

## **Partial Report II Microinsurance – Identification of the Regulatory Barriers in Brazil**

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### **Preliminary Insights**

## **Identifying the Regulatory Barriers for Microinsurance in Brazil**

According to the approved schedule, the SUSEP Working Group on Microinsurance (SUSEP WG) – established by the Ordinance SUSEP 2.960, dated June 12<sup>nd</sup>, 2008 – shall, in its second Partial Report, submit to the Superintendent a study in which are identified the eventual regulatory barriers to the implementation of an environment favorable to the development Microinsurance in Brazil, and its various modalities.

As a starting point for such studies, SUSEP WG considered it expedient to adopt the following strategies:

- i) Analysis of the main complementary laws and rules that regulate the insurance sector.
- ii) Hold meetings with the principal representatives of insurance companies and insurance brokers with the objective of hearing the points of view of representatives from the private sector, with operating expertise of the products and the market knowledge, that make up the National Council of Private Insurance.
- iii) Considering the active participation of SUSEP at the IAIS-CGAP Joint Working Group on Microinsurance (JWG-MI) and at the IAIS Subgroup on Microinsurance, – both chaired by the Superintendent of SUSEP – to adopt as main references the paper “*Issues in Regulation and Supervision of Microinsurance*” and the works carried out by members of these working groups; experts known in the financial and insurance sector, notably, the paper “*Making insurance markets work for the poor: Microinsurance policy, regulation and supervision*” (BESTER, H.)

## Insurance Legislation Analysis

### Regulation as Tool of Public Policy

According to the paper “*Making insurance markets work for the poor: Microinsurance policy, regulation and supervision*”, Governments use three aspects of public policy to achieve the purpose of influencing markets: policy, regulation and supervision.

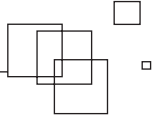
The word “**policy**” denotes the professed intention of a government with regard to how it intends to control its financial sector and the goals it is willing to reach. This policy may be envisioned as a white paper (relatório branco), but may also be professed in a more encompassing way, through public manifesto and speeches, in the preamble of the legislation or, also, in other papers.

**Regulation** includes the various legal instruments and their associated authorities – which is as much the main legislation as the complementary rules and regulatory acts subordinate to it – and that together include the regulatory body or the regulatory structure related to insurance. The regulator may publish guidelines relative to the regulation, in the form of circulars and memoranda. These, although not acts of law, may be converted into associated legal regulations, if required.

**Supervision** describes the functions through which the country seeks to ensure the compliance with the regulation.

Regulation, however, also includes the action of regulating the insurance market to achieve the political purposes determined by the Government that seeks:

- **Stability of the sector**, ensuring the strength of the providers through capital requirements, corporate governance, qualifying, including, but not limited to, the regulation structure issues.



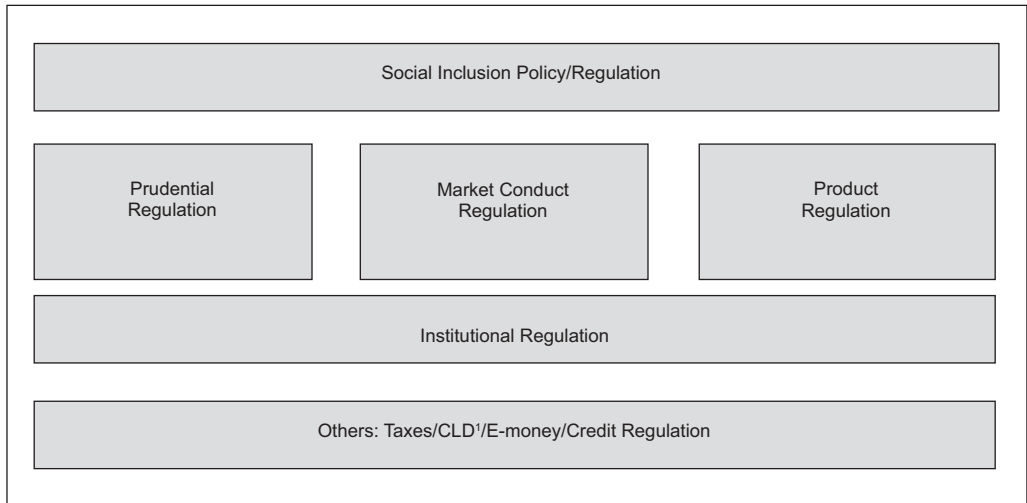
- **Consumer protection**, that, although is already envisaged in the previous purpose, produces direct reflections in the market conduct and intermediation regulation.
- **Market efficiency promotion**, preventing anti-competitive behavior and information asymmetry.
- **Market development**, or more specifically, financial inclusion.

There may also be established other strategic purposes that include, for example, the prevention and control of financial crimes, as required by international standards, or the strengthening of a less favored segment of the population, such as in the case of Microinsurance regulation.

## Insurance Regulatory Structure

The figure below presents the regulatory structure with the different regulation classes used to influence the participants of the insurance market. It may also be used to evaluate the impact of the policy and regulation on the development of the Microinsurance markets under study.

**Figure 1**



Source: Bester, H., Chamberlain, D. and Hougaard, C., to be published. *Making insurance markets work for the poor: Microinsurance policy, regulation and supervision.*

<sup>1</sup> Combating Money Laundering (CLD).

The Social Inclusion Policy and/or Regulation refers to the policy or regulation enacted with the purpose to extend the access and use of formal financial services to people who are excluded or those who do not use formal financial services (that is, financial services provided by licensed and supervised financial institutions). The Government may choose not to regulate financial inclusion, but, instead, simply adopt explicit policies and, in this sense, encourage the provision of these services. Although not acts of law, they still impact directly on the provider's conduct.

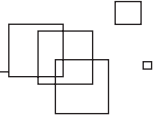
Prudential Regulation seeks to ensure that insurance providers comply with the agreement obligations undertaken by those assured. This occurs, for example, by establishing minimum capital and compliance requirements through a set of regulations that govern the insurance company operation.

Market Conduct Regulation refers to the regulation of delivery or intermediation of the insurance products, that may include, for example: requirements for individual persons and/or legal entities engaged in the insurance intermediation, qualifying requirements for the agents and brokers and other intermediaries, regulation of sale procedure, including transparency requirements, regulation of commissions payment, etc,

Product Regulation aims at ensuring consumer stability and protection through the regulation of the type and structure of the insurance products and may include, for example: i) the record and previous approval of products; ii) compliance with standards regarding simplification, standardization, documentation, period of coverage, exclusions, etc.; iii) the establishment of maximum and minimum premiums by class of product; iv) service rendering through certain forms of providers (such as the insurance provision only by joint stock companies); and v) obligation to afford specific compulsory products.

Institutional Regulation refers to the requirements that determine the legal format of legal entities (for example: joint stock companies and cooperatives) and usually it is not specific for the insurance sector, but common to all the sectors.

Other regulations may also impact on the development of the Microinsurance market. Though they are not specifically intended for the insurance sector, they cause impact in the underwriting and intermediation of insurance products and may include measures related to combat money laundering, tax, regulation of the payments system (with impact in the premiums collection networks and/or bank fees), of the microfinance sector and the credit in general.



## Assortment and Analysis

With these concepts in mind, SUSEP WG initially sorted, for analysis, the laws and rules that, according to its understanding, are included in the regulatory structure currently in force and that may exercise some influence on Microinsurance regulation. The legislation was separated and grouped by subject matter in Annex I – Legislation Analyzed, which topics had, as reference, the IAIS Insurance Core Principles (PBS).

The analysis performed considered Figure 1 above, to evaluate the impact of the regulation currently in force for Microinsurance market development, taking into account not only the barriers that exist, but seeking also to identify the opportunities and gaps in the legislation and, further, the risks and threats resulting from the non-existence of protection factors, as much for the market stability as that of the insurance consumer.

Following, is presented the analysis performed.

## Social Inclusion Policy

Firstly, it is important to highlight that the Brazilian Government has established explicit policies with regard to the microfinance namely, and including, insurance provision for the low-income population:

- Facilitating and extending the access to credit among formal and informal micro-entrepreneurs, with a view to generating income and work;
- **Facilitating and extending the access to financial services (bank account, savings, insurance, credit) for the low-income population**, increasing a sense of *citizenship*;
- Extending the number and participation of credit cooperatives in the Financial System; and
- Reducing the informality and interest rates in financing.

Among the various actions defined by the Government to achieve the outlined purposes, is to make available financial products and services that are tailored to the economic-social reality of the low-income population and formal and informal micro-entrepreneurs, among which is included simplified and low-cost insurance. As a result, SUSEP encouraged the marketing of so called “popular insurance”, by publishing circulars; obtaining quite a high degree of success, given the market had arisen for population sectors previously ignored. The analysis of the results achieved by publishing such rules is performed in the “Popular Insurance” topic, in Products Regulation.

## Insurance Sector Regulatory Milestone

It was considered as appropriate to begin the analysis of the legislation with Decree-Law 73, dated November 21<sup>st</sup>, 1966, since this is the insurance sector regulatory milestone that determined the purposes of private insurance policy in Brazil, creating the National System of Private Insurance and defining the authorities of the National Council of Private Insurance (CNSP) and the Superintendence of Private Insurance (SUSEP). Subsequent to this, analysis was made of the Decree 60.459, dated March 13<sup>rd</sup>, 1967, and which regulated it.

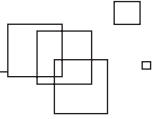
### **Decree-Law 73, dated November 21<sup>st</sup>, 1966**

It may be concluded, from the analysis carried out by SUSEP WG, that Decree-Law 73/66 does not present any relevant barriers and constraints to the implementation of a favorable regulatory environment for Microinsurance development in Brazil. Furthermore, it offers sufficient flexibility to permit the establishment of regulatory conditions for Microinsurance activity within the scope of the CNSP and SUSEP. The integration of the insurance market into the socio-economic process of the country is inclusive and a part of insurance policy purpose clearly established in paragraph I of the Article 5<sup>th</sup> of Decree-Law 73.

The only constraint initially noted would be associated with the legal nature of the providers, if the intention is to encourage the entry of other legitimate forms of providers, other than those already existing, which would be limited to Joint Stock Companies and Cooperatives, the latter being specific to agriculture, health and workers' compensation insurance (Article 24). Thus, it is important to remember that, in other jurisdictions, it is common to have the existence of mutuals and cooperatives acting within the provisions of microinsurance<sup>2</sup>.

Article 32 rules that the CNSP authority, has: i) to establish the guidelines and rules of the insurance policy; ii) to regulate the formation, organization, operation and supervision of those entities that perform insurance activities; iii) to set out technical conditions, investments and other property relationships of the insurance companies; iv) to set out the general characteristics of insurance agreements, in addition to the general accounting and statistical standards to be observed; v) to delimitate the capital of the insurance companies, allowing the possibility of defining the different criteria for Microinsurance providers; vi) to define the criteria of the insurance companies' structure, specifying the

<sup>2</sup> Survey on role of mutuals, cooperatives and community based organizations in Microinsurance – An Analysis of Responses (Draft).



legal and technical limits to their operations; and vii) to regulate the insurance brokerage and the brokerage profession, that would enable the creation of a new type of broker that is expert in Microinsurance.

**In view of these aspects, SUSEP WG believes that microinsurance, in respect of operating, technical and contractual issues may be regulated by CNSP, with SUSEP being responsible for (Article 36), as executor of the policy outlined by CNSP and as the supervisory agency: i) licensing new providers; ii) establishing instructions and issuing circulars related to the regulation of their operations; and iii) specifying agreement, policies and ticket conditions and supervising the providers operations.**

It is also highlighted from the analysis of Decree-Law 73/66, issues related to:

- **Capital, Technical Reserves and Investments**

Decree-Law 73/66 (Articles 28 and 29, paragraphs III and VI of the Article 32, Article 79 and Article 84) delegates to CNSP the defining criteria applied to the technical reserves of the insurance companies, as well as their compulsory investments that will assure their solvencies. In Article 32 especially, it is noted an evident opportunity for CNSP to establish differentiated criteria for Microinsurance providers, including those pursuant to minimum capital requirements (paragraph VI).

Furthermore, Article 79 delegates to SUSEP the authority to establish technical limits in compliance with the rules approved by CNSP, which would specify, under legal regulations, technical limits for the Microinsurance providers.

