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How the Brazilian Insurance market works

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Tabela de conteúdo / Agenda

- Market Figures
- Market Structure & Regulatory Premisses
- Brazilian Reinsurance Rules
- Challenges and Questions for the Future of the Engineering Market



Market Figures



Brazilian Economy

GDP

- 8th biggest economy in the world
- GDP 2010: USD 2.024tn
- Conditions for stable growth established and hence projected
- Increase of 7,5% of GDP in 2010 in comparison with 2009

Economic Sectors

- Services represent more than 50% of the GDP
- One of the biggest single GDP contributor is the Manufacturing Industry: 13% of GDP
- Total revenue of Top 10 Brazilian Multinationals over USD 250bn

Future Overview

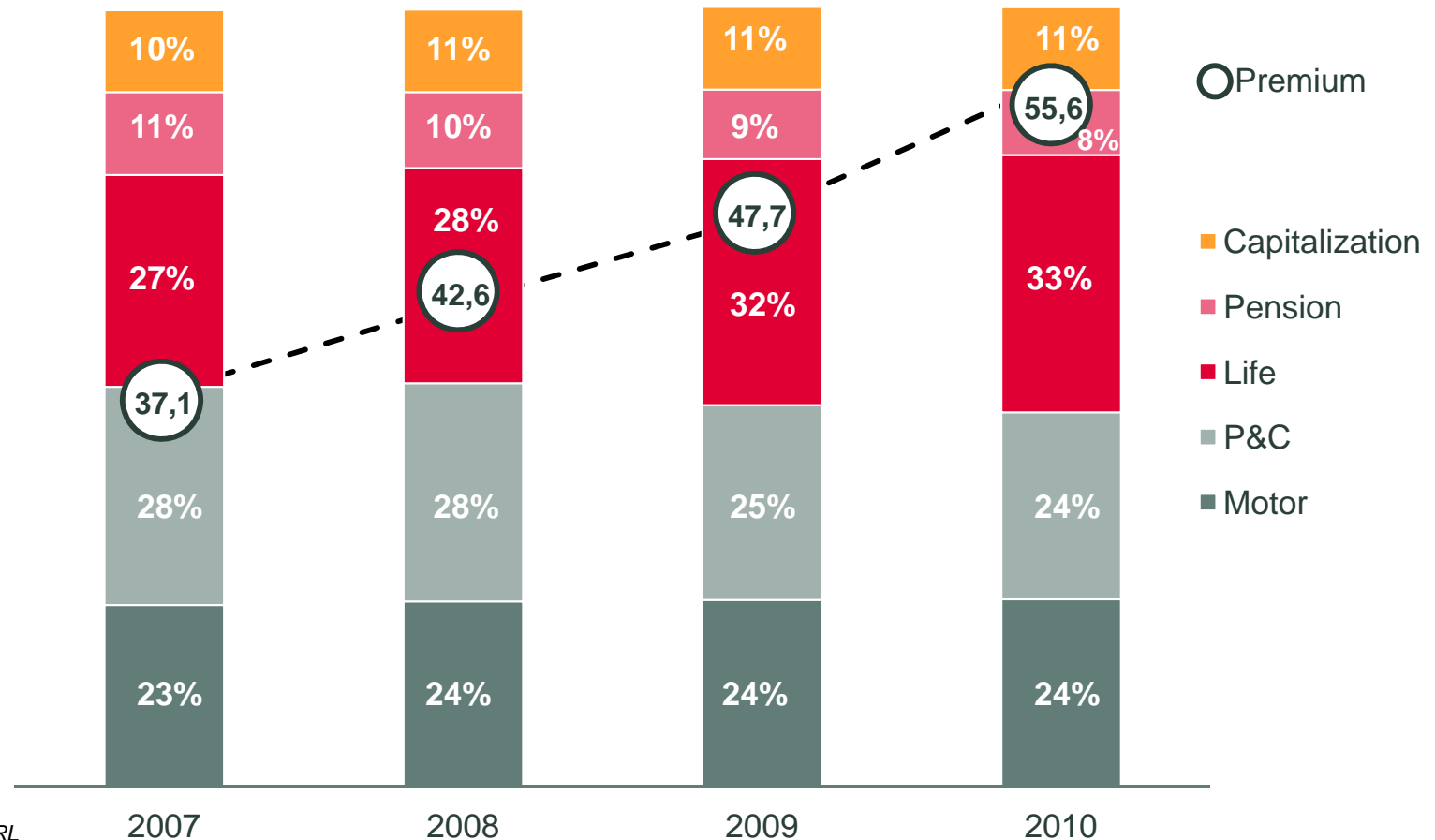
- Brazil will be the 4th largest contributor to global GDP growth until 2030 (after China, US, India)
- This buoyant macroeconomic scenario now positions Brazil among the favorite destinations of international investors
- Significant investments (>\$300Bn) in infrastructure and natural gas
 - Infra-structure sector will demand at least USD 90 billion investments
 - Recent sub-salt discoveries in ultra-deepwater fields in Brazil will demand unparalleled ~USD 170 billion investments across oil & gas sector

