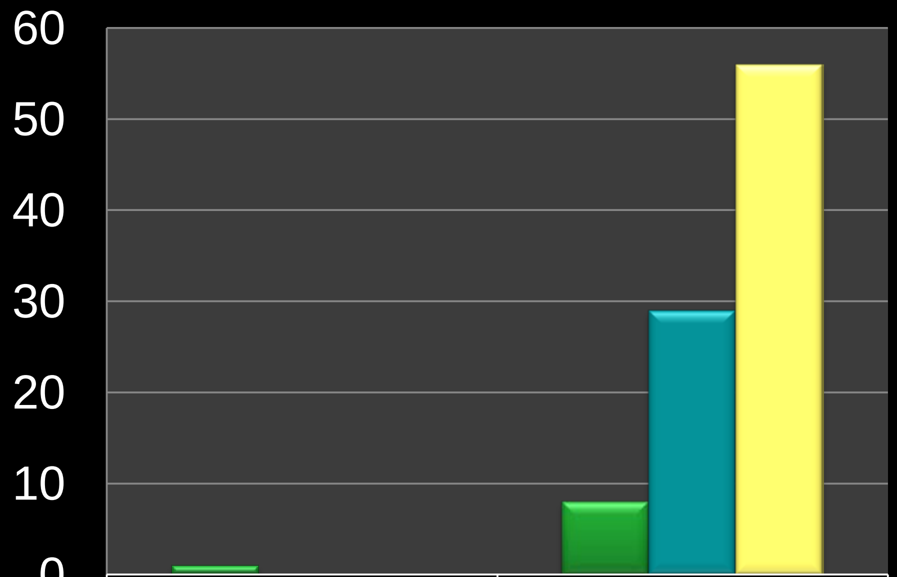
- **Admitted reinsurer:** Representative office in Brazil and local deposit

- **Occasional reinsurer:** Established overseas. Cessions to occasional reinsurers are limited to 10% of ceded portfolio of any insurers

Captives are usually not licensed by SUSEP and thus cannot accept any direct retrocession from an insurer in Brazil

Reinsurance market overview: Brazil

Transitioning at rapid pace from the market opening in 2007



	2007	Oct. 2011
Local Reinsurers	1	8
Admitted Reinsurers	0	29
Occasional Reinsurers	0	56

- 93 reinsurers were licensed since market opening in 2007
- with the new reinsurance regulation, more Local Reinsurers are expected to be licensed in 2012