- **Licensing**

Article 78 establishes, as being compulsory, the specific authorization according to the type of insurance commercialized in compliance with the rules approved by CNSP. And Article 72 confirms this in Articles 32 and 36 of Decree-Law, that specifies the authority of SUSEP and CNSP, in respect of the authorization for operating within the insurance companies, creating the possibility of a specific authorization for Microinsurance providers.

Although the licensing topic is to be analyzed in more detail in “Licensing”, in consideration of the provisions of Article 73 of the Decree-Law that determines the exclusive activities of the providers to provide insurance services, SUSEP WG understands that special attention should be given to the subject matter, in the event of interest to characterize some rendering service companies currently existing as Microinsurance providers, such as, for example, funeral care companies.

- **Funeral Care Insurance**

Here, an opportunity may be identified for Microinsurance that is considered a threat to the stability of the insurance market in view of the protection afforded by these companies, with insurance features, to a relevant part of the population, whose interest focus is principally intended for the low-income sectors.

In this sense, it is worth mentioning that in other jurisdictions, funeral insurance is one of the main Microinsurance products, attaining a large penetration percentage, principally in the poorest sectors of the population of emergent countries.

This is the case in South Africa, where it has achieved a high penetration ratio, with access to services occurring, in the main, with large informal programs.

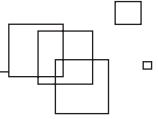
In Brazil, up to 2001, Law 6.435/77 (Article 6) permitted the existence of funeral care services simply by not determining, as being a private pension activity, the creation of a simple foundation of private property due to death, where the value was small and managed solely as a co-insurance amongst the participants. This Law was revoked in 2001 by the Complementary Law 109, dated May 29<sup>th</sup>, 2001, which ended this situation, making these entities lose any support, as much in the scope of the private pension as in the insurance legislation, and since its provision is not noted in the Decree-Law 73/66.

In 2004, the CNSP Resolution 102/2004<sup>3</sup>, that differentiates “insurance coverage” from “care services”, permitted the rendering of services for funeral care, since the purpose is not to pay back, that is, there is no money reimbursement of any kind.

With regard to this subject matter, it is important to observe that the paper “*Issues in Regulation and Supervision of Microinsurance*”, based on the lessons learned with the micro-finances regulation, clearly recommends that it should not regulate what it can not supervise. This kind of provider under the scope of SUSEP and CNSP supervision and regulation would have to take into account the inherent reputed risk for the insurance market.

However, unlicensed insurance plans may be harmful, especially to low-income households. Lack of timely action by the sectors in charge – whether due to the non-existence of proper regulation or by failure of the supervisory structure – may result in the Govt. having to intervene with costly remedial actions, because of the failure of the informal programs to comply with the responsibilities undertaken, and having to correct practices that could have been avoided.

<sup>3</sup> CNSP Resolution 102 is regulated by SUSEP Circular 310/2005 that, on the other hand, was amended by SUSEP Circular 318/2006.



Thus, if the creation of a specific branch for “funeral care” or “funeral insurance” is to be considered, SUSEP WG recommends that, firstly, an evaluation of the existing companies that provide this type of coverage is performed, through specialized surveys intended to find the potential of this sector for the insurance market in the country.

- **Applicant**

The definition of the “applicant” is given by the Article 21 of Decree-Law 73/66, that, in § 3, delegates to CNSP the authority to establish the rights and responsibilities of the applicant in the regulation of each insurance branch or modality. Special attention should be given to this issue, establishing the specific conditions for the Microinsurance applicants, especially in respect of consumer protection, since the applicant is the representative of the assured.

- **Brokers**

Pursuant to contracting insurance via a broker, this is not noted in the terms of Decree-Law 73/66 as being mandatory. Article 9 only mentions that the contracting will occur “*upon application forms signed by the assured, its legal representative or via qualified broker*”. However, according to Article 122, the insurance broker would be the intermediary legally authorized to contract and to promote insurance agreements between the insurance companies and assureds.

The issue is very important, since the flexibility of delivery channels is an essential condition for the Microinsurance development and shall be analyzed in more details in the topic “Intermediaries”.

- **Contracting through tickets**

Article 10 of Decree-Law 73/66 enables the contracting of insurance through tickets upon oral request by the assured, delegating to CNSP the authority to regulate these cases, which clauses and forms should, necessarily, be standardized.

If it is convenient to enable the contracting of Microinsurance products by this way, it is necessary to observe carefully the conditions set out in Article 11 in order not to prejudice the consumer that, in the case of microinsurance, due to its hypo sufficiency, not only economic, but also due to low education level, requires differentiated legal support.

The information that shall be included in the tickets, policies and certificates are defined by Article 83, making CNSP liable for setting out the general features of the agreements, allowing margin for establishing differentiated parameters for the Microinsurance products. This theme shall be analyzed, in details, in the topic “Insurance Contracting”.

- **Workers’ Compensation Insurance**

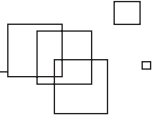
SUSEP WG identifies in Article 24 of Decree-Law 73/66 – that provides the action of the cooperatives in the provision of workers’ compensation insurance – what might be an excellent opportunity for the Microinsurance sector from the regulation of the Constitutional Amendment 20<sup>4</sup> for both the insurance sector and the society, considering the social reach of the provision in large scale of these services and the exoneration of the country.

Regarding this matter, it is important to clarify that, up to 1967, workers’ compensation was covered by policies contracted by employers with the insurance companies. In 1967, Law 5.316/67, it became compulsory to provide workers’ compensation insurance and attributed responsibility for its payment to the Social Security, and comprising all workers, including temps and prisoners performing paid activity. The accident concept was also extended to events that occur on the way from home to work and vice versa, resulting in the extension from professional risk to social risk. The Social Security implemented programs for accident prevention and professional rehabilitation. After long discussion on the flexibility and peculiarities related to the operations of the Workers’ Compensation Insurance in the National Congress, the Constitutional Amendment 20, dated December 15<sup>th</sup>, 1998, through §10 of the Article 201, transcribed below, allowed the marketing of this insurance modality by the private sector.

“§ 10 – Law shall regulate the workers’ compensation risk coverage, to be simultaneously served by the general regimen of social security and by the private sector.”

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<sup>4</sup> It changes the system of social security, establishes transition rules and set other arrangements.



The specific law shall, however, regulate the worker's compensation insurance that may, at the employer's discretion, remain under the coverage of the Social Security or freely contracted with private providers. But such a Law was not enacted; the workers' compensation insurance remains exclusively the domain of Social Security. While a law regulating the workers' compensation risk coverage by the private sector remains off the statute, workers' compensation remains outside the scope of the Superintendence of Private Insurance (SUSEP).

### **Decree 60.459, dated March 13<sup>rd</sup>, 1967**

As previously mentioned, Decree 60.450/67 regulated Decree-Law 73/66, confirming the understandings and/or allowing the clarifying of some issues identified in its analysis.

- **Supervision and Regulation**

Articles 21 and 34 of Decree 60.459/67, established CNSP and SUSEP's authority, confirmed the conditions set out respectively in the Articles 32 and 36 of Decree-Law 73/66, with respect to market regulation and supervision.

SUSEP is also liable for: i) providing the qualification and record of the insurance brokers, supervising their activities and applying to them the proper penalties; and ii) proposing to CNSP the appropriate conditions that shall satisfy the managers and members of the Audit and Consultative Committee of the Insurance Companies.

- **Licensing**

According to Article 42, the authorization for operating should be afforded through Ministry of Finance Ordinance, upon request of the stakeholders addressed to CNSP and submitted by SUSEP. But in practice this authority is delegated to SUSEP<sup>5</sup>.

- **Compulsory Requirements**

Article 63 establishes (but is not limited to), the mandatory obligations by the insurance companies to publish annual balance sheets and to send data according to rules from SUSEP. In this case, differentiated criteria may be specified by SUSEP for the Microinsurance providers.

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<sup>5</sup> Ministry of Finance Ordinance 151, dated June 23<sup>rd</sup>, 2004.

- **Applicant**

Article 19 of Decree 60.459/67 defines in its paragraphs “applicant” in the same terms that it is defined in Article 21 of Decree-Law 73/66, delegating to CNSP the authority to establish rights and responsibilities.

- **Brokers**

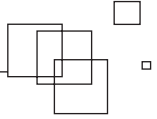
Article 100 of the Decree 60.459/67 defines “insurance broker” as the definition provided for Law 4.594/64 that regulates the insurance broker profession, characterizing him or her as the intermediary duly authorized to contract and to promote insurance agreements between the insurance companies and the assureds. In its single paragraph, it allows for the broker to appoint employees of its free choice, as Article 12 of Law 4.594/64, duly recorded at SUSEP (sole paragraph of the same article of the Law).

Article 101 delegates to SUSEP the authority to define the broker’s qualification and record.

Article 104 provides for the possibility of direct contracting, without a broker. In this event, the commissions – that as a rule may only be paid to the duly qualified insurance broker (Article 103) – were firstly collected to IRB to use without specific purposes. In addition, Article 19 of Law 4.594/64, of which the terms were amended by Law 6.317/75, established that, for direct contracting, the amount charged by way of commission was collected to the Educational Development Fund of the Insurance, managed by the Escola Nacional de Seguros – FUNENSEG, which resources are intended for creating and maintaining: i) schools and courses for professional qualification and improvement of insurance brokers and employees; and ii) specialized libraries. In this event, the possibility of direct contracting including a review by the market relative to commission percentages of these specific cases (that could be reduced to a symbolic baseline if applied to Microinsurance marketing) would have direct impacts in the product costs.

- **Contracting through tickets**

Article 2 of Decree 60.459/67 establishes that contracting through ticket may be effected by simple issue, without the need for the signature of application form, reducing and simplifying the contracting procedures.



- **Premiums Payment**

Article 6 establishes conditions related to the premiums payment and coverage period, as well as for the contracting made by insurance tickets and for those by policy issue. § 2 of this Article establishes compulsory premiums collection by banking institutions, in compliance with SUSEP and Central Bank instructions, emphasizing the importance of the role the banks play as an essential tool in the procedures of Microinsurance premiums collection.

For the cities with up to 10.000 inhabitants, Article 105 also provides for insurance contracting by simple aggregators, where there are no brokers recorded in the location.

Article 7, delegates to SUSEP the authority to specify the conditions to pay the insurance premiums in installments, giving rise to an essential issue for Microinsurance – the flexibility of the premiums payment – principally if we consider the variable flows of income that less fortunate people are subject to, highlighting those whose activities depend on annual cycles and/or whose occupation is classified as informal activity.

## **Prudential Regulation**

With regard to prudential regulation, it is necessary to know the regulatory cost and the size of the companies that shall operate microinsurance. The size factor is relevant due to the premiums charged by microinsurers, since in order for the company to have a profit margin, and taking into account the prudential rules currently in force, a large amount of participants would be required to make the operation viable and to mitigate the risk, in addition to bearing the acquisition and administrative costs. To manage a large amount of participants in this way (database, tickets issue, reserves constitution and application, losses payment), by assumption, a minimum structure would be required, consistent with that of middle and large size companies.

## **Supervision Fee**

SUSEP supervision fee was created by Law 7.944, dated December 20<sup>th</sup>, 1989. Its generating mechanism is the SUSEP policy authority and as a parameter the insurance companies/entities solvency margin, calculated according to the criteria defined in CNSP Resolution 02/89.

The current values for the solvency margin ranges, for charging the rate, are those contained in the schedule attached to Law 8.981/95 and also published in SUSEP Circular

12/1996. The calculation of the solvency margin to classify in the rate collection schedule is in accordance with the conditions set out in Article 5 of CNSP Resolution 2/98.

The values of the supervision fee are calculated according to: type of activity, operation of the head office and number of federation units where the insurance company accepted risks. The fee is charged quarterly.

Today, the lower limit of solvency margin established in SUSEP Circular 12/1996, by type of activity, includes the range from zero to R\$4,143,500.00, which corresponds to a quarterly fee of R\$5,800.90 at the head office and R\$290.05 by Federal Unit where the insurance company has a risk in course.

If these fees are likely to be barriers to entry, the possibility to create a lower range to include the smaller companies could be considered.

Another option would be to establish smaller regions of action for small size providers, which would specify a distinct supervision fee and likely a smaller exposure to risk. In this case, it would be also necessary to consider the consequences for the supervision procedures.

## Licensing

The companies' formation is the crucial moment, in terms of access to the market, since in this phase an initial selection of who shall operate Microinsurance is made.