Insurance market

Premium growth (USD bn) and mix (%)

Insurance Market profile

- USD 55,59 bn gross premiums in 2010
- 3,25% of Brazilian GDP
- Annual Growth around 14% in last 5 years

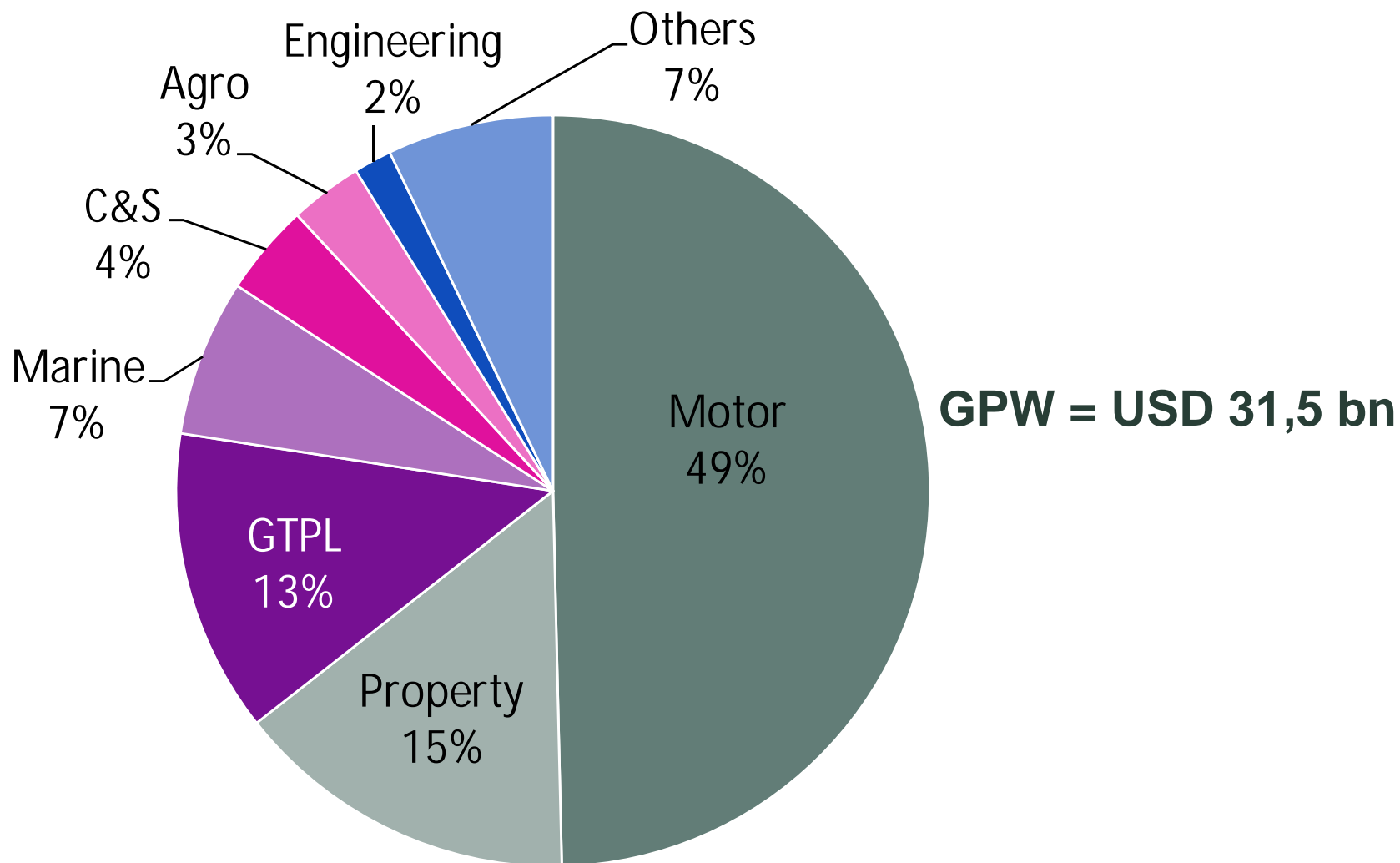


Source: Susep

Exchange rate for : USD 1 = 2.00 BRL

