

WINTER 2011

The winter edition of the Microinsurance Trilogy focuses on microinsurance in Brazil. Not only was the 7th International Microinsurance Conference held there in November 2011, but a number of papers and case studies have recently been published focusing on the Brazilian microinsurance market and the steps that are being taken to facilitate the offering of insurance products to low-income people.

The newsletter begins with an article on the conference before examining the Brazilian microinsurance market by extracting the key findings from a strategic report. It then continues by focusing on a case study that illustrates one of the many innovative and alternative microinsurance distribution models in Brazil.

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7TH INTERNATIONAL MICROINSURANCE CONFERENCE

According to research released at the 7th International Microinsurance Conference, which took place from 8 to 10 November 2011 in Brazil, the number of insured low-income people has increased from the previous estimation of 135 million to just below half a billion. With India accounting for 60% of this number, Craig Churchill, Chair of the Microinsurance Network, believes that "Brazil can become the India of Latin America".

This year's conference, hosted by the Munich Re Foundation and the Microinsurance Network and supported by the Brazilian Confederation of Insurers (CNseg), the Superintendence of Private Insurance (SUSEP), GIZ/BMZ and Georgia State University, welcomed over 400 microinsurance experts from 52 countries. The number of participants has grown significantly from the 89 people that attended the first conference in 2005, making the event the largest gathering of microinsurance experts in the world.



Microinsurance Network's publication table at the 7th International Microinsurance Conference

The agenda of the conference addressed a huge variety of topics that are fundamental to providing good-value insurance products to low-income populations. Topics such as technological innovations, how to protect the poor against natural disasters and success factors in public-private partnerships were among the many discussed in the 22 different sessions during the three days of the conference.

The diversity of the participants is another factor that makes the International Microinsurance Conference stand out. Representatives from all the various stakeholders were present at the conference with over 40% of the participants representing the insurance industry. Another significant group attending the conference were the 23 different national regulatory authorities. This growing interest from governments demonstrates how the benefits of microinsurance are being recognised at the highest levels.

Dirk Reinhard, Vice Chairman of Munich Re Foundation and member of the Executive Committee of the Network said: "The conference provides a platform for all types of organisations involved in microinsurance to share lessons learnt and highlight the different experiences. By providing this platform, we hope to ensure that insurance for low-income populations is constantly being improved all along the value chain, whether that is through improving access by focusing on distribution channels, adding value via product development, or innovations in consumer education."

The academic track sessions, which are hosted by Georgia State University, provide a forum for researchers and academics to present their findings to the microinsurance community, or more specifically to those offering insurance in the field. The face-to-face meeting of these two very different stakeholders provides a unique opportunity to learn from each other and address issues from diverse angles.

The conference also saw the publication of a teaser chapter of the soon to be published "Protecting the poor: A Microinsurance Compendium (2nd Edition)". The chapter, entitled "Teaching elephants to dance", examines the experiences of commercial insurers in the low-income markets, and confirms the findings of the Microinsurance Network's study, "Commercial insurers in Microinsurance", that commercial insurers are increasingly entering the market.

WHERE NEXT?

With the 7th International Microinsurance Conference now over, the microinsurance community can look forward to another year of activities that focus on providing insurance to low-income communities and implement the lessons learnt. The **8th International Microinsurance Conference** will take place in Tanzania in 2012 and it is hoped that the coming year will see another significant increase in the number of insured low-income people.

MICROINSURANCE IN BRAZIL

An independent assessment of the microinsurance market in Brazil was commissioned by Funenseg and CNSeg, the Brazilian insurance school and insurance industry association respectively, to examine the drivers of its development and how this development has been shaped by regulation. The study, which was carried out by the Centre for Financial Regulation and Inclusion (Cenfri) goes on to propose a strategy for the further development of the microinsurance market but this article will extract the key findings of the Brazilian microinsurance market.

MICROINSURANCE MARKET

The Brazilian insurance market in 2009 covered between 40 and 50 million people. Of these, the study estimates that between 23 and 33 million represent the microinsurance client base in Brazil. This represents a small fraction of the potential market, which stands at 128 million and is defined as persons earning below the minimum salary of BRL 465 (USD 270).