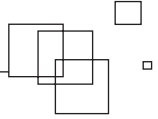
CNSP Resolution 166/2007 that set out the requirements and procedures for the formation, authorization for operating, transfer of corporate control, corporate reorganization, and authorization cancellation for the entities operation, determines in Article 5.

**“Article 5.** The companies' formation referred in Article 1 shall be subject to the following conditions, and shall be examined, for satisfaction, by the Superintendence of Private Insurance:

II – presentation of business plan, portfolio actuarial technical note and definition of the corporative governance standards to be observed, as defined in the legislation and regulation in force;

III – appointment of the corporate control group;

IV – demonstrating the economic-financial capacity consistent with the size, nature and purpose of the venture, to be satisfied, at discretion of the Superintendence of Private Insurance, individually by controlling shareholder, or controlling group”.



However, the business plan, according to Article 4 of SUSEP Circular 311/2005 shall present, at least, the following items:

- “I – strategic purposes of the supervised company;
- II – details of the organizational structure, consistent with its business plan and with clear definition of the responsibilities attributed to the several levels of the company supervised;
- III – description of the economic environment in which the company or entity supervised expects to negotiate;**
- IV – financial estimates, showing the property development in the period, with identification of the source of funds that make this development possible;
- V – investment policy;
- VI – company policy related to information technology;
- VII – branches of insurance where the company or entity supervised intends to act and the estimate share of such branches of insurance in its total revenue; and
- VIII – reinsurance policy.”

The description of the economic environment provided in paragraph III shall consider the following parameters:

- “I – interest rate, estimated for the following:
  - basic rate for the economy
  - asset remuneration rate; and
  - liability remuneration rate.
- II – estimated inflation
- II – estimated economic expansion rate, considering the ratios of economic performance more associated with the sales revenue expected.”

According to the preceding, the Business Plan is a paper that includes the business features, the way the provider operates, its plan to obtain market shares and the estimates of outcome, income and financial results.

As it may be noted, the requirements to obtain the authorization to operate in insurance may represent relevant costs for small size entities, therefore certainly being entry barriers.

Thus, if the intention is to encourage access to the Microinsurance market for different types of providers, this subject matter could be reconsidered by SUSEP, which would be to require in whole or in part the necessary papers for the licensing, taking into account

the features of the company, in a similar way to that already established by the National Agency of Supplementary Health (ANS)<sup>6</sup>.

It should also be taken into account that Civil Code of 2003 approximated the legal regimen of the other companies (for example, the limited liability companies) with that of the joint stock companies, as the code created more public requirements for the other companies, thus increasing the costs for other legal forms.

## Capital Adequacy and Solvency

As already noted in the analysis of Decree-Law 73/66, CNSP has the authority to define the criteria for applying the technical reserves of the insurance companies, as well as their compulsory investments, in order to assure their solvency, allowing CNSP to establish different criteria for microinsurance, including minimum capital requirement.

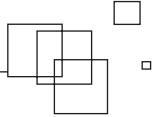
SUSEP would be liable for establishing the technical limits in compliance with the rules approved by CNSP, enabling the specification of a technical limit for the Microinsurance providers under legal regulations.

With regard to this theme, CNSP Resolution 073/2002, that specify the rules of minimum capital, and CNSP Resolution 178/2007, that amends the first, were also analyzed.

It was noted that it would be possible to amend the rules with a formula to calculate the minimum capital, specific and proportional to the risk accepted by the insurance companies that shall operate with microinsurance. In fact, it would be sufficient to promote the amendment of Annex to CNSP Resolution 178/2007 or the preparation of a resolution dealing solely with the “Minimum Capital Required” for insurers operating with microinsurance.

Concerning the requirements related to the type of investments associated with microinsurance, if the intention is to encourage the entry of small providers, in the face of the possible limitation of experience and knowledge available internally, the recommendations contained in the paper “*Issues in Regulation and Supervision of Microinsurance*”, must be considered. Meaning that all investments of small microinsurers are “*based on prudence guidelines specified by the insurance supervisor*”. The investment strategy could be simple, direct and not require significant analysis, and should consider the legal form, the branch operated, and the type of products. Accordingly, the *paper* further suggests that the Government and Brazilian Central Bank assist in the

<sup>6</sup> Article 5 of the Normative Resolution 85/2005 takes into account the segmentation and classification of the health provider.



creation of appropriate savings tools that take into account the specific requirements of the insurers engaged in the microinsurance.

## **Internal Controls**

SUSEP Circular 249/2004 that specifies the implementation of internal controls system in the insurance companies, determines, in its 1<sup>st</sup> Article, that supervised entities should implement internal controls of their activities, information systems and be in compliance with laws and regulations applicable to them, and, in its sole paragraph, states that the internal controls, regardless of the size of the company or entity, should be effective and consistent with the nature, complexity and risk of the operations performed.

The 2<sup>nd</sup> Article defines the responsibility inherent to the board of the company, such as: i) the definition of activities and levels of control for all businesses; ii) the purposes of the control mechanisms and their procedures and the examination of the adoption and fulfillment of the procedures defined; iii) the continuous evaluation of the various types of risks associated with activities; iv) the monitoring and implementation of the policies of compliance, prevention against frauds and underwriting.

According to the 3<sup>rd</sup> Article, the internal controls cannot fail to predict the activity of internal audit that, when not performed by specific branch of the insurance company or entity part of the same financial conglomerate, can be carried out by an independent auditor, other than that in charge of auditing the financial statements. In the 9<sup>th</sup> Article there is also an appointment of the director in charge of the internal controls.

Thus, the compliance with the rules, in addition to agreement with international principles accepted globally, results in the creation of efficient and effective risk control mechanisms, with positive effects not only for the supervised entity, but also for the stability of the insurance market.

Nevertheless, the process of implementation of mechanisms depending on the size of the provider may require significant initial investments (for example: training and qualification of staff, computerized systems of control, specialized consulting, auditing, etc.), which, although being costs that could be absorbed over time, they also may represent a barrier to new legal forms of small size providers, since the insurance companies currently in operation are showing capacity to promote changes required by SUSEP Circular 249/2004, partly because the internal controls must be consistent with the nature, complexity and risks of the operations performed.

Therefore, if there is an intention to encourage the entry of small providers of a different type to those existing under the current legislation, or even to promote the formalization

of entities acting to provide insurance, transitory rules must be devised, in order to not allow these providers be completely free of developing control mechanisms.

## Accounting Standards

CNSP Resolution 86/2002 (amended by SUSEP Circular 371/2008) specifies the accounting standards that should be observed by the insurance companies.

With regard to the accounting standards, the issues related to possible entry barriers is associated with size and other characteristics of the entity that will operate with microinsurance. In the case of small size insurance companies, the costs relating to the possible outsourcing of services of accounting, auditing and publication of financial statements could turn out to be an entry barrier.

Insurance companies are required to publish their financial statements in a major newspaper, with the purpose of publicity and transparency in the market. Furthermore, these financial statements should be audited by independent auditors that are registered with the Securities Commission (CVM).

The Financial Statements, containing Management Report, Explanatory Notes, Balance Sheet, Income Statement, the Sources and Applications of Funds and Changes in Equity, and the related Report of the Independent Auditors shall be published at least 5 days prior to the Annual General Meeting, when dealing with an operator governed by Articles of Incorporation, except for cooperatives.

The Balance Sheet and Income Statement should be published in a comparative format held against the financial statements for the previous year.

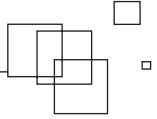
These publishing costs can be significant for the small size insurance companies. To cite an example, publishing a half-page balance in a major newspaper<sup>7</sup> costs about R\$ 50,000.00.

Thus, if there is interest in encouraging the entry of new small size providers within the Microinsurance market, standards issued by the CNSP could exempt these entities from publication of financial statements, since SUSEP provides publicity to these statements via internet, similar to what is done in the SUS (National Health Agency).

Also in order to minimize costs of audit fees, SUSEP could negotiate with the Institute of Independent Auditors of Brazil (Ibracon) (part of class of the Audit Companies) a limited model of accounting review, considering the size of the operator, with the minimum information necessary for the regulator agency.

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<sup>7</sup> The example mentioned refers to O GLOBO newspaper.



## Compulsory Reports

According to the provisions of Article 21 of the CNSP Resolution 118/2004, the companies supervised by SUSEP are required to contract companies of independent auditing to produce the following documents:

- audit opinion to express its theory upon the fact that the financial statements and explanatory notes were prepared pursuant to the accounting practices adopted in Brazil, including the adequacy to the accounting standards issued by the CNSP and SUSEP;
- detailed report on the adequacy of accounting procedures and information disclosure practices in the financial statements;
- detailed report on the non-compliance with legal and regulatory provisions that have, or may have, relevant impacts on financial statements or on the operations continuity of the audited supervised entity; and
- detailed report on the adequacy of internal controls to the risks sustained by the supervised entity, highlighting the deficiencies found.

Furthermore, Article 26 of the same Resolution sets out the requirement that independent auditors must produce an evaluation report on the information provided in the Quarterly Questionnaires contained in the Periodical Information Form (FIP).

Still referring to the mandatory reports, the CNSP Resolution 135/2005 creates the obligation to perform actuarial evaluation on an annual basis. The actuarial evaluation should be subject to the analysis of independent auditors in order to accomplish the actuarial audit, it being compulsory to send the report to SUSEP.

Thus, if there is interest in encouraging the entry of other legal forms of small size providers in the Microinsurance market, CNSP rule could reduce the audit reports requirements or create simpler reports standards, that do not demand excessive audits, in order to reduce costs without compromising quality.

## Sending Compulsory Data and Detailed Records

As already noted, Decree 60.459/67 sets the requirement by the insurance companies to send data, according to the criteria established by regulations issued by SUSEP, which would allow the review of the criteria for the Microinsurance providers, objectively and principally aimed at creating Microinsurance database.

The main rules in force on the subject matter are SUSEP Circular 360/08 and SUSEP Circular 326/06.

SUSEP Circular 360/08 sets out the obligation to send the Periodical Information Form and additional statistics data. Maintaining a control system and sending such data, although requiring some effort, does not represent a significant burden for the companies, especially for the branches usually associated with microinsurance. The relevant fact is that these dispatches are vital for monitoring the supervision activity of SUSEP, consisting of valuable information for the supervised entities themselves, and it would be unwise to simply ignore them.

A viable alternative, if there is an intention to encourage the entry of small providers of a different type to those existing under the current legislation, would be the adoption of a simplified form format.

And the SUSEP Circular 326/06 applies to the policies and endorsements records.

“**Article 1.** Regulates the record of policies and endorsements directly issued by the insurance companies in specific and exclusive accounts for this purpose.

*Single Paragraph.* The provisions contained in this Circular do not apply to home/housing insurance of the National Housing System, ....., as well as to other branches of insurance operating through tickets.”

The mandatory record of policies and endorsements has, initially, implications for the cost of the product by requiring the creation of control mechanisms and would be totally outside the scope of microinsurance.

## Control Changes and Portfolios Transfer

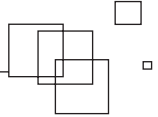
The following were analyzed: SUSEP Circular 298/2005 on prior approval of the acts performed by the insurance companies, CNSP Resolution 079/2002 on the portfolios transfer, and SUSEP Circular 217/2002 and SUSEP Circular 263/2004 detailing the transfer procedures.

The analysis of these normative acts did not reveal any regulatory barrier to the Microinsurance operation, and may be adopted as standard per equivalence.

## Market Conduct Regulation

### Intermediaries

With regard to the activity of the insurance broker, the following were analyzed: Decree-Law 73/66 and Decree 60.459/67: Law 4.594, dated December 29<sup>th</sup>, 1964 (amended



by the Law 7.278/84 and Law 6.317/75) that specifies the professional qualification of the insurance broker; CNSP Resolution 81/2002 that sets out conditions for the insurance brokers, individual persons and legal entities, of General Insurance and Life Insurance; Resolution CNSP 149/2006 that sets out conditions on minimum technical certifications of the employees and similar of insurance brokers; and Resolution CNSP 179/2007, that interrupted the deadlines on the CNSP Resolution 149/2006.

It may be noted from the analysis of Decree-Law 73/66 and Decree 60.459/67 that contracting through an authorized broker is not required. And the paragraph 2 from Article 13 of Law 4.594/64 clearly permits direct contracting between assured and insurance company, without intermediation by a broker.