Engineering Insurance Market

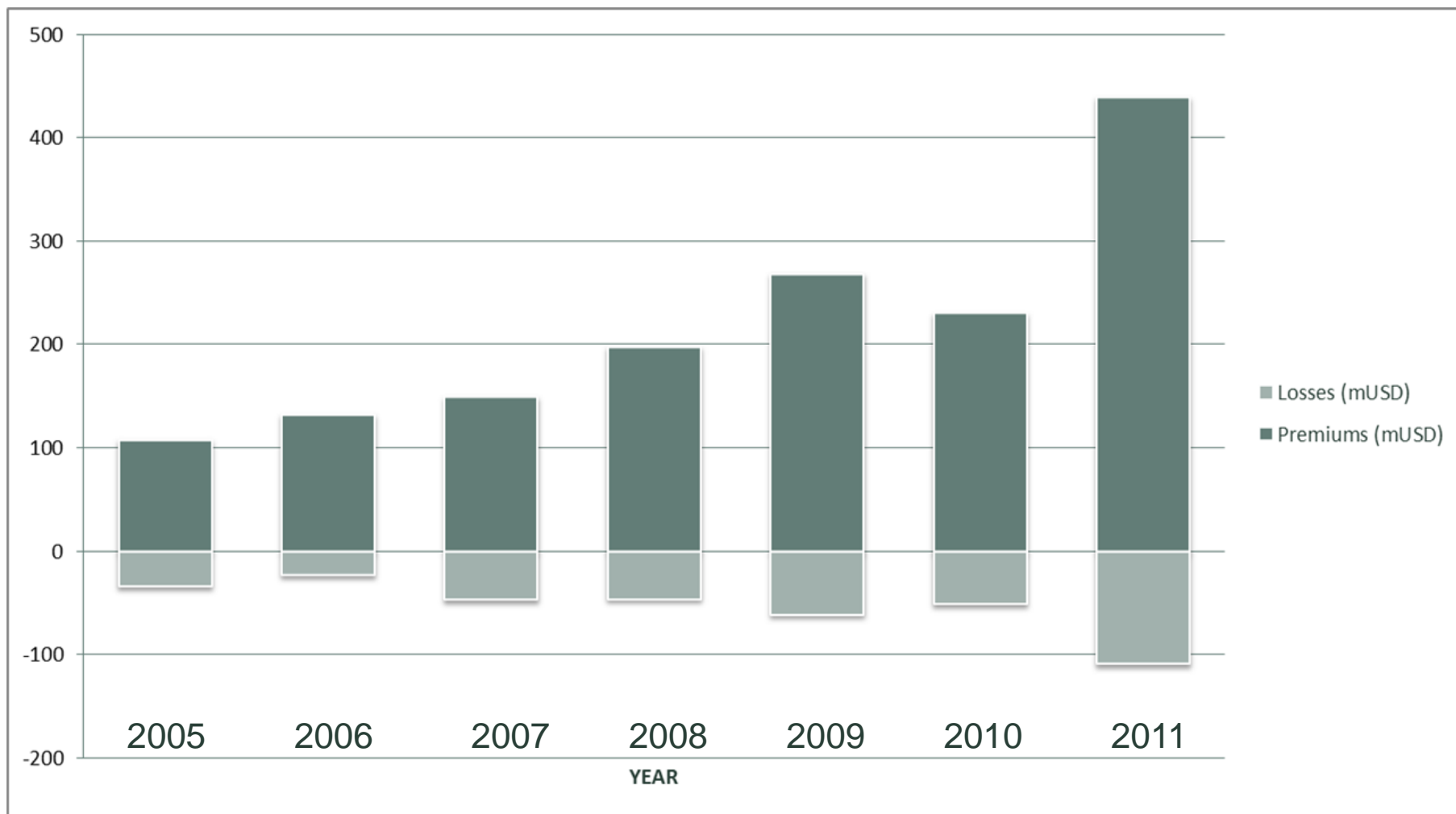
Non-Life Insurance Market – 2010



Source: Susep

Engineering Insurance Market

■ Premiums and Losses (mUSD)



Source: Susep



Engineering Insurance Market

- Brazilian engineering market is predominantly composed by CAR / EAR