While not everyone from the 128 million will be able to afford insurance products, the study goes on to estimate that if the maximum penetration rate of the potential market was between 50% and 60%, there are in excess of 40 million potential clients still untouched by insurance.

MICROINSURANCE PROVIDERS

To date, microinsurance in Brazil is mostly provided by **large commercial insurers** who started marketing products for this market from about 2001. The exception is the large informal funeral assistance market, which comprises of up to 20 to 25 million clients and is served by several large and many smaller funeral homes. However by law, funeral assistance is not considered as insurance.

DISTRIBUTION CHANNELS

A number of innovative **mass market distribution channels** are used by many of the commercial insurers to reach the low-income market and lower their costs. The three largest channels are banks, retailers (see following case study), and marketing through direct mail or call centres to existing client bases of retailers, financial institutions and mobile operators.

In addition to these channels, microinsurance is also marketed via networks of credit agents linked to microfinance institutions, common bond organisations such as trade unions and cooperatives, and finally, door to door sales by brokers.

MICROINSURANCE PRODUCTS AND PREMIUM

The microinsurance products found in Brazil exhibit unique features and are often **bundled products**: On the one hand you have **"benefits in life"**, which includes on top of the usual personal accident coverage or life components, tangible benefits such as discounts at selected stores, food hampers or an assistance call centre; and on the other hand, a **capitalisation component**, which is

contractual saving entitling the policy holder to participate in a lottery draw. As is the case in most countries where microinsurance is developing, the aversion to the topic of death is evident in the marketing of the products, which focus mainly on the tangible benefits and capitalisation.

The fact that capitalisation is allowed has proven a strong stimulus for microinsurance uptake. Insurers are permitted by law to buy a series of capitalisation titles, strip out the savings component and cede the entitlement to their policyholders. The lure of a lottery win has proven critical for the success of many microinsurance schemes.

The microinsurance target market is served by a broad range of products offering different levels of cover. This is reflected in the range of available premiums from BRL 2 (USD 1.12) per month to BRL 50 (USD 29). Benefits range up to BRL 50,000 (USD 28,750) for home owners' insurance and life insurance respectively, around BRL 20,000 (USD 11,500) for personal accident and just below BRL 4,000 (USD 2,300) for funeral assistance.

MICROINSURANCE AWARENESS

The research carried out in this study points towards **a well-informed low-income market**, and confirms that the upward mobility of recent years has bred a new-found consumerism, a sense of being financially empowered, and a strong growth in retail credit extension.

However, clients are not prioritising insurance, indebtedness is on the rise due to the strong growth in the provision of credit and this new reality is creating a spending rather than a savings culture. While the value of insurance is recognised, the market will need some convincing to actually buy insurance. They see the need for regular premium payments as a constraint and currently prefer to cope with adverse financial shocks through loans or family support.

These societal trends raise a warning signal on the risk of the newly-empowered middle market losing the gains of social inclusion through inadequate savings and risk protection. This presents a crucial public policy imperative for developing the insurance market in Brazil.

Another significant find was that the different perceptions of insurance depended on whether or not the individual had a policy. Those without insurance thought it was not only expensive, but were also suspicious about it, based largely on word of mouth

regarding bad claims experiences of people whom they know. Those with insurance, on the other hand, were remarkably aware of the real costs of insurance and believe the benefits to be worthwhile.

REGULATION

The emphasis of the Brazilian government on social and financial inclusion has yielded a number of regulatory changes that have benefited the growth of microinsurance. Paramount amongst these is the introduction of **banking correspondents**. Over 130,000 banking correspondents have been established since the introduction of the regulation, which in turn has created a ubiquitous cash-friendly payment system that reaches even the most remote of Brazil's municipalities. This provides an accessible and relatively cheap avenue for premium collection.

At the same time, the central bank's requirement that 2% of banks' demand deposits be dedicated to microfinance operations have contributed to the growth of credit for low-income clients, spurring the growth in credit life insurance.

Regulation in Brazil has also facilitated the use of new distribution channels. The Brazilian Insurance Code delegates the power to regulate detailed aspects of insurance provision to the CNSP (National Private Insurance Council) and SUSEP (Private Insurance Superintendent). This has allowed these institutions to adjust regulation in response to market developments and since 2002 they have used this flexibility to introduce various regulations that have enabled the introduction of new distribution channels and new products.