Source: SUSEP

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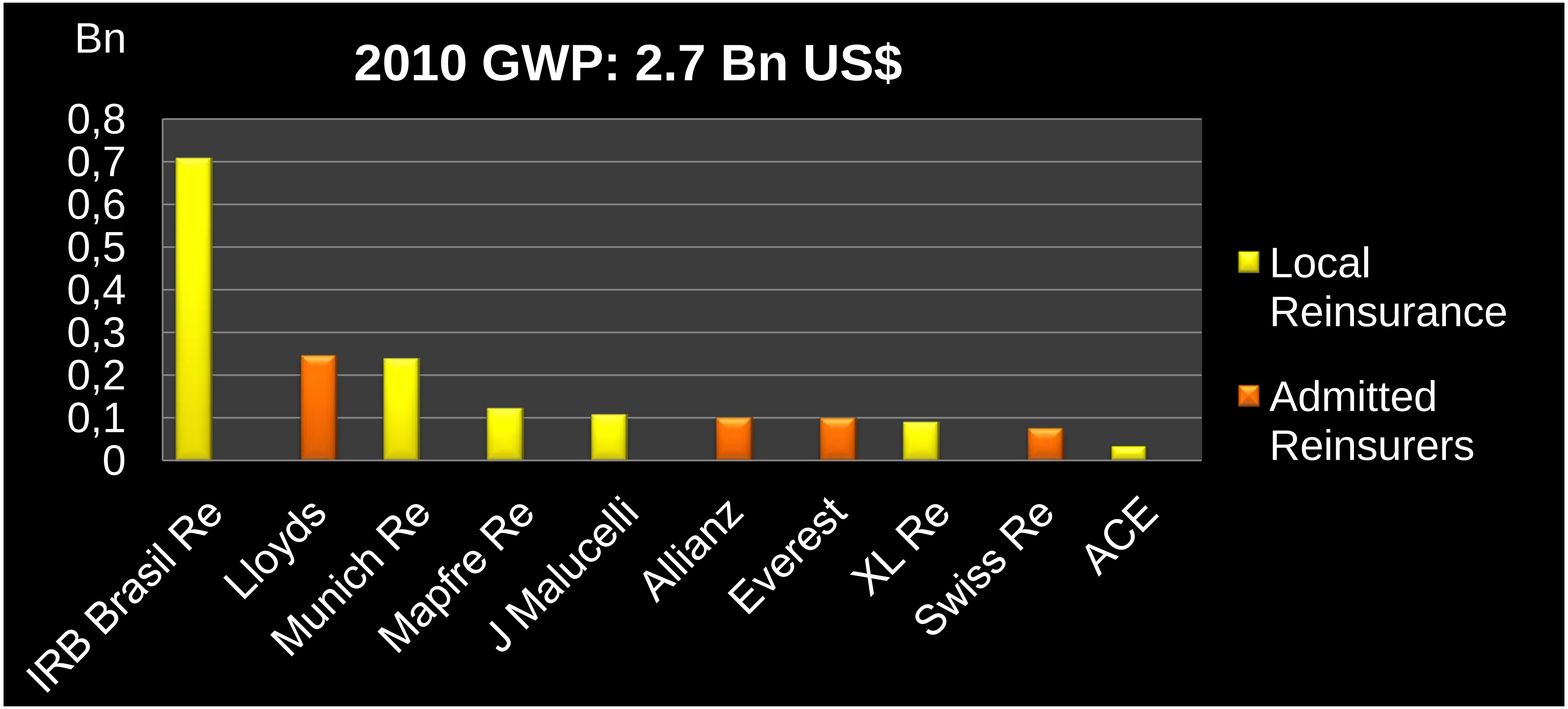
Reinsurance market overview: Brazil

Top 10 market players



- IRB premiums declined by 58% from 2009 to 2010
- Local Reinsurers have a 54% market share, whereas admitted and occasional reinsurers make up the difference

Source: SUSEP, Lloyd Market presentation (October 2011)

Business in Brazil since reinsurance market opening

State of the market in 2010

Surety

- Largest surety market after the US, positive growth outlook
- Profitability mainly correlated to macroeconomic performance
- Average capacity USD100 M

Property

- Development of coinsurance placement.
- Falling rates
- Average capacity USD100 M

Casualty

- Stable rates outlook**.** Average capacity USD 20 M

Marine cargo

- Reduced profitability and falling rates. Average Capacity USD 10M

Construction

- High demand. Falling rates. Average capacity USD 100 M on TSI

Professional lines

- Positive outlook despite downward pressure on rates.
- Average capacity USD 10 M