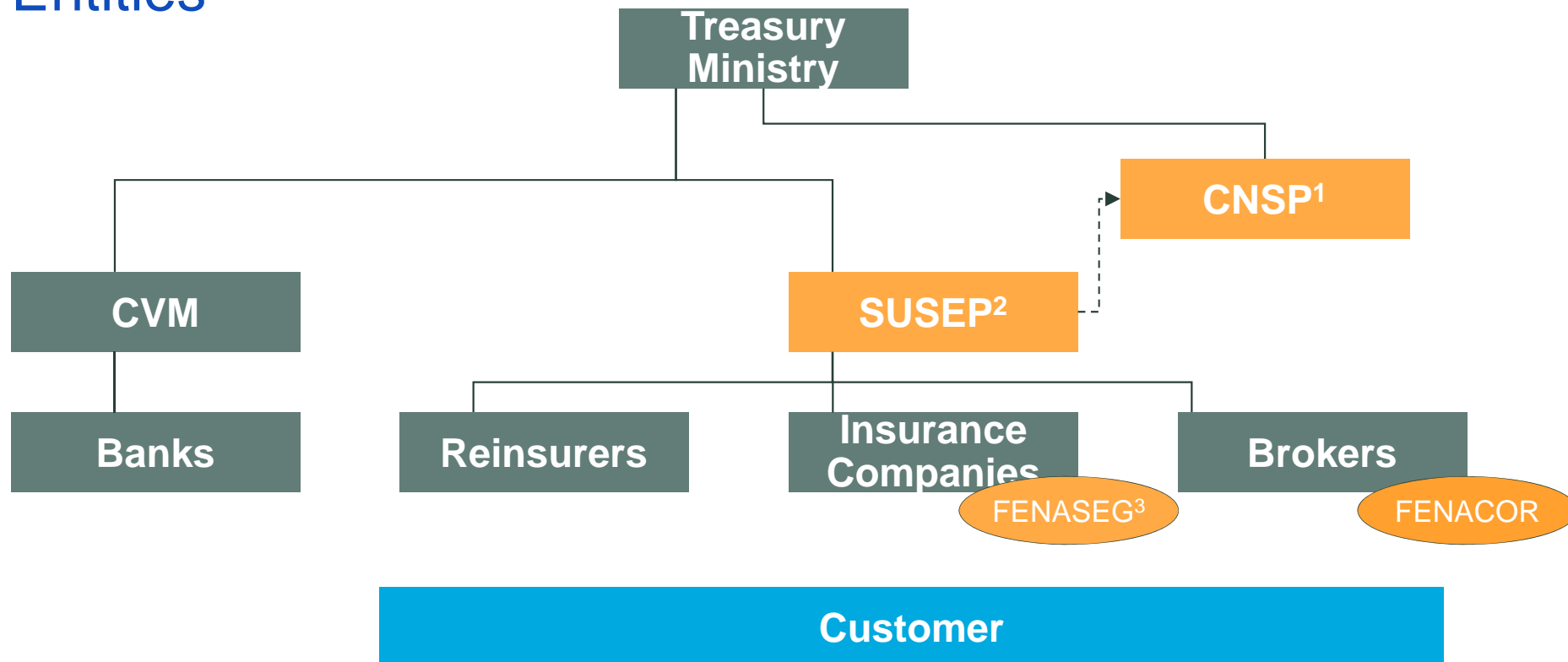
- Key project ongoing
 - Santo Antonio and Jirau HPP
 - Belo Monte HPP
 - Angra 3 NPP
 - Comperj Petrochemical Pole
 - Renest – Northeast Refinery
 - Stadiums and Infrastructure Project related to World Cup 2014 and Olympics 2016