In Article 18, Law 4.594/64 determines:

**“Article 18.** The insurance companies, comprised of their headquarters, branches, subsidiaries, agencies or representatives, may only receive a proposal of insurance agreement:

- a) through duly authorized insurance broker;
- b) directly from the applicants or their lawful representatives.”

Therefore, there are no barriers to delivery channels other than the insurance brokers, creating a favorable environment for the microinsurance, since the flexibility of these channels is a key point in the process of marketing.

Supervisors and regulators, however, must be prepared for the emergence of new delivery channels such as: banks and their correspondents, retail chain stores, utilities (electricity, gas, etc.), post offices and, recently, payment via mobile phones and internet.

It is also necessary to consider the reputational risks included in the inappropriate marketing of that type of product, considering the anticipated low level of education of potential consumers. Therefore, it is important that intermediaries engaged in the Microinsurance activity are motivated and trained to provide sufficient information to enable the client to make an informed decision. This situation should be considered by the regulator.

For this reason, the authorization of a specialized broker in microinsurance, with a minimum qualification, and who is, preferably, coming from the poor communities where there is an intention to commercialize microinsurance, may have very beneficial effects for the whole process. These agents, by working closely with the clients, are able to understand more clearly their needs.

Accordingly, the Article 3 of Law 4.594/64 establishes the criteria for obtaining the broker position and, in paragraph “e”, specifies the need for a professional technical qualification related to the branch.

Article 4 determines that the fulfillment of the requirement in paragraph “e” “may” consist of proven compliance with completion of a professional, technical, official or recognized insurance course (paragraph “a”).

It may be noted the existence of an opportunity for establishing a differentiated technical course for brokers specializing in microinsurance, with less strict criteria, but sufficient to perform the activity. And, as established by Decree 60.459/67, the qualification and registration of these professionals would be under the supervision of SUSEP.

In this case, CNSP Resolution 81/2002, that sets out the activity of the insurance brokers, does not apply to the Microinsurance sector. And the CNSP Resolution 149/2006 dealing with the minimum technical certification of employees and similar of insurance brokers would have to be revised.

Regarding the Applicant, the new Civil Code provides that in the case of wrongful ownership or retention of the premiums by the applicant, a suit may be brought against him or her and not against the insurance company, since the applicant is the direct representative of the assured. For this reason, special attention should be given to this issue, including specific provision in the regulation that allows the proper protection to the Microinsurance assureds against improper practices by the applicant, especially in case of “open policies”.

## Policy Costs

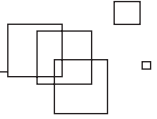
The rules applicable to this subject matter are the following:

- **CNSP Resolution 15/98** – delegates to the Superintendence of Private Insurance the definition and criteria for charging the policy, invoice and endorsement costs.

The analysis verifies that this normative does not cause any obstacle to the creation and/or development of microinsurance.

- **SUSEP Circular 176/01** – establishes criteria for charging the policy cost.

“**Article 2.** It is permissible to charge an issue cost up to the limit of R\$60.00 (sixty Brazilian Reais).”



By specifying a maximum value for the policy cost, SUSEP sought to prevent abuses. If we consider, however, the low values of Microinsurance premiums, the maximum value specified by the normative for charging the policy cost would be very high, with direct consequences on the costs of these products and, in some cases, making their marketing not viable.

During meetings held between the SUSEP WG and industry representatives working with low-income sector, it was clarified that the amounts charged by way of policy cost would not surpass the value of the premium. Some insurance companies would no longer be charging it.

Although such collection is at the discretion of each provider, transparent mechanisms could be established to allow the identification, by the consumer, of the costs applied to the purchase of the product.

## **Consumer Protection**

In addition to the Consumer Defense Code, Law 8.078, dated September 11<sup>th</sup>, 1990, that specifies the protection of all the consumers, whether or not related to insurance, SUSEP and CNSP published rules establishing mechanisms aiming at improving the insurance consumer service.

These standards are the CNSP Resolution 110/2004, establishing rules and minimum criteria to be observed by the insurance companies for recognition of their ombudsman services, and Circular 292/2005, that regulates the consumer service and the administrative proceedings initiated by SUSEP.

The publishing of CNSP Resolution 110/2004 encouraged the creation of ombudsman services in supervised companies, establishing important mechanisms to safeguard the consumer rights, especially those less fortunate. The main purpose of the ombudsman services are the following: i) the clarification of the assured/beneficiary of their rights; and ii) to act on conflict prevention and resolution. Furthermore, such service has a preventive function, by identifying conflict points in order to propose resolutions, including changes in internal procedures of the company, aiming at improving the quality of the services.

On the other hand, Circular 292/2005 simplified and streamlined the insurance customer service procedures, reducing significantly the number of complaints and claims and the time of their analysis.

The implementation of these standards is reflected in the decrease of the suits brought: from 699 cases in 2005 to 287 cases in 2007.

Equally important as the implementation of mechanisms for conflict resolution, is the preventive action of the supervisory agency, maintaining a constant concern with the wording of the plans and promoting the contractual adequacy of the products to standards of insurance and protection of the assured, because these are the safeguards of the rights of insurance consumers.

The low-income population sector, whether through economic insufficiency or lack of education, are always more vulnerable to abuses and misleading advertisements.

For these reasons, the development of financial education programs for the Microinsurance customer, with the purpose of increasing awareness about their rights is extremely important for the protection of the insured and the market. These programs should count on the support and engagement of all the stakeholders, such as the Government as the private sector.

SUSEP WG concluded that the norms in force are part of a regulatory framework appropriate to the development of Microinsurance that should be complemented.

## Products Regulation

### Insurance Contracting

Considering that the purpose of products regulation is to ensure stability and consumer protection by regulating the nature and framework of products, this part of the analysis begins by examining the possible ways insurance products may be contracted, since the contracting method is inherent to the framework of such products.

The relevant legal provisions on this theme are the following:

- **Decree-Law 73/66**

“**Article 9.** The insurance shall be contracted by proposals signed by the assured, his or her legal representative or authorized broker, upon issue of the respective policies, except as provided in the following article.”

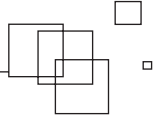
“**Article 10.** Insurance contracting by simple issue of insurance ticket is authorized, upon verbal request of the interested person.”

- **CNSP Resolution 11/88**<sup>8</sup>

“**Article 1.** Assigns to the Superintendence of Private Insurance (SUSEP) the authority to approve requests from insurance companies wishing to operate with ‘Insurance Tickets’.”

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<sup>8</sup> For pension plans, the Resolution that delegates authority to SUSEP for the Open Private Pension Entities (EAPP) to operate through ticket is the CNSP Resolution 18/89.



- **Law 10.406/02 – Brazilian Civil Code**

“**Article 758.** The proof of the insurance agreement is the insurance policy or the insurance ticket, or, failing this, the document proving the premium payment.”

It appears, from Article 9 of Decree-Law 73/66, that there are two distinct ways to contract insurance, namely: through proposals or tickets.

Thereafter, the first<sup>9</sup> feature of the ticket is that it is not necessary to prepare proposals to contract insurance and the consequent nonexistence of policy. When an insurance company is willing to negotiate a product through tickets, it is giving up on analyzing previous individual characteristics of the risks for every one of the possible assureds, that is to say, the insurance company examines the risks related to such tickets only in a collective way. It means that the assured, when purchasing a ticket, is automatically covered against risks specified in the ticket, different to the cases where the contracting is made through proposals and the insurance companies have deadlines to analyze the risks and express the will to accept them or not.

Therefore, in conclusion, when the insurance companies decide to market an insurance product through tickets, they are responsible for the underwriting risks arising from the fact that they have exempted the preliminary examination of them.

According to the aforementioned comments, and notwithstanding the provisions of Article 10 of the same statute, for Microinsurance marketing the authorization could be automatic, since the minimum standard clauses are included as set out in paragraph 1 of the article.

## **General Insurance**

Firstly, it is important to clarify that the analysis of existing rules inherent to general insurance was in accordance with the following guidance:

- To prevent Microinsurance being confused with traditional insurance to the point where consumers start to contract microinsurance, and the products classified as Microinsurance are actually intended for consumers classified as low-income<sup>10</sup>.

<sup>9</sup> Tickets have two fundamental characteristics: the first related to the contracting method, is the exemption of proposal, the second, related to the structure of its contract, is its standardization, which implies contractual conditions relatively simpler than the non-standardized products.

<sup>10</sup> The concern to avoid an overlap between Microinsurance markets and the traditional insurances lies in the fact that the former will possibly have tax benefits and/or costs.

- The Microinsurance products have a simplified design so that they may also be contracted through tickets rather than only through policies.

## General Insurance Agreements Framework

The main rules applicable to this theme are the following<sup>11</sup>: Decree-Law 73/66; the CNSP Resolution 11/88 that empowers SUSEP to authorize the marketing through ticket; SUSEP Circular 265/04 that defines different types of insurance plans (that is, what is a standardized insurance plan means, a non-standardized insurance plan, and a singular insurance plan); SUSEP Circular 256/04 that set forth general conditions for the non-standardized and singular plans; SUSEP Circular 239/03 that sets out the premiums payment; SUSEP Circular 251/04 that sets out the acceptance and period of insurance agreements; CNSP Resolution 103/04; and SUSEP Circular 255/04 that sets out the updating and recalculation of figures related to the insurance operations.

Depending on the provisions of Decree-Law 73/66, it appears that it's possible to contract insurance, and microinsurance, through tickets.

### • Decree-Law 73/66

“**Article 10.** The contracting of insurance by simple issue of insurance ticket, is authorized upon verbal request of the interested party.

§ 1. CNSP<sup>12</sup> shall regulate the cases provided for in this article standardizing required clauses and forms.”

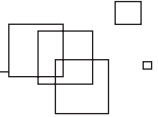
“**Article 11.** When the insurance is contracted as set out in the preceding article, the good faith of the Insurance Company, in its acceptance, shall mean *juris tantum* assumption’.

.....

§ 4. It is prohibited to contract more than one insurance covering the same subject matter or interest, since any one of them is contracted upon issue a simple certificate, unless in cases of personal insurance.”

<sup>11</sup> Were mentioned only the provisions that, from SUSEP WG point of view, have in a direct or indirect way some relations with the two initial purposes that guided the analysis performed.

<sup>12</sup> See Article 1<sup>st</sup> of the CNSP Resolution 11/88 mentioned on the previous theme.



In a precipitated way, however, it may be understood from reading the paragraph 1<sup>s</sup> of Article 10 of Decree-Law 73/66 that the only way to commercialize through tickets should be in a standardized way. From article 2 of CNSP Resolution 11/88 combined with the Article 2 of SUSEP Circular 265/04, it may be inferred that it is possible to operate non-standardized insurance, and microinsurance, through tickets<sup>13</sup>.

- **CNSP Resolution 11/88**

CNSP delegates authority to SUSEP to authorize commercialization through tickets.

“**Article 2.** The coverage and rates proposed by the Insurance Companies to operate Tickets shall be analyzed by SUSEP, under the laws and regulations in force.”

- **SUSEP Circular 265/04**

Defines different insurance plans, that is, what is a standardized insurance plan, a non-standardized insurance plan and a singular insurance plan, and establishes general minimum requirements for standardized and singular plans.

“**Article 2.** For reference purposes, consider the following:

I – Non-Standardized Plan: Insurance plan which has contractual conditions and actuarial technical note that are prepared by the insurance company by itself.

II – Standardized Plan: Insurance plan which has contractual terms are identical to those:

- a) contained in the rules published by SUSEP or CNSP, including standardized rating, when provided; or
- b) approved by the Board of SUSEP and made available on its website

.....

“**Article 3.** To operate non-standardized plans, the insurance companies must satisfy the minimum criteria provided in specific regulations to structure the contractual conditions and actuarial technical notes.”

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<sup>13</sup> For this, it must be construed that the standardization is not full, just some clauses, for example, the contracting method of Maximum Limit of Warranty, the policy concurrency clause, both suggested in this opinion.

Thus, the rules related to the agreement structure were analyzed, considering only general insurance and that all its products are non-standardized, whether they are negotiated through tickets or through policies<sup>14</sup>.

As they are non-standardized products, their structure would be established mainly by SUSEP Circular 256/04 (which sets out general conditions for non-standardized and singular insurance plans). Before the analysis however, which comments are presented below, by Article, it is recommended that the rule is not applied to Microinsurance products.