CONCLUSION

Brazil now ranks as one of the most developed countries in the field of microinsurance alongside the Philippines, South Africa and India. With an insurance penetration rate of 2.4%, Brazil is the largest insurance market in Latin America. In addition to this, with over 160 companies involved in insurance one way or another, the opportunities for adding value and increasing outreach in the microinsurance sector is evident.

Source:

Hennie Bester, Doubell Chamberlain, Christine Hougaard, Herman Smit, Centre for Financial Regulation and Inclusion, 2010: [Microinsurance in Brazil - Towards a Strategy for Market Development](#)

CASE STUDY: MAFRE SEGUROS' RETAILER DISTRIBUTION MODEL

This case study is one of a series of case studies on alternative and innovative microinsurance distribution models prepared for the ILO's Microinsurance Innovation Facility by the Centre for Financial Regulation and Inclusion (Cenfri).

This case study highlights the success factors in a retailer-based distribution model that was implemented by Mapfre Seguros, one of Brazil's largest insurance companies and Casas Bahia, a large low-income credit-based retailer that specialises in selling home appliances to low-income individuals. The success of Mapfre's retailer distribution model has long served as a benchmark in the microinsurance community.

Mapfre, in partnership with Casas Bahia, designed two insurance products:

- **Proteção Financeira** (Financial Protection), which was launched in August 2004, provides Casas Bahia credit clients insurance for around BRL 36 (USD 20) a year against death and unemployment. In the case of involuntary unemployment, outstanding monthly repayments due to Casas Bahia will be covered by the policy for an amount of up to BRL 100 (USD 56) per instalment for a maximum of six instalments.
- **Vida Protegida & Premiada** (Life Protection and Prize), launched in August 2008, offers life and personal accident cover to Casas Bahia customers for BRL 89.90 (USD 50) a year, with a beneficiary "food basket" in the case of death of the policyholder amounting

to BRL 200 (USD 112) per month over a period of 3 months. Included also in this product is a hospital cash indemnity cover and discounts on pharmaceutical products.

Joint product development and policy administration. Mapfre approached Casas Bahia with the proposal to offer insurance products to Casas Bahia clients. The products were jointly designed by Casas Bahia and Mapfre, and changes to product cover and premiums were made through regular consultations between the two parties.

Large underwriter and a flexible distribution partner. The insurance product distributed through Casas Bahia has had to be changed eight times, with five of these leading to re-pricing. Smaller insurance companies and less flexible retailers may not have been willing to endure all the product amendments.

Cash benefit advertised as tangible goods. Cash benefits for death in the case of Vida Protegida & Premiada is advertised as a food basket, but provided to the beneficiary in the form of a prepaid credit card. This builds on a general theme in the Brazilian microinsurance market where insurance products typically include both in-life benefits and tangible post-life benefits.

Lottery component used to draw clients. As with other microinsurance offerings in Brazil, the capitalisation components of the product Proteção Financeira in this study are often the draw card, advertised as the first benefit of owning the policy, possibly leading individuals to choose a product based on this component rather than the risk mitigation benefit offered by the insurance product.

Advanced IT management systems. Casas Bahia has invested significantly in new technology. This has enabled the company to easily add and monitor the progress of insurance sales through these channels in real-time, thus reducing reporting delays and increasing management's responsiveness to change.

Sources:

Herman Smit and Anja Smith, Centre for Financial Regulation and Inclusion, 2011: [Mapfre Seguros: Retailer microinsurance distribution in Brazil](#)

NETWORK NEWS

MICROINSURANCE NETWORK GENERAL ASSEMBLY 2011

The Microinsurance Network held its General Assembly in Rio de Janeiro, Brazil on Friday 11 November 2011. 50 members attended the meeting, which focused on discussing a new strategic direction for the Network, reviewing the membership fee structure, and presenting an evaluation of the effectiveness and efficiency of the secretariat.

The current funding phase of the Network will come to an end in July 2012 and preparations are underway to establish a new mandate. The recommendations of the evaluation, which was requested by the Network's main funder - The Luxembourgish Ministry of Foreign Affairs - Development Cooperation - will be reviewed and together with the strategic discussions from the 2011 June Member Meeting and the work carried out by the Executive Committee, form the basis for a new strategic plan.