Source: Exame Newsweek – Infrastructure Annuary



Market Structure & Regulatory Premises

Regulatory Drivers and Main Regulatory Entities



 Associations

1. CNSP (National Council of Private Insurance): Created by the Decree-Law nº 73 of Nov. 1966, which also established the National System of Private Insurances, aggregating the National Council of Private Insurance – CNSP
2. SUSEP (Private Insurance Superintendence): Agency responsible for the control and fiscalization/supervision of the insurance, open private security, capitalization.
3. FENASEG (National Federation of Insurance Companies): Internal Control and Compliance Commission – monthly meetings.

Regulatory Framework

Actuarial technical notes - Insurance

To operate in determined Line of Business, the insurance company need to submit and get an approval from the regulator (SUSEP) technical notes for the portfolio and for each product that the company will work:

Portfolio

For the Portfolio the minimum information are:

- Business Plan (operational strategy of the company)
- Projections (premium, claims, expenses, reinsurance)
- Reserves methodology

Product

For each Product, the minimum information are:

- Pricing methodology (including the experience used)
- Coverages and Limits
- Full Wording (compliant with the minimum wording needs according to SUSEP)

Net retention limits

Maximum risk exposure is 3% of the total capital of the insurance company.

Regulatory Framework

Insurance Intermediation

It is mandatory the intermediation of a retail broker for all business done between an insured and the insurer.

Retail broker is defined as a person or company, properly registered in SUSEP to act as an intermediate and has their inherent liability.

Reinsurance

- Insurers need to retain at least 50%* of their earned premiums considering all of the company's operations on a *calendar year* basis.

* Does not apply to Surety Bond, Agro, Domestic & Export Credits



Brazilian Reinsurance Rules



Reinsurance Market – Type of Reinsurers

| | Local | Admitted | Occasional |
|---------------------------------|---------------------------------|---------------------|---|
| Minimum Capital | USD 34m | USD5m | none |
| Right of first refusal | 40% of treaties and facultative | none | none |
| Restriction to insurers | None | None | Cession limited to 10% of reinsured portfolio, except surety and agro |
| Credit rating | Locally established | Mirrors head office | Mirrors head office |
| Amount of Reinsurers Registered | 12 | 30 + Loyds | 62 |

Reinsurance Market – Changes

Changes in the Market

In 2011, some changes were introduced to the market:

- Limitation of intra group reinsurance to 20% of premium of any transaction
- Initial “Right of first refusal” replaced by a mandatory 40% participation of Local Reinsurers

Why?

- Strengthen local market
- Control the amount of premium leaving the country

Pros:

- Brazilian reinsurance market to become stronger, a strong candidate for a hub within Latin America
- Higher local market capital to withstand economic crises or currency volatility

Cons:

- Risk of reinsurance capacity shortage
- Impossibility to naturally spread risk over markets, one of the most important foundations of reinsurance industry



Challenges and Questions for the Future of the Engineering Market



Future Challenges for Brazilian Engineering Market

- Global Crisis and it's impact to the country?
- Infrastructure investments after 2016?
- Market competition and maintenance of the technical concepts.
- Creation of ABGF (Agência Brasileira Gestora de Fundos Garantidores e Garantias) will impact the engineering market?

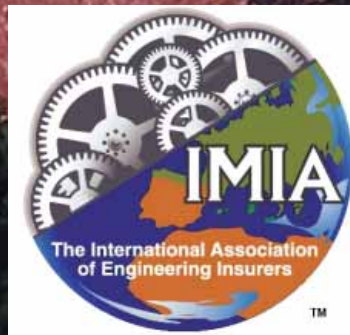
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Questions?

Thank you.

Have a pleasant stay in Rio de Janeiro !!!





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