- **SUSEP Circular 256/04 (Annex I)**

- **Article 14.** Depending on the characteristics of the Microinsurance target audience, the application of the co-insurance clause is inappropriate. It is recommended that the only way to contract maximum limit of warranty or amount insured is the 1<sup>st</sup> absolute risk. It should be noted that pursuant to the first item of the guidance adopted on the analysis of the rules related to general insurance, SUSEP WG suggests establishing an upper limit for the maximum limits of warranty contracted through microinsurance, whether through tickets or policy.

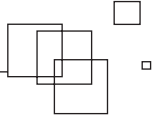
“**Article 14.** The contracting method of maximum limit of warranty and amount insured for all the coverage should be specified and defined (total risk, 1<sup>st</sup> absolute risk, 1<sup>st</sup> relative risk).”

- **Article 21.** This paragraph does not apply to microinsurance, so there is no need to include its wording in the agreement conditions of this type of product.

“**Article 21.** It should be provided that eventual translation costs regarding to the reimbursement of expenses incurred abroad shall be entirely in charge of the insurance company.”

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<sup>14</sup> The justification to be considered only non-standardized products is based on the fact that SUSEP does not need continuously to develop standardized contractual conditions for every new possibility of plans for microinsurance.



- **Article 26.** The wording of this article is very long, very technical, and difficult to understand by Microinsurance consumers. Thus, backed by the provisions of §4, of Article 11 of Decree-Law 73/66, the WG decided on its non-inclusion, regardless of the marketing method. Accordingly, SUSEP WG believes that it should be prohibited to have the performance of more than one Microinsurance covering the same subject matter or interest<sup>15</sup>. Such provision is in accordance with the set forth in the Civil Code in respect of general insurance.
- **Article 29.** The premium payment is governed by SUSEP Circular 239/03, which in its Article 6 creates mechanisms for adjusting the period of the agreement due to late premium payment when paid in installments. This is very complex and unlikely to be understood by potential microinsurance<sup>16</sup> consumers. Therefore, to facilitate the operations and understanding of the products by the assured and avoid reputational risks, SUSEP WG suggests that, for microinsurance, in the event of a premium paid in installments and confirmed non-payment of any one of the installments subsequent to the first, the period of coverage shall be adjusted pro rata to premium actually paid.
- **Article 33.** The deadline specified for the loss settlement is very long for Microinsurance purposes. The loss settlement for general insurance shall occur no later than three days, without allowing the insurance company to request other documents in addition to those previously specified in the agreement<sup>17</sup>.

“**Article 33.** The procedures for the loss settlement shall be informed, specifying the essential documents to be submitted for every type of coverage, allowing the insurance companies, in case of reasonable and justifiable doubt, to request other documents.

**§1.** A deadline for the loss settlement shall be specified, limited to 30 (thirty) days,

<sup>15</sup> The insurance companies shall create some mechanism to allow them to verify whether or not a prospective already has microinsurance, ensuring the same interests against the same risks. This way, it is noted that the SUSEP Circular 326/06 already exists regulating the policies record, but such Circular does not apply to tickets.

<sup>16</sup> It may be construed that to adjust the period of insurance contracts, due to late payments, is not pro rata with the payments actually made as a result of two reasons: firstly, the default should be discouraged and; secondly, and technically the most important, does not allow the risk concentration over time. Notwithstanding these considerations, for the very particular case of microinsurance, to determine that the period adjusted is exactly proportional to the share of annual payment of the premium actually paid become consistent with the feature of this insurance, especially if commercialized through tickets.

<sup>17</sup> This does not include the so called Funeral Care insurances since they are classified as personal insurance and are dealt with as a separate item, however, in the SUSEP WG opinion, these insurances shall have deadlines even shorter.

counted from the delivery of all essential documents provided for in the caput of this article, except that set out in the paragraph 2 of this article.  
.....”

- **Article 37.** If commercialized through tickets, the procedures set out in this article shall be disregarded, since there is no risk analysis by the insurance company.

“**Article 37.** (very long wording and difficult to understand).”

- **Article 46.** For the same reasons given in the analysis of Article 29, the short rate table should also not be applied to microinsurance.

“**Article 46.** Criteria for contractual termination shall be specified.

**Sole Paragraph.** (the application of short rate table for Microinsurance is difficult to understand by its consumers).”

- **SUSEP Circular 239/03**

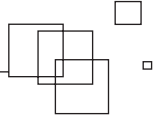
This rule regulates the premiums payment and its Article 6 of the Annex I presents a wording very long and difficult to understand by the consumers, that’s the reason why is not recommended to be applied to Microinsurance products.

- **SUSEP Circular 251/04 and CNSP Resolution 103/04 and SUSEP Circular 255/05**

The first regulates the acceptance and period of the insurance agreements and the last two regulate the updating and recalculation of values relative to the insurance operations. From the analysis performed it is understood that none of the rules above provide any impediment or hindrance to the creation or development of Microinsurance products.

## **Personal Insurance**

The legislation analyzed consists of the following laws and rules: Law 10.406/2002, Civil Code (Articles 757 to 802); SUSEP Circular 251/2004, relating to acceptance and period; SUSEP Instruction 19/1999, with pronouncements from the SUSEP Attorney; SUSEP Circular 302/2005, relating to risk coverage in personal insurance; SUSEP



Circular 317/2006, relating to risk coverage in group personal insurance; CNSP Resolution 117/2005, relating to risk coverage in personal insurance; CNSP Resolution 107/2004, relating to the applicant; CNSP Resolution 103/2004, relating to updating values; SUSEP Circular 255/2004, updating values; CNSP Resolution 102/2004, SUSEP Circular 310/2005 and SUSEP Circular 318/2006 (amendment to SUSEP Circular 310/05), relating to Care – Insurance × Servicing; SUSEP Circular 74/99, relating to custody of documents; CNSP Resolution 140/05, CNSP Resolution 148/06 and SUSEP Circular 339/07, relating to survival coverage; SUSEP Circular 34/72, relating to the minimum components of the policy.

- **Law 10.406/02 – Civil Code (Articles 757 to 802)**

- **Article 757.** It is observed that both definitions, that proposed by SUSEP WG for the “microinsurance” concept and that under consensus of the CNSP Consultative Committee, are in accordance with this article of the Civil Code.

“**Article 757.** It can only be part of the insurance agreement, as insurer, entity for that purpose duly authorized.”

- **Article 759.** The conditions set out in this article shall not prevent in anyway the definition of well reduced components, so much for the insurance policy as for the proposal and ticket.

“**Article 759.** The issue of the policy shall be preceded by written a proposal stating the essential elements of the interest to be covered and the risk.”

- **Article 774.** Initially, the article wording seems to impose a certain rigidity regarding the period of insurance agreements and, therefore microinsurance. But agreements may provide periods above 1 year, for example: 5 or 10 years, so that there is no need to request renewal from the assured every year. The agreements may also allow extended rehabilitation periods (for example: 2 years), which would encourage the return of the assured to the policy in case of default.

“**Article 774.** The implied renewal of the agreement for the same term, upon request agreement clause, cannot operate more than once.”

- **Article 789.** In the case of personal microinsurance, the possibility of insurance transfer from traditional branches of personal insurance to Microinsurance should be evaluated in order to enjoy possible fiscal and/or tax benefits granted to the sector.

“**Article 789.** In personal insurance, the amount insured is freely determined by the applicant, who may contract more than one insurance on the same interest, with the same or different insurers.”

- **Article 801.** Although the conditions set out in this article may become a complicating factor for the insurance company provider of microinsurance, it consists of protection to the assured, preventing changes in the agreement without its consent.

“**§ 2 of Article 801.** The change of the policy in force shall depend on the consent of assureds representing three quarters of the group.”

- **SUSEP Circular 251/04 – Acceptance and Period**

From the analysis carried out it is understood that the rule would not cause any impediment or hindrance to the creation or development of Microinsurance products.

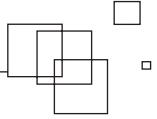
- **SUSEP Instruction 19/99 – Pronouncements from the SUSEP Attorney**

According to pronouncement 26, the deadline for the insurance company to assess the documents and make a payment of benefit is up to 30 (thirty) days from the date of its delivery. For the purposes of personal microinsurance, this period should be reviewed and reduced to no longer than 48 hours, subject to losing their effectiveness for the assured and/or beneficiary depending on their immediate needs.

- **SUSEP Circular 302/2005 – Risk Coverage in Personal Insurance**

Minimum Required Elements for the Insurance General and Special Conditions (Chapter XI) establish the minimum requirement necessary for the complete understanding by the assured regarding to their rights and duties, not requiring reduction.

For the specific purposes of microinsurance, and considering the educational level expected from their potential consumers, SUSEP WG proposes the development of



rules concerning the sending of the Insurance Specialized and General Conditions to the assured, which should be available at all times. Furthermore, the assured would receive a brief outline of the Agreement Conditions, in simplified terms, which describes minimum elements determined by SUSEP. Additionally, the provider would be required to develop programs of financial education<sup>18</sup> for the assured.

With regard to the Circular, it is noteworthy that the §1 of Article 64 is in accordance with the rules set out in the Civil Code, and establishes that the automatic renewal of the insurance, can only be made once, with the subsequent renewals being made by request. As mentioned previously in the analysis of the Civil Code, the periods could be more than one year, for example: 5 or 10 years, so that there would be no need for the assured to request renewal every year. The agreements could also allow long rehabilitation periods (for example 2 years), which would encourage the return of the assured to the policy in cases of default.

- **SUSEP Circular 317/2006** – Risk Coverage in Group Personal Insurance

Article 3 of the rules establishes the obligation to issue and send to the assured the individual certificate, issued by the insurance company, at the beginning of the insurance period and for subsequent renewals. SUSEP WG proposes that the certificate is also sent annually after the mandatory adjustment of premiums and amounts insured, in cases of periods greater than 1 year. It may be understood from meetings held with representatives of the market, that this procedure does not generate relevant costs for the final price of the insurance.

Article 4 according to Article 801 of the Civil Code could potentially be a complicating factor for insurance company providing microinsurance, but as already shown, it serves as a protection for the assured, preventing contractual amendments without consent.

“**Article 4.** The insurance agreement may be terminated at any time upon agreement of the parties, with the prior consent of the assured that represents at least three quarters of the group insured.”

Similarly, in the Article 4, set out in Articles 8 and 9, there is protection for the assured.

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<sup>18</sup> Which includes insurance education.

“**Article 8.** It shall be specified in the general conditions that any change in the policy involving a burden or duty for the assureds, or the reduction of their rights, shall depend on the prior requested consent of the assureds that represent at least three quarters of the group insured.

**Sole Paragraph.** The requirements set out in the preamble of this paragraph regarding to change of insurance rates shall be observed.”

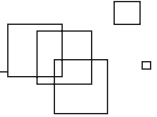
“**Article 9.** Any change in the current agreement conditions shall be endorsed on the policy, with the requested and written agreement of the assured or its representative, confirmed by the corresponding endorsement, observing the requirements set out in the Article 8 of this Circular.”

- **CNSP Resolution 117/2005 – Risk Coverage in Personal Insurance**

Article 30 of the rule, according to the Civil Code, establishes that automatic renewal may only be made once, and the subsequent renewals shall be made, necessarily, by request. As mentioned previously in the analysis of the Civil Code and SUSEP Circular 302/2005, the periods could be above 1 year, for example: 5 or 10 years, so that there is no need to request renewal of the assured every year. The agreements could also allow extended rehabilitation terms (for example: 2 years), which would encourage the return of the assured to the policy in case of default.

§1 of Article 50 of the Resolution establishes that the term for loss settlement shall be no longer than 30 (thirty) days, counted from the delivery of all the essential documents provided in the general conditions. For the purposes of microinsurance, the procedure and the term shall be reviewed, with the term reduced to, at most, 48 hours, so as not lose its effectiveness for the assured and/or beneficiary depending on its immediate needs.

§1 of Article 58 establishes that with group plans, the individual certificates should be issued and sent to the assureds in order to confirm the admission and renewal, in the term and as regulated by SUSEP. As concluded in the analysis of the SUSEP Circular 317/2006, SUSEP WG understands that the certificate should also be sent annually after the mandatory adjustment of premiums and amounts insured, in the cases of insurance with period above 1 year. In addition to being important information for the assureds/beneficiaries, this procedure, as observed during the meetings held with market representatives, would not generate relevant costs to the final price of the insurance.