Source: Marsh insurance report 2011, Inpoint study 2010

Business in Brazil since reinsurance market opening

Promising but uncertain outlook

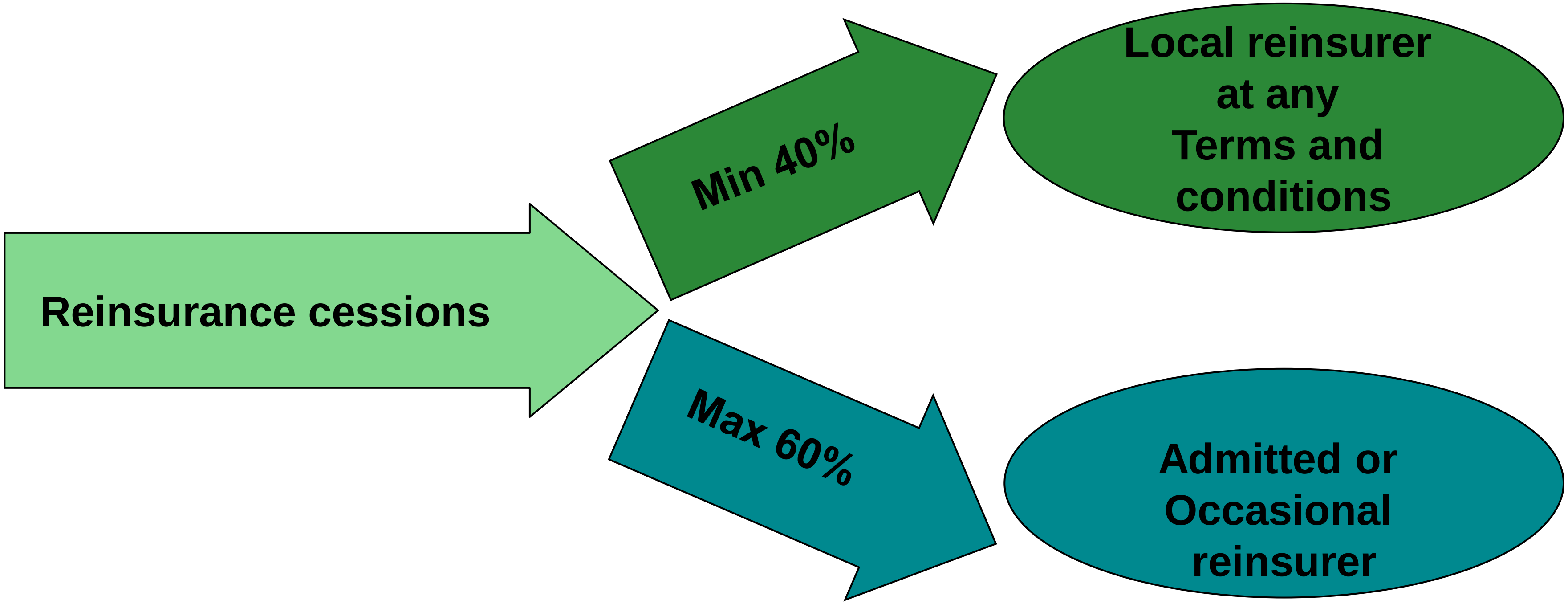
- IRB strong footprint has left a “one size fits all” legacy on wordings. The obligation to obtain regulator approval for new wordings may also discourage innovation:
    - The flow of new entrants in the market, combined with the fact that Brazilian risk management clients are increasingly asking for more tailor made solutions, is likely to foster a positive change in mentality

- The shortage of domestic talent and experience, combined with the entry of a slew of new actors has generated a war for talents with subsequent inflation on costs

- The puzzling reinsurance regulation, which changed twice in past 12 months, has unsettled the market and generated uncertainty
    - The partial relaxation of regulation and a positive attitude of the regulator toward dialogue are however generating hope of further easing or clarification

New regulation – reinsurance cessions for insurers in Brazil

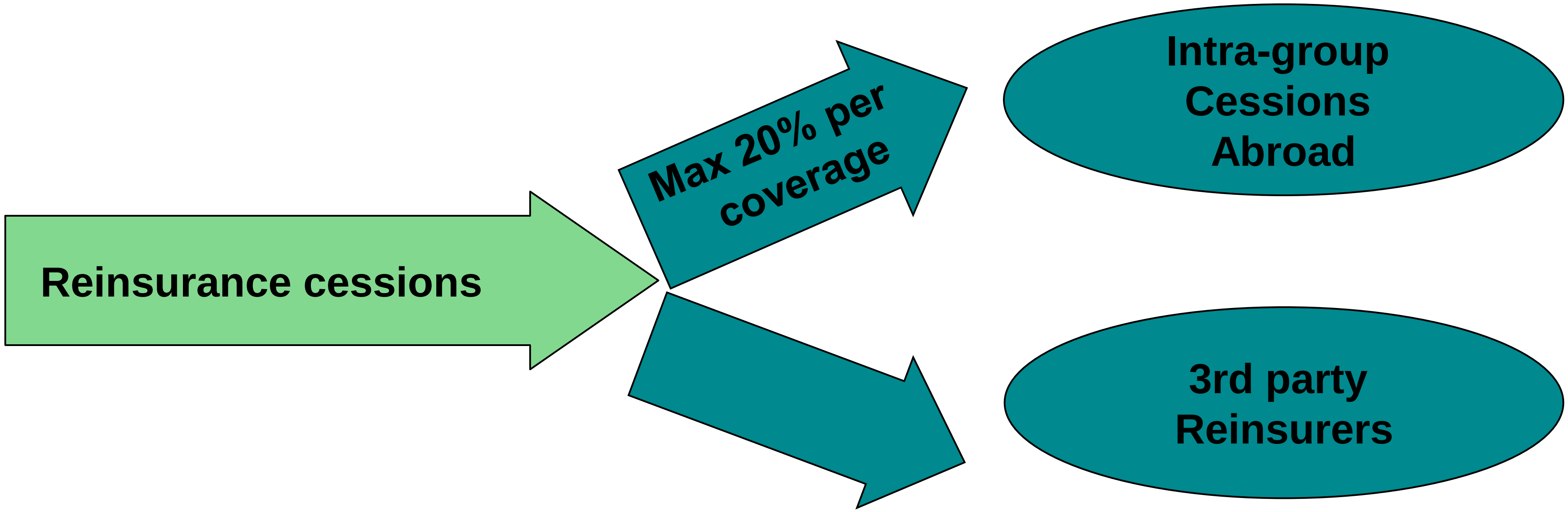
Resolution 225 – effect March 31st, 2011