The Network would like to congratulate the following members for their re-election to the Executive Committee: Brigitte Klein from GLZ; Dirk Reinhard from Munich Re Foundation; and Craig Churchill from the ILO's Microinsurance Innovation Facility who will also remain as the Network's Chair.

NEW NETWORK MEMBERSHIP FEE STRUCTURE

To support the funding structure of the Microinsurance Network, the General Assembly approved a new membership fee structure, which will be implemented for the year 2012. **Institutional members** will choose, on an honorary basis, from the following three categories: Institutional (small) - EUR 750; Institutional (medium) - EUR 1,500; Institutional (large) - EUR 2,500. **Individual members** have the one category: Individual - EUR 200.

For more information, please contact the secretariat:
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INTERVIEWING THE CONFERENCE SPEAKERS

In order to highlight the content and diversity of the 7th International Microinsurance Conference, the organisers interviewed a selection of speakers who were panellists in the various sessions:

- **Pricing in microinsurance and the challenges actuaries face** - Howard Bolnick, Chair of the International Actuarial Association's Working Group on Microinsurance and the Microinsurance Network's Actuarial discussion group.
- **The challenges of microinsurance in Brazil** - Eugênio Velasques, Executive Director and Head of Microinsurance at Bradesco Seguros.
- **The role of mass media in insurance education** - Elizabeth McGuinness, Microfinance Opportunities and facilitator of the Network's Insurance Education Working Group and Sarah Bel, ILO's Microinsurance Innovation Facility.
- **Technology in microinsurance** - Peter Gross, General Manager at MicroEnsure Ghana.

For more details visit: www.microinsurancenet.org/networknew-708.php

SPANISH VERSION OF THE BUSINESS PLANNING FOR MICROINSURANCE

The "Business Planning for Microinsurance" is now available in Spanish as well as English. The guide, which describes the main components of a microinsurance business plan and how they should be developed, is published by the Capacity Building Working Group of the Microinsurance Network with the support of GIZ Sector Initiative Systems of Social Protection.

Download Spanish guide:

www.microinsurancenet.org/publication/fichier/MIN_Business_Planning_SP.pdf

Download English guide:

www.microinsurancenet.org/publication/fichier/Business_Planning_2011.pdf

MICROINSURANCE TECHNOLOGY INVENTORY UPDATED

Five new software reviews, on top of the already 17, have been added to the Microinsurance Technology Inventory. These include Microinsurance Administration Systems from Microinsurance Systems, Member Enrolment System from Nearshoring Partners, iPen from Pensoft Systems, HealthSprint from Healthsprint Networks, and On iBusiness from Vayon Insurance Solution Provider. The inventory was launched in 2010 by the Technology Working Group of the Microinsurance Network as an online inventory that both centralises and reviews software systems specifically designed for microinsurance.

For more details visit: www.microinsurancenet.org/Technology-Inventory/index.php



2012 RESEARCH CONFERENCE ON MICROINSURANCE CALL FOR PAPERS

The 2012 Research Conference on Microinsurance will take place between the 11th and 13th April 2012 in the Netherlands. The conference, which will be opened by Princess Máxima of the Netherlands, is being organised by the University of Twente's Institute for Innovation and Governance Studies, with the Microinsurance Network as part of the organisational committee. Karlijn Morsink, who is part of the Network's Academic discussion group, is the key organiser of this conference.

The objective is to assess the state of microinsurance research and provide a platform for further in-depth academic discussions, as a complement and follow-up to the International Microinsurance Conferences. The conference also aims to create a dialogue between researchers from different geographical regions and research disciplines.

For more information on how to submit a paper or participate, please visit the conference website here:

www.utwente.nl/igs/conferences_events/2012_microinsurance

The Microinsurance Network newsletter is published three times per year. The Microinsurance Network is a member-based network and its mission is to promote the development and proliferation of good-value insurance products for low income persons by providing a platform for information sharing and stakeholder coordination with the aim of creating public goods.

To subscribe to this publication in English, French or Spanish, visit www.microinsurancenet.org/newsletter.php

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