- **CNSP Resolution 107/2004** – Applicant

The procedures provided in paragraph II of Article 4 and in Article 10 of the rule, although being complicating factors for the operation of microinsurance, do create, as previously shown, important protection mechanisms to the assured, preventing changes to relevant agreement without prior consent.

“**Article 4.** It is expressly prohibited for the applicant and sub-applicant, in the contributory insurance:

(...)

II – to terminate the agreement without prior consent at least three quarters of the group insured;”

“**Article 10<sup>th</sup>.** Any change in the policy in force shall depend on the prior consent of assureds that represent at least three quarters of the group insured.”

- **CNSP Resolution 103/2004 and SUSEP Circular 255/2004** – Values Updating

From the analysis performed it is understood that the rules would not cause any impediment or hindrance to the creation or development of Microinsurance products.

- **CNSP Resolution 102/2004, SUSEP Circular 310/2005 and SUSEP Circular 318/2006 Care** – Insurance × Servicing

In a preliminary analysis, it is understood that the rules would not cause any problems in the creation and development of Microinsurance products.

However, the position SUSEP intends to adopt with regard to the action of informal providers must be defined, especially in respect of Funeral Care, noting, once again, comments in the analysis of Decree-Law 73/66, that means, the recommendation of the IAIS-CGPA paper, that it should not regulate what it could not supervise.

- **SUSEP Circular 74/99** – Papers Guard

From the analysis performed it is understood that the rule would not cause any impediment or hindrance to the creation or development of Microinsurance products.

- **CNSP Resolution 140/05, CNSP Resolution 148/06 and SUSEP Circular 339/07** – Survival Coverage

Initially, SUSEP WG decided to focus in the analysis of risk products.

- **SUSEP Circular 34/72** – Minimum Factors of the Policy

The rule regulates the minimum factors that shall be included in the proposal, policy and tickets, and should be amended, even for traditional plans, since there are several unnecessary issues. In practice, this has not been complied with.

## Portfolio Actuarial Technical Note

- **CNSP Resolution 163/07**

If the Microinsurance is considered a new branch or group, the insurance companies that provide Microinsurance should send Portfolio Technical Notes under the terms of the CNSP Resolution 163/07 and CNSP Circular 362/08. In this case it would be necessary to include, when appropriate, the explicit reference to the “*authorized entities to operate with microinsurance*”.

The question arising is how this works with respect to microinsurance:

i) Microinsurance shall be a new “group”? or ii) The Microinsurance shall be “branches” within existing groups?

- **CNSP Circular 362/08**

The analysis concludes that the rule applied to all Microinsurance providers where they have to send Portfolio Technical Note under the terms of the CNSP Resolution 163/07 and CNSP Circular 362/08 (Article 1, paragraph III), must be amended, making specific reference to the “*authorized entities to operate with Microinsurance*”.

## Popular Insurance

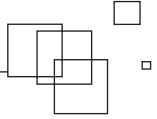
- **Popular Insurance × Microinsurance**

Before starting the analysis, it is important to establish the difference between the two concepts. In Brazil, the term “popular insurance” is used to define popular products with small premiums and amounts insured; where “Microinsurance” is intended for low-income households, the “popular insurance” is intended for all types of consumers, indiscriminately.

- **SUSEP Circular 267/2004** – Group Life

On September 21<sup>st</sup>, 2004, as a result of the Brazilian Government Social Inclusion Policy<sup>19</sup>, the first rule of Popular Insurance – SUSEP Circular 267/2004 of

<sup>19</sup> See item Social Inclusion Policy of this Report.



Popular Group Life Insurance – was published. It established General Conditions standardized and their respective parameters. The SUSEP’s initial thoughts were to choose the largest branch of insurance with the purpose of lowering premiums; in this case Life Insurance, given that the product was designed, originally, to cover only Death by Personal Accident. However, SUSEP chose a more complete product, considering that the coverage limitation could lead to reputational risks for the insurance institution.

As may be noted in Box 1, there is no difference between the SUSEP standard product and the traditional plans. The innovation came in the form of Article 11 that enabled premium collection via the billing of utilities, such as electricity, gas and telephone.

“**Article 11.** The insurance plan may provide premiums collection directly to the insurance company or through utility bills, such as electricity, gas, telephone or other possible ways, since the value intended for the insurance is duly identified as well as the date of corresponding discharge.

*Single paragraph.* The individual certificate, together with the identification of the premium discharge referred in the preamble of this Article, shall be evidence, at any time, of the insurance agreement in execution.”

#### **Box 1 – Characteristics of Products Standardized by SUSEP Circular 267/2004**

##### **Product Characteristics**

- Basic coverage: Death by any cause (natural or accidental)
- Additional coverage: Funeral Care and Basic Food Needs
- Maximum Amount Insured: R\$10,000.00 (US 5,000.00)
- Group Insurance with individual certificate issue
- Accounted for under Life Branches (no separate accounting)
- Encouraging alternative delivery channels (Article 11), such as electricity, gas, telephone billings, and others, since the value provided for the insurance is duly identified, as well as the date of corresponding discharge.

Even before the publication of the standard provided by SUSEP Circular 267/2004, many insurance companies had created products intended for less favored sectors of the population, since the topic had been extensively discussed within the industry at a public hearing, and was the subject of many reports in the press. It is worth mentioning that this change in the market occurred, mainly, among insurance companies associated with large retail banks.

The rule, despite having met with the strategic purposes of the Government, is shown to be inefficient as a standardization model when the provision of insurance services is expanded to a sector of the population which, until then, had been neglected by the vast majority of providers.

- **SUSEP Circular 306/2005 – Motor Branch**

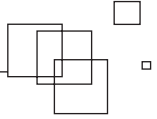
In November 17<sup>th</sup>, 2005 the SUSEP Circular 306/2005 was published regulating the operating rules and criteria of popular motor insurance for used vehicles, and which established standard agreed conditions.

The Motor branch was selected because it is the second largest branch of insurance. The main focus of the product is Third Party Liability – Physical Damages, and not the bodywork, as occurs in case of traditional products. Box 2 presents the difference between traditional products and popular products standardized.

**Box 2 – Popular Motor Insurance × Traditional Motor Insurance**

<b>Popular</b>	<b>Traditional</b>
Focused on TPL – Physical Damages (compulsory coverage) and on any type of used vehicle	Various basic coverage
Payment in cash or monthly, in order to facilitate the calculation and to reduce costs, although is permitted for the insurance company to offer other options.	Payment in cash or in installments (use the short rate table)
Maximum value of the policy cost of R\$20.00 (US\$10.00)	Maximum value of the policy cost of R\$60.00 (US\$30.00)
Accounted in the Specific Branch 26	Accounted in Motor Branches 31, 53 and 20
Prohibited to the Policies Concurrency Clause, in order to simplify the wording of the General Conditions.	Existence of Policies Concurrency Clause.
In both: Essential rights of the assureds preserved in compliance with the Consumer Defense Code.	

The standardized product proved inadequate and any product was filed using the methods provided under the rules. The rule is not applicable or adjustable to Microinsurance products, for several reasons: i) high prices (an insurance product to cover used vehicles, in general, shall present higher rates than the traditional insurance); and ii) at first, it would not satisfy the basic needs of the target audience (more focused on other interests, such as: life, funeral, health, home & housing, etc.).



## Institutional Regulations and Others

### Legal Form

As previously mentioned, Decree-Law 73/66 limits the legal form of insurance providers to Joint Stock Companies and Cooperatives, the latter being specific to agricultural, health and workers' compensation insurances. Furthermore, it determines the exclusive character of the providers' activity in the provision of insurance services. The option of entry to the market by other legal forms of Microinsurance providers, would entail the amendment and/or the publishing of law.

It is important to highlight that the Civil Code of 2003 estimated the legal system of the other companies (such as, limited companies, for example) with the joint stock companies, since new publicity requirements were established for the other companies, which increased the costs for other legal forms.

The joint stock company however, presents advantages for the supervision procedures, such as: its accounting, established in law (Law 6.404/76, dated December 15<sup>th</sup>, 1976), better corporate governance compared to other companies, and the possibility of issuing shares and raising funds from third parties, which other companies are not able to do in an easy, fast, safe and transparent way.

Although in other jurisdictions it is common for the existence of mutuals and cooperatives acting to provide microinsurance, the regulator/supervisor should always keep in mind the recommendation of the paper "*Issues in Regulations and Supervision of Microinsurance*" previously mentioned, that is: "it should not regulate what it could not supervise". Thereby, it can be concluded that any initiative directed to this requires a strict analysis of challenges and options, and a significant capacity at the supervisory authority level. In addition, new types of institutions bear the risk of regulatory arbitration.

### Tax Issues

Box 3 shows the federal taxes levied on insurance in Brazil, on which still balance the costs relating to bank charges.

The tax issue therefore, is extremely important, especially in respect of the products viability. In the case of Microinsurance products, where premiums are necessarily lower, the taxes levied gain even more balance. Therefore, the awareness of the interested parties is vital to the success of the actions.

**Box 3 – Federal Taxes levied on Insurance**

<b>Tax</b>	<b>Branch</b>	<b>%</b>	<b>Note</b>
Tax on Financial Transactions	Life	0.00	+0.38%*
	Health	2.00	
	<b>General Insurance</b>	<b>7.00</b>	
PIS-COFINS**		4.65	
CSLL(contribution on net income)			
IRPJ (Income Tax)		25,00	(15% a 25%)

\* Decree-Law 6.306, dated December 14<sup>th</sup>, 2007, amended by Decree-Law 6.339, dated January 3<sup>rd</sup>, 2008, changed the tax rate to 0.38%.

\*\* Employees' Profit Participation Program (PIS), created by the Complementary Law 7, dated September 7<sup>th</sup>, 1970, and Tax for Social Security Financing (COFINS), created by the Complementary Law 70, dated December 30<sup>th</sup>, 1991.

A good example was the publication of Law 11.053/04<sup>20</sup> that brought important innovations with regard to the taxation applicable to private pensions and to personal insurance with survival coverage; the main issue of this being the creation of a new taxation criteria for pension plans structured around defined contribution and for personal insurance with survival coverage.

Another example is Decree-Law 6.306, dated December 14<sup>th</sup>, 2007, relating to the Tax on Financial Transactions (IOF); an important tax for the insurance business, and which, in its Article 22 reduced, the tax rate for private pension plans and life insurance with survival coverage.

“**Article 22.** The IOF tax rate is 25% (Law 9.718, dated November 27<sup>th</sup>, 1998, Article 15).

1° The IOF tax rate is hereby reduced:

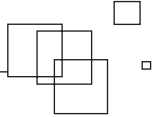
**I – to zero, in the following operations:** (...)

e) where the premium value is intended for life insurance plans with survival coverage;

(...)

IV – in other insurance operations: 7.38% (renumbered with new wording per Decree-Law 6.339, dated January 3<sup>rd</sup>, 2008).”

<sup>20</sup> Regulates taxation of the benefit pension plans and other matters.



This reduction was achieved by policy management in meetings held between representatives of the SUSEP Management and the Federal Internal Revenue Department (SRF), where the technical justifications were presented for such reductions and based on the response of all stakeholders in the process.

Given the premiums charged, SUSEP WG believes that reducing the tax rate of IOF, PIS/COFINS, and, especially the Social Contribution on Net Income (CSSL), is essential to enable Microinsurance products.

### **Combating Money Laundering (CLD)/Fraud**

SUSEP Circular 327/2006 (amended by SUSEP Circulars 333/2006 and 349/2007) sets out specific internal controls that deal with issues related to the practice of crimes provided in the Law 9.613 dated March 3<sup>rd</sup>, 1998, as well reporting suspect transactions to SUSEP and the Council for Financial Activities Control (COAF).

Article 7 of the Circular determines that companies must perform customer identification, through registered information and extra documentation, in addition to maintaining records regarding such information as name, CPF (Individual Taxpayer Identity) and full address.

In addition, companies must maintain specific controls to identify suspect situations as defined in the Circular, and send them to SUSEP and to Council of Financial Activities Control (COAF).

Some suspect situations should be preceded by analysis which requires hours of work as well as specific training for such analysis.

Therefore, there may be some difficulty for small size providers of Microinsurance to establish a control structure to carry out all the verifications and analysis defined by the Circular.

The issues related to combating Money Laundering should be dealt with not only in the scope of CNSP, but also within the Executive, which may hinder the reduction of requirements contained in the current legislation.