- The reinsurance contract may contain a claim control provision in favor of Local Reinsurer, when it has the greatest percentage of participation in the risk
- Local reinsurers to become key element of International Programs schemes with retrocession to captives or co-reinsurers

New regulation – reinsurance cessions for insurers in Brazil

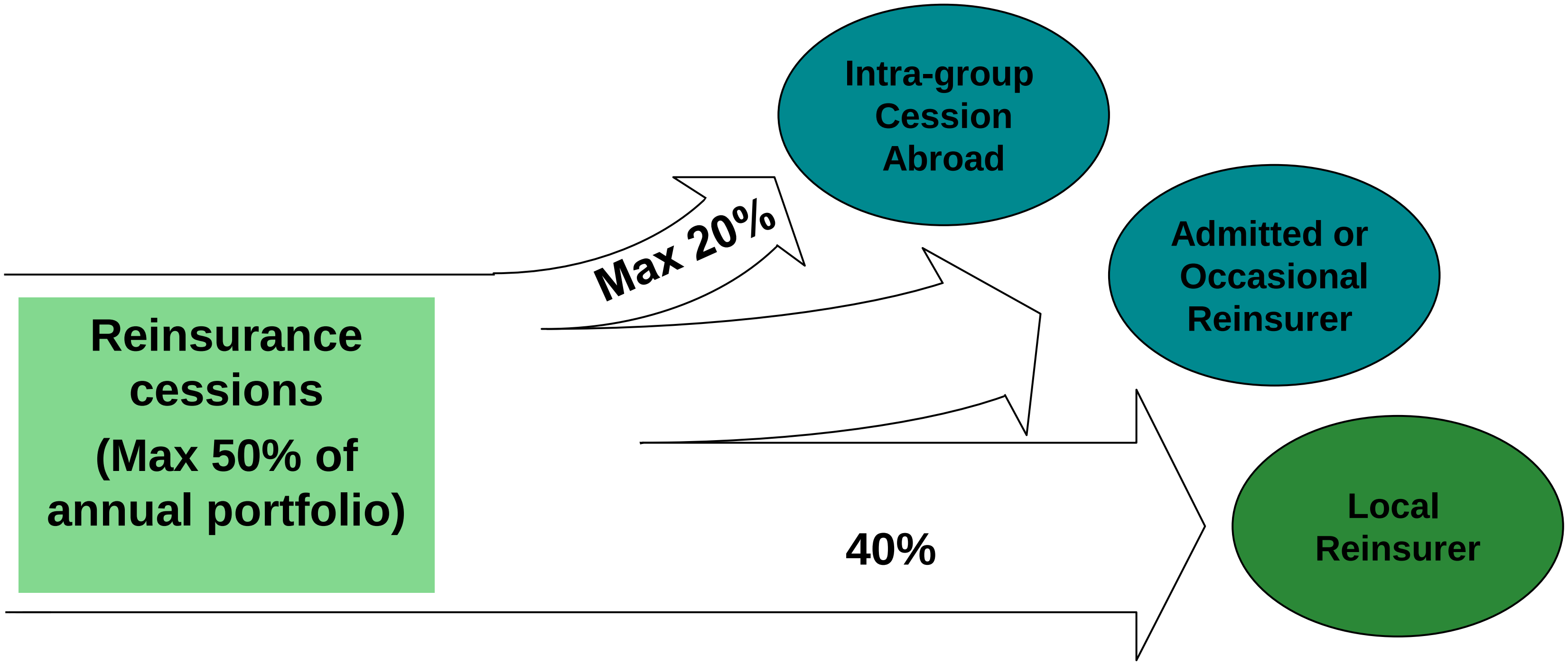
Resolution 232 – effect March 31st, 2011