It is important to mention that SUSEP Circular 327 is currently under review.

## Meetings Held between SUSEP WG and the Private Sector

August 6<sup>th</sup>, 2008 – Meeting held with Mr. Pedro Bulcão, president of SINAF Previdencial Cia. de Seguros, an insurance company specialized in the low-income segment, and with a distinguished history in the voluntary formalization process arising from the funeral care services.

September 10<sup>th</sup>, 2008 – Meeting held with the Microinsurance Committee of FENACOR (National Federation of Insurance and Reinsurance Brokers, Capitalization, Private Pension and Insurance and Reinsurance Brokerage Companies).

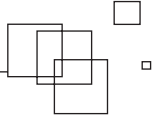
August 15<sup>th</sup>, 2008 – Meeting held with the Microinsurance Committee of FENASEG (National Federation of Private Insurance and Capitalization Companies)<sup>21</sup>.

SUSEP WG collected the following insights and conclusions from the meetings:

- The meetings held with representatives of the market have, so far, confirmed the observations of this analysis, which indicates that there will be fewer difficulties than originally anticipated by SUSEP WG to the adjustment of the current insurance legislation to the Microinsurance requirements.
- Accordingly, the meetings held so far indicate that from the market's point of view, the existing barriers are not in the insurance legislation, but, rather, derive from: i) the taxation law, notably the Tax on Financial Transactions (IOF); ii) the high values of policy costs charged by insurance companies – which serves an operating barrier since the SUSEP rules cover only the maximum cost, and do not consider situations where the cost is zero; and iii) labor legislation, especially with respect to trade union requirements and arising from the collective bargaining agreements (the last two items refer to the brokers' point of view).
- The creation of a Microinsurance broker, with a minimum level of qualification obtained through a differentiated technical course in brokerage and having a less onerous criteria, but sufficient for the practice of the activity, with specific license for the sector<sup>22</sup> and being registered and regulated by SUSEP. This would benefit greatly the marketing process.
- Legislation should be enacted to allow the formalization of companies that operate with the informality intended for the low-income sector and to allow the entry of new Microinsurance providers.

<sup>21</sup> On this date, the Microinsurance Committee of FENASEG undertook to send to SUSEP WG a detailed report of the existing regulatory barriers in the current legislation, and that shall be based on the relation of laws and rules provided by SUSEP WG.

<sup>22</sup> Microinsurance broker would be limited to this sector.



- The products for the low-income sector require expediency in the loss adjustment. The best example in this case is given by the funeral insurance, where regulation must occur within 24 hours.
- The market exhibits a good response to the use of insurance ticket.

## Conclusions and Recommendations

In addition to the conclusions and recommendations made on each item analyzed, SUSEP WG considers it relevant to emphasize the following general conclusions, notes and recommendations:

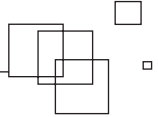
- i) Excepting the issues relative to legal nature of the providers, which would depend upon a change in the law, Decree-Law 73/66 does not present significant barriers and constraints to the implementation of a regulatory environment favorable to development of the Microinsurance in Brazil.
- ii) Microinsurance, with respect to operating, technical and contractual issues, may be regulated in the scope of CNSP and SUSEP.
- iii) The legislation allows for Microinsurance contracting through ticket that, through a simplified way of marketing, may present many beneficial effects for the sector, since preventive measures are taken to protect the assured, considering their lack of resources – not only economic, but also in their educational level, as confirmed in the Partial Report I of the SUSEP WG.
- iv) The legislation allows the flexibility of delivery channels, key features in the Microinsurance marketing process.
- v) The legislation allows to train and qualify a broker specialized in Microinsurance, with a minimum qualification obtained through a differentiated technical course, with fewer strict criteria, but enough to the practice of the activity.
- vi) The tax issue is extremely important for the products' viabilities, and therefore the awareness of the stakeholders is vital to the success of the actions. In this respect, the main argument lies in the fact that, at first, there would be no waiver of revenue, since Microinsurance is a sector that does not yet exist and, therefore, had not yet been taxed.
- vii) The regulation of Constitutional Amendment 20 could prove to be an excellent opportunity for the Microinsurance sector, through what is recommended by the discussion of the theme within the Consultative Committee on Microinsurance of CNSP.

- viii) The relevance of the role played by the banks as a tool in the procedures for collecting Microinsurance premiums must give rise to joint works, especially between SUSEP and Central Bank.
- ix) The preliminary analysis gave indication to the adoption of a model in which there would be established branches of Microinsurance operated by specially licensed insurance companies<sup>23</sup>, with regulatory requirements consistent with the complexity and the risk of operations.
- x) The analysis done permit the conclusions that the development of a set of specific rules for microinsurance, in the scope of CNSP / SUSEP, would be the most practical method of regulation for the segment, which would prevent a large number of references to the existing rules (to what is, or isn't, applicable).
- xi) With regard to the Applicant, special attention should be addressed to the matter, including specific provision for Microinsurance regulation to allow the proper protection to assureds against improper practices by the applicant, especially in the case of "open policies".
- xii) SUSEP WG further recommends that the scope of the surveys that will be performed under the coordination of the Survey Subgroup of the Consultative Committee on Microinsurance of CNSP includes the following considerations:
- survey on entities that provide services with features akin to insurance coverage but are not structured as insurance companies, for example: "funeral care" companies, in order to know the potential of these sectors to the insurance market;
  - survey and evaluation of existing programs within the insurance marketing community which have been successful and whose primary focus are the less fortunate<sup>24</sup>;
  - survey of the percentage of the Brazilian population that are keeping bank accounts and/or often use the banks/correspondent banks services;
  - influence of printed papers (individual certificates, general and special conditions, etc.), especially the compulsory documents, in the insurance premium calculation, considering the controversial information on the percentage weight of this papers in the premiums calculation<sup>25</sup>.

<sup>23</sup> This does not mean that this model would be based on the insurance companies operating solely in microinsurance; otherwise, the product's diversification (traditional insurance and microinsurance) would permit a better distribution of costs.

<sup>24</sup> As a suggestion, we propose the Immediate Social Support Plan (PASI), which, historically, goes back 20 years, and the Bank of the Northeast of Brazil, with insurance program associated with the micro-credit.

<sup>25</sup> Many insurance companies argue that the obligation of sending the general conditions and other compulsory papers would have an important weight in the final price of the insurance premiums.



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## Annex 1 – Selected Law

### Main Laws

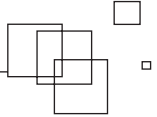
Decree-Law 73/1966	Specifies the National System of Private Insurance, regulates the insurance and reinsurance operations and set other arrangements.
Decree 60.459/1967	Regulates Decree-Law 73, dated November 21 <sup>st</sup> , 1966, with the amendments by the Decree-Law 168, dated February 14 <sup>th</sup> , 1967, and 296, dated February 28 <sup>th</sup> , 1967.
Law 10.406/2002	Creates the Civil Code.
Law 6.404/1976	Specifies the Joint Stock Companies.
Law 7.944/1989	Creates the supervision fee of the insurance, capitalization and open private pension, and set other arrangements.

### Legal Form

Law 10.406/2002	Civil Code – Article 1.134.
Decree-Law 2.627/1940	Specifies the Joint Stock Companies.

### Licensing

Decree-Law 73/1966	Specifies the National System of Private Insurance, regulates the insurance and reinsurance operations and set other arrangements.
CNSP Resolution 136/2005	Specifies the election or appointment of members of statutory organisms of the insurance and capitalization companies and open private pension entities.
CNSP Resolution 073/2002 (amended by CNSP Resolution 178/07)	Specifies the minimum capital of insurance and capitalization companies and open private pension entities composed under joint stock companies, and set other arrangements.
SUSEP Circular 234/2003 (amended by SUSEP Circular 292/2005)	Regulates the duties attribution specific to directors of insurance and capitalization companies, and open private pension entities. See Circular-Letter SUSEP DECON 005/2006 and Circular-Letter SUSEP DETEC 005/2007.
SUSEP Circular 260/2004 (amended by SUSEP Circular 298/2005)	Regulates the corporate acts, constitution, equity control transfer and periodic revaluation of the real property owned by the insurance and capitalization companies, and open private pension, and set other arrangements. See Circular-Letter SUSEP DECON 001/05.
SUSEP Circular 298/2005	Specifies the previous approval of the actions taken by the insurance companies and capitalization companies, and open private pension entities, under CNSP Resolution 121, dated May 2 <sup>nd</sup> , 2005.



SUSEP Circular 311/2005	Specifies the minimum factors that shall be observed when preparing the business plan to be submitted to SUSEP by the insurance and capitalization companies, and open private pension entities. See CNSP Resolution 121, dated May 2 <sup>nd</sup> , 2005.
CNSP Resolution 155/2006	Specifies the minimum capital required for the insurance companies authorization and set other arrangements.
CNSP Resolution 166/2007	Specifies the requirements and procedures for constitution, authorization for operation, equity control transfer, corporate reorganization and cancellation of authorization for the entities operation that specifies.
CNSP Resolution 002/1998 (amended by CNSP Resolution 044/2000)	Specifies the calculation of Solvency Margins with the purpose of classifying in the Table contained in the Law 7.944, dated December 20 <sup>th</sup> , 1989.
SUSEP Circular 012/1996	Publishes in Annex I the value of the supervision fees contained in the table attached to Law 8.981/95, that amended the Article 4 of Law 7.944/89, converted into Brazilian Reais by the Fiscal Reference Unit (UFIR) value in force in January 1 <sup>st</sup> , 1996, pursuant to that set out in Articles 1 and 30 of Law 9.249/95 and Article 96 of the National Tax Code.

**Professional Adequacy**

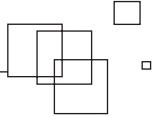
Auditors: CNSP Resolution 118/2004	Specifies the rendering of independent audit services to the insurance and capitalization companies, and open private pension entities, and on the creation of the Audit Committee.
Actuaries: CNSP Resolution 135/2005	Specifies the actuarial evaluation, the actuarial audit and other results of actuarial services referred to SUSEP.
Employees Certification: CNSP Resolution 115/2004	Establishes Minimum Conditions for the Technical Certification of Employees and Similar of the Insurance and Capitalization Companies, and Open Private Pension Entities.
SUSEP Circular 290/2005	Regulates the accreditation of the certifier institutions for technical certification of employees and similar of the capitalization companies open private pension entities and set other arrangements.
CNSP Resolution 149/2006	Establishes Minimum Conditions for the Technical Certification of Employees and Similar, including Employees of Insurance Brokers, and amends provisions of the CNSP Resolutions 115, of 2004 and 60, of 2001.

**Changes in Control and Portfolios Transfer**

SUSEP Circular 298/2005	Specifies the prior approval of the actions performed by the Insurance and Capitalization Companies, and open private pension entities under CNSP Resolution 121, dated May 2 <sup>nd</sup> , 2005.
CNSP Resolution 079/2002	Portfolio Transfer.
SUSEP Circular 217/2002	Portfolio Transfer.
SUSEP Circular 263/2004	Portfolio Transfer.

**Corporate Governance and Internal Controls**

SUSEP Circular 234/2003 (amended by SUSEP Circular 292/05)	Regulates the Duties Attribution Specific to Directors of Insurance and Capitalization Companies, and Open Private Pension Entities.
SUSEP Circular 249/2004	Specifies the establishment and implementation of internal controls systems within the insurance and capitalization companies, and open private pension entities.
CNSP Resolution 118/2004	Specifies the rendering of independent audit services to the insurance and capitalization companies, open private pension entities, and the creation of the Audit Committee.
SUSEP Circular 280/2004 (Amended by SUSEP DECON Circular-Letter 002/06)	Establishes minimum procedures to be observed in the detailed report regarding the adequacy of internal controls and in the detailed report regarding the non-compliance with the legal and regulatory provisions, produced upon the audit of insurance and capitalization companies, and open private pension entities.
SUSEP Circular 272/2004	Specifies the minimum parameters required for the preparation of actuarial evaluation, to be submitted by the insurance and capitalization companies, and open private pension entities.
SUSEP Circular 344/2007	Specifies the internal controls specific to the prevention against frauds.
CNSP Resolution 163/2007	Establishes rules for sending actuarial technical note of the insurance plans portfolio and set other arrangements.