- Possible transition period until March 31st, 2012 for reinsurance treaties
- This resolution applies for the reinsurance cessions of Local Reinsurers
- The 20% max limit is not applicable to guarantee, export credit, rural credit, internal credit and nuclear risks segments
- The 20% per coverage criteria remains puzzling to implement in practice. The market is pushing for an interpretation of 20% of premiums on a portfolio basis

New regulation – reinsurance cessions for insurers in Brazil

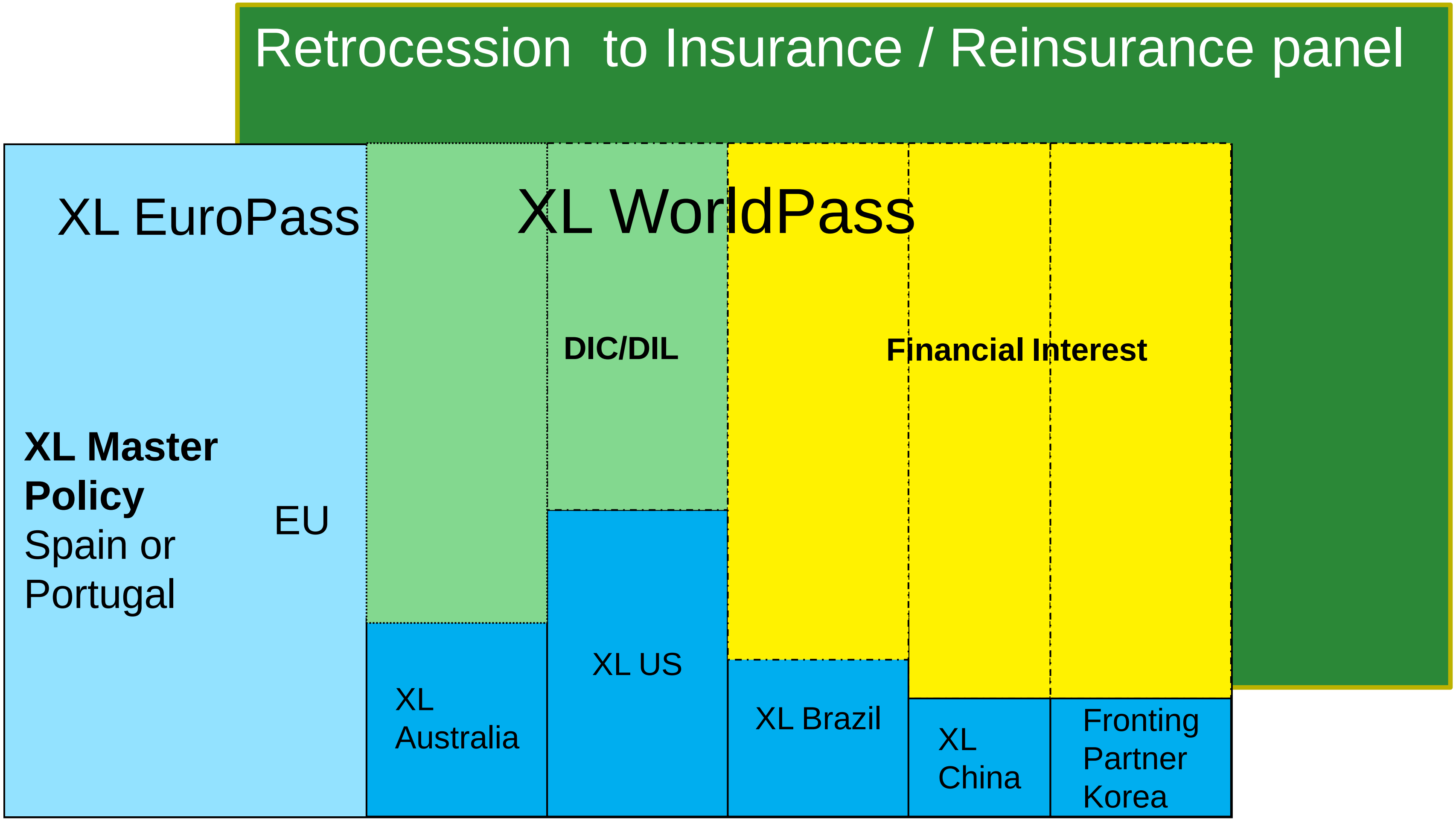
Combining new and old regulation for international insurers



- The regulation poses some challenges in order to efficiently manage program business of large corporations
- It might hinder the ability of international insurers to use their capacity, as well as potentially reduce access to international reinsurance market .
- The 50% max cession applies indistinctly to insurers and local reinsurers

Case study: International Programs

Standard implementation without captives



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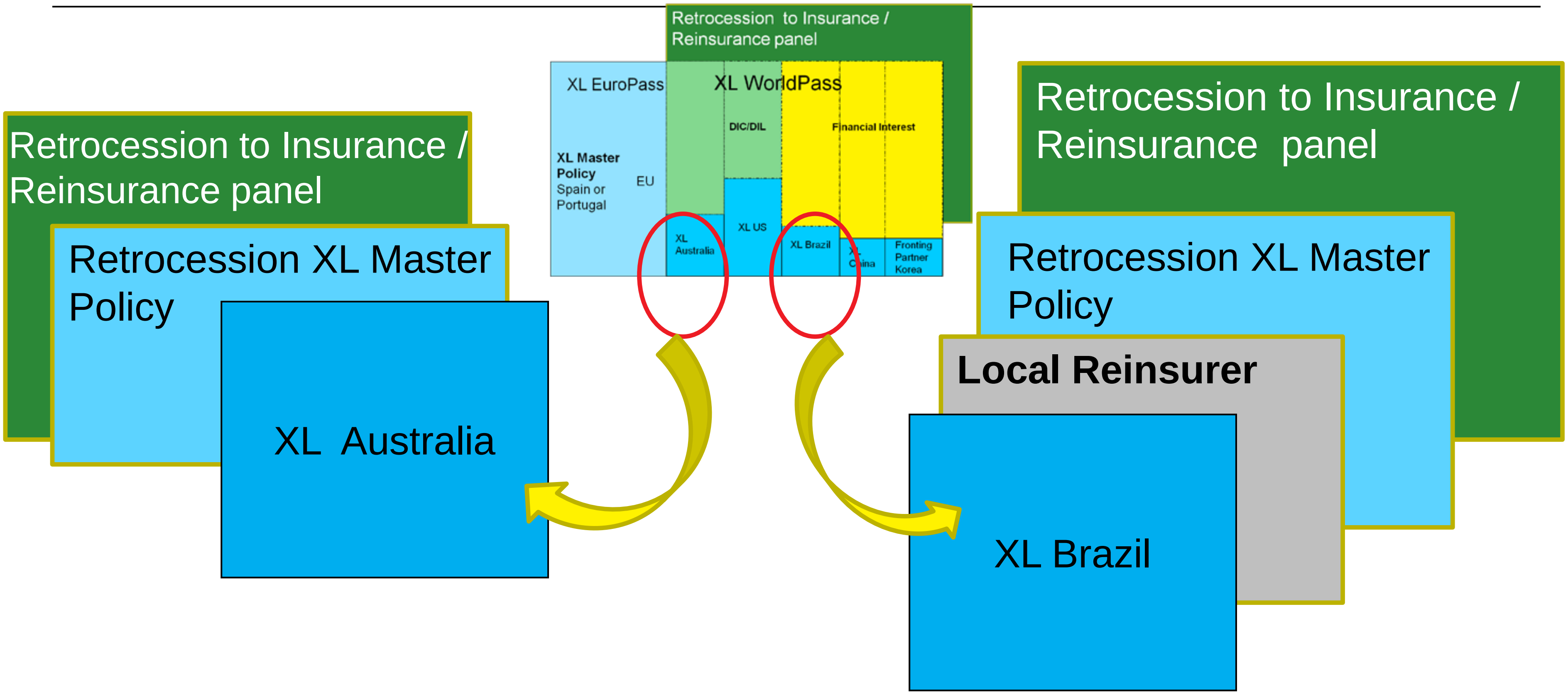
Case study: International Programs (without captive)

Specific cession scheme for Brazil



- Need to find a suitable third party Local Reinsurer to reinsure the Brazilian policy
- Additional complexity, cost and potentially reduced cession rate abroad

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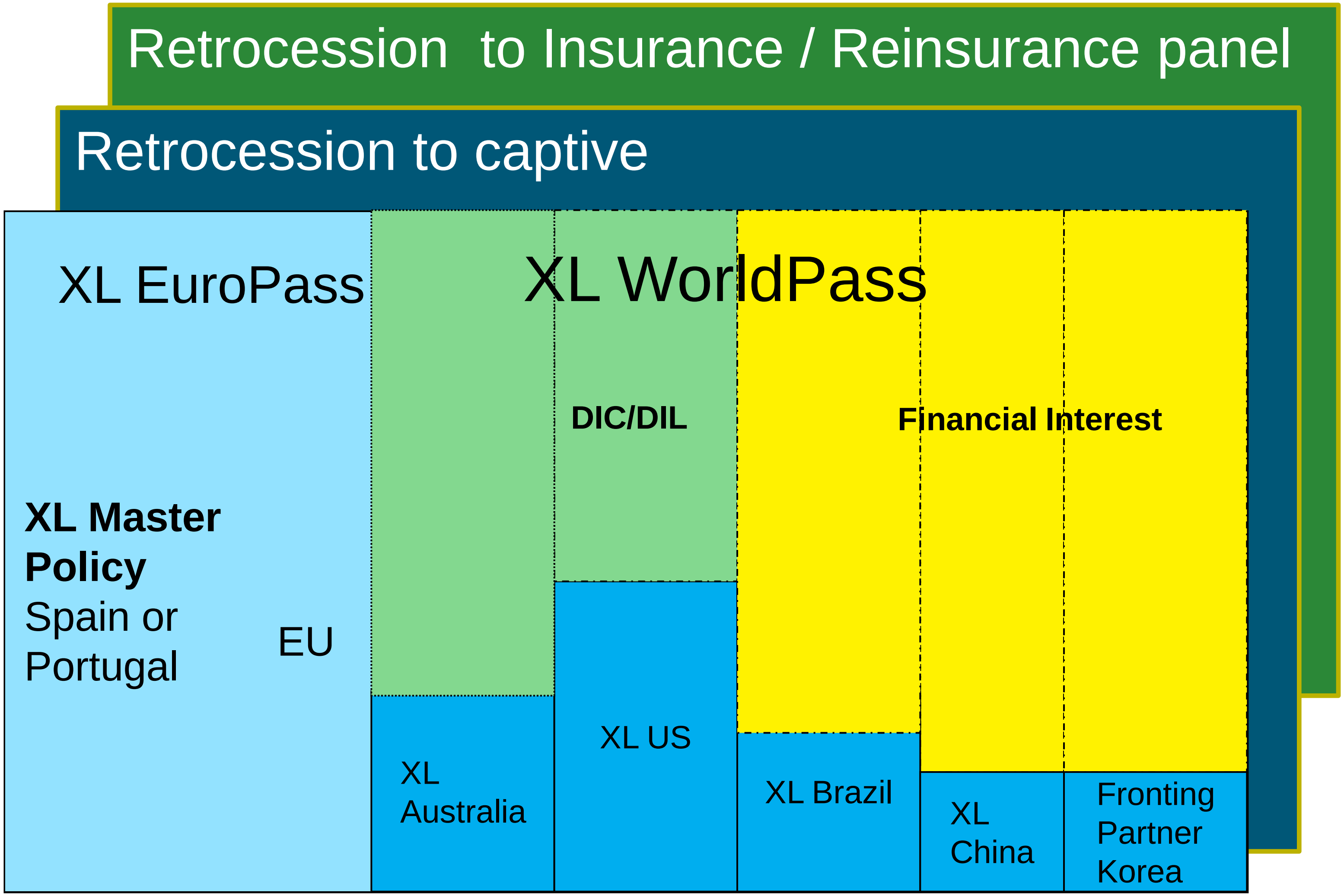
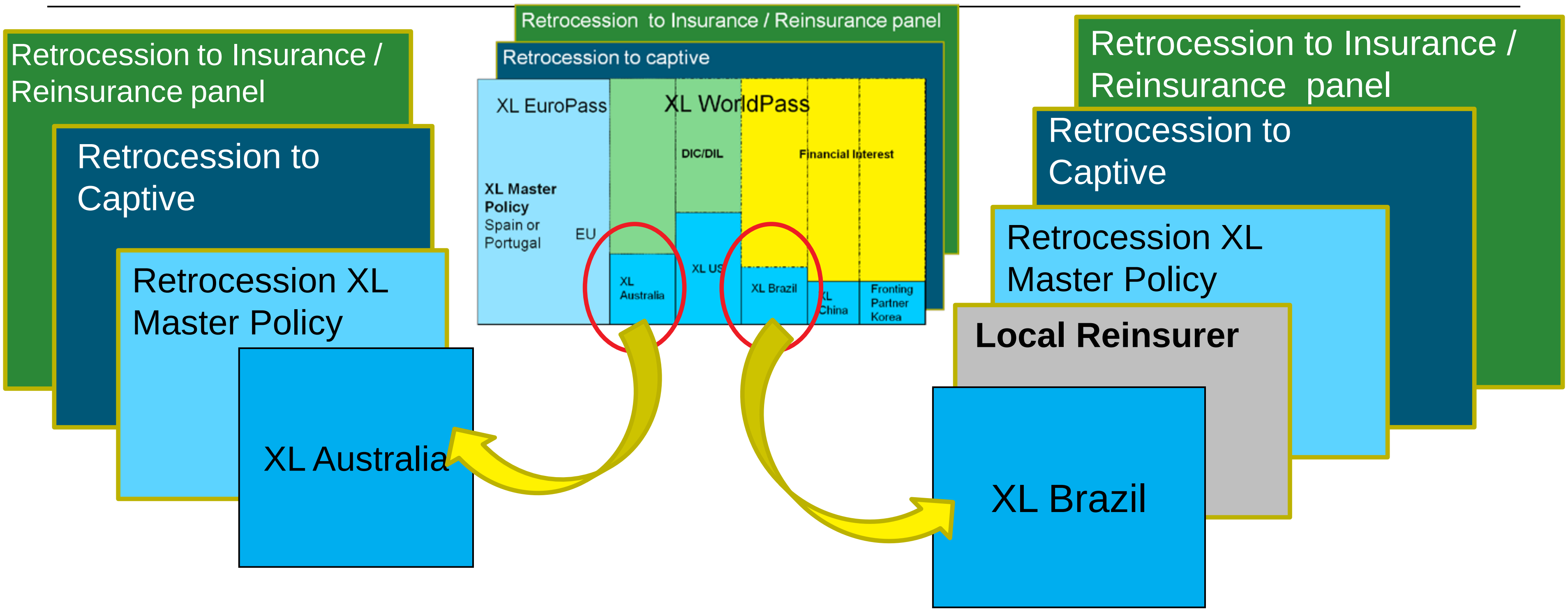
Case study: International Programs

Standard implementation with captives



Case study: International Programs (with captive)

Specific cession scheme for Brazil



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Business in Brazil with the new regulation

Impact of the new reinsurance regulation on Risk management business

- Full impact of new regulation will be seen after March 2012, when transition schemes implemented by international insurers and reinsurers come to an end
- If there is no easing of reinsurance regulation in the meantime:
    - Risk management clients are likely to face higher prices and lower capacity, with a development of coinsurance schemes
    - Implementation and management of International programs could become an increased matter of concern

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THANK YOU FOR YOUR ATTENTION

ANY QUESTIONS ?

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