### Compulsory Reports

SUSEP Circular 364/2008	Specifies the Periodic Information Form – FIP/SUSEP applicable to the insurance, capitalization and open private pension markets.
SUSEP Circular 253/2004 Annex of the SUSEP Circular 253/2004 (amended by SUSEP Circular 342/2007)	Establishes questionnaire on the risks, especially the underwriting risks, sustained by insurance companies and set other arrangements.
SUSEP Circular 280/2004	Establishes minimum procedures to be observed in the detailed report with regard to the adequacy of internal controls and in the detailed report regarding to the non-compliance with the legal and regulatory provisions, produced upon auditing of insurance and capitalization companies, and open private pension entities.
SUSEP Circular 285/2005 (amended by SUSEP Circular 297/2005)	Establishes a register of funds and balances statement, relating to information technology and accounting sectors, to be filled by the insurance and capitalization companies, and open private pension entities, and set other arrangements.
SUSEP Circular 136/2000	Specifies the sending of data related to retention limit, and set other arrangements.
CNSP Resolution 135/2005	Specifies the development of actuarial evaluation, the actuarial audit and other results of actuarial services referred to SUSEP.
SUSEP Circular 360/20078	Establishes, amends and consolidates the data files to be sent to SUSEP by the Insurance and Capitalization Companies, and Open Private Pension Entities, authorized to operate in the country, and Federal Savings and Loan Bank (CEF).

### Accounting Standards

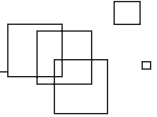
CNSP Resolution 171/2007	Establishes rules and procedures for technical reserves constitution of the domestic reinsurance companies.
CNSP Resolution 086/2002 Annex CNSP Resolution 086/2002	Specifies the Accounting Standards to be observed by insurance, reinsurance and capitalization companies, and open private pension entities, and sets out other arrangements. (Note: an updated and consolidated Chart of Accounts and other accounting standards is contained in the SUSEP Circular-Letter 295/2005, as provided in Article 2, paragraph II, of this Resolution).
SUSEP Circular 371/2008	Specifies the amendments of the Accounting Standards to be observed by the insurance, reinsurance and capitalization companies, and open private pension entities, established by CNSP Resolution 86, dated September 3 <sup>rd</sup> , 2002.
SUSEP Circular 357/2007	Specifies the convergence process to the international accounting standards.
CNSP Resolution 162/2006 (amended by CNSP Resolution 181/2007)	Establishes rules and procedures for the technical reserves constitution of the insurance and capitalization companies, and open private pension entities.

### Investments

CNSP Resolution 098/2002 (amended by CNSP Resolution 106/2004)	Specifies the investments criteria by the insurance and capitalization companies, and open private pension entities, and set other arrangements.
SUSEP Circular 284/2005 (modified by SUSEP Circular 300/2005)	Specifies the registration, custody and movement of properties and securities for technical reserves, funds and provisions of the insurance and capitalization companies, and open private pension entities.

### Capital Adequacy and Solvency

CNSP Resolution 073/2002	Specifies the minimum capital of the insurance and capitalization companies, and open private pension entities created as joint stock companies, and set other arrangements.
CNSP Resolution 178/2007	Specifies the minimum capital required for authorization and operation of the insurance companies, and sets out other arrangements. This Resolution will come into force from January 1 <sup>st</sup> , 2008. Republished in the Official Diary Government Newspaper (DOU) dated of December 31 <sup>st</sup> , 2007, with date of signature of December 28 <sup>th</sup> , 2007.
CNSP Resolution 158/2006 (amended by SUSEP Circular 355/07)	Specifies the rules regarding the additional capital based on the underwriting risks of the insurance companies, and sets out other arrangements. This Resolution will come into force from January 1 <sup>st</sup> , 2008.
SUSEP Circular 253/2004 Annex SUSEP Circular 253/2004 (amended by SUSEP Circular 342/2007)	Establishes questionnaire on the risks, especially the underwriting risks sustained by the insurance companies, and set other arrangements.
SUSEP Circular 284/2005 (amended by SUSEP Circular 300/05)	Specifies the registration, custody and movement of properties and securities for the technical reserves, funds and provisions of the insurance and capitalization companies, and open private pension entities.
CNSP Resolution 008/1989 (amended by CNSP Resolution 055/2001)	Specifies the solvency margin and net asset of the insurance companies.
CNSP Resolution 040/2000 (amended by CNSP Resolution 057/2001 and by CNSP Resolution 085/2002, from January 1 <sup>st</sup> , 2003)	Establishes the calculation of the technical limits for the insurance companies, and set other arrangements.
CNSP Resolution 085/2002	Specifies the required Adjusted Net Equity of the insurance and capitalization companies, and open private pension entities composed under joint stock company, and set other arrangements.



**Intermediaries**

Law 4.594/1964	Regulates the profession of insurance broker.
CNSP Resolution 081/2002 (amended by CNSP Resolutions 175 and 176, of 2007)	Specifies the activity of insurance brokers of general insurance and insurance brokers of life, capitalization and private pension, as well as their employees.
SUSEP Circular 127/2000 (amended by SUSEP Circulars 140/2000 and 146/2000)	Specifies the activity of the insurance broker, and sets out other arrangements.

**Consumer Protection**

CNSP Resolution 110/2004	Establishes the rules and minimum criteria to be observed by the insurance and capitalization companies, and open private pension entities with the purposes of recognition of their ombudsman services by SUSEP. See SUSEP Circular-Letter 274/04.
SUSEP Circular 292/2005	Regulates the customer service of supervised markets and the converting of their complaints in enactor administrative processes (PAS).
CNSP Resolution 143/2005	Establishes a registration requirement for the policies and endorsements issued and co-insurance exclusive for this purpose, and set other arrangements. See DECON Circular-Letter 005/2006.
SUSEP Circular 326/2006	Regulates the registration of the insurance policies and endorsements issued directly by the insurance companies into specific accounts and exclusive for this purpose.
Law 8.078/1990	Consumer Defense Code.

**Popular Insurance**

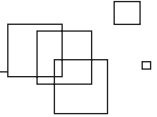
SUSEP Circular 267/2004	Establishes the operating rules and criteria for operation of the life insurance in the popular group, and makes available, on the SUSEP website, their general conditions standardized and their respective parameters.
SUSEP Circular 306/2005 Contractual Standards (amended by SUSEP Circular 324/2006)	Regulates the operating rules and criteria for operation of the popular motor insurance for used vehicles and establishes the contractual conditions standardized.

**Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)**

Complementary Law 105/2001	Specifies the confidentiality of the operations of financial institutions, and sets out other arrangements.
Law 9.613/1998	Specifies the crimes of “laundering” or concealment of properties, rights and values; the prevention of the use of the financial system for illicit activities provided in this Law; creates the Council of Financial Activities Control, and set other arrangements. (Financial Intelligence Unit (FIU) of Brazil).
Law 7.170/1983	Defines the crimes against national security, political and social order, establishes their process and judgment, and set other arrangements.
CNSP Resolution 097/2002	Regulates the administrative process and establishes evaluation criteria to be adopted by the Board of Directors of SUSEP to impose punishments to the insurance and capitalization companies, and open private pension entities, and insurance brokers, for non-compliance with the provisions of the Articles 10 and 11 of Law 9.613, dated March 3 <sup>rd</sup> , 1998.
SUSEP Circular 327/2006 (amended by SUSEP Circulars 333/2006 and 349/2007)	Specifies the internal controls specific for handle with situations related to the crimes practice provided in the Law 9.613 of 1998, or related to them, communication of suspicious transactions and the administrative responsibility of dealing with that Law. See SUSEP Circular 341/2007 and SUSEP DECON Circular-Letters 001/07 and 003/07.
SUSEP Circular 341/2007 (amended by SUSEP Circular 352/2007)	Specifies the procedures to be followed in dealing with customers, considered politically exposed people, in addition to the procedures set forth in the SUSEP Circular 327/2006. This Circular will be coming into force from October 1 <sup>st</sup> , 2007.

**Personal Insurance**

Law 10.406/2002 (Articles 757 to 802)	Civil Code.
SUSEP Circular 251/2004 (amended by SUSEP Circular 287/2005)	Specifies the proposal acceptance and on the attachment date of the coverage, in the insurance agreements, and set other arrangements.
SUSEP Instruction 19/1999	Specifies enunciation of SUSEP Attorney.
SUSEP Circular 302/2005 (amended by SUSEP Circular 316/2006)	Specifies the additional rules of operation and the criteria for operating risk coverage offered in personal insurance, and set other arrangements.
SUSEP Circular 317/2006	Specifies the additional rules of operation and the criteria for operating risk coverage offered in group personal insurance, and set other arrangements.
CNSP Resolution 107/2004	Amends and consolidates the rules that specify the insurance clauses, responsibilities and obligations of the applicants and the insurance companies.



CNSP Resolution 103/2004	Amends and consolidates the updating and recalculation rules of values related to the operations of insurance, open private pension and capitalization companies, and sets out other arrangements.
SUSEP Circular 255/2004	Specifies values updating related to the operations of insurance, open private pension and capitalization companies, and sets out other arrangements.
CNSP Resolution 102/2004	Regulates the offer, by insurance companies, of care services, distinguished as complementary activities to the insurance.
SUSEP Circular 310/2005 (amended by SUSEP Circular 318/06. See CNSP Circular 102/04)	Regulates the offer, by insurance companies, of care services, distinguished as complementary activities to the insurance agreements and establishes the differentiation between these services and similar warranties offered in insurance agreements.
SUSEP Circular 318/2006	Amends provision of SUSEP Circular 310, dated December 19 <sup>th</sup> , 2005.
SUSEP Circular 74/1999 (amended by SUSEP Circular 277/2004)	Specifies terms for the guard of documents and storage of data by the Insurance and Capitalization Companies, Open Private Pension Entities, and Insurance Brokers, relating to agreements entered into.
SUSEP Circular 362/2008	Establishes rules for the Portfolio Actuarial Technical Note that shall be sent together with the Recovery Solvency Plan, and if any, with the Corrective Solvency Plan, upon the constitution of insurance and capitalization companies, and open private pension entities, upon the Commencement of Operation, and upon the split, merger and amalgamation of capitalization companies and open private pension entities, and sets out other arrangements.
CNSP Resolution 140/2005 (amended by CNSP Resolution 148/2006. Amended by CNSP Resolution 161/2006)	Amends and consolidates the operating rules and the criteria for operation of survival coverage offered in personal insurance, and sets out other arrangements.
CNSP Resolution 148/2006	Amends the sole paragraph of the Article 4 <sup>th</sup> , paragraphs XXVI and XXXIII of the Article 5 <sup>th</sup> , Article 7 <sup>th</sup> , paragraphs IV, V, VI, VII and VIII, paragraphs 1 <sup>st</sup> , 2 <sup>nd</sup> , 3 <sup>rd</sup> and 4 <sup>th</sup> of the Article 7 <sup>th</sup> , Article 29, paragraphs 3 <sup>rd</sup> and 4 <sup>th</sup> of the Article 35, Article 50, item “a” of the paragraph I of the Article 52, paragraph 6 <sup>th</sup> of the Article 54, Article 56, paragraphs 5 <sup>th</sup> and 6 <sup>th</sup> of the Article 60, sole paragraph of the Articles 74 and 75, Articles 89, 98, 99, 100, 101 and 102 of the CNSP Resolution 140, dated December 27 <sup>th</sup> , 2005, and consolidates in annex this rule.
SUSEP Circular 339/2007	Amends and consolidates rules and complementary criteria for operating of the survival coverage offered in personal insurance, and sets out other arrangements.
SUSEP Circular 34/1972	Minimum components of the policy.

**General Insurance**

Decree-Law 73/1966	Specifies the National System of Private Insurance, regulates the insurance and reinsurance operations, and sets out other arrangements.
Law 10.406/2002	Establishes the Civil Code.
CNSP Resolution 103/2004	Amends and consolidates the rules of values updating and recalculation related to the operations of insurance, capitalization and open private pension, and sets out other arrangements.
CNSP Resolution 15/1998	Delegates to Superintendence of Private Insurance the criteria definition for collecting the cost of policy, invoice and endorsement.
CNSP Resolution 11/1988	Delegates the authority to SUSEP to approve the insurance companies' requests to operate with insurance tickets.
SUSEP Circular 265/04	Regulates the procedures related to adoption, by insurance companies, of the agreement conditions and related rates provisions and actuarial technical notes of the standardized, non-standardized and unique plans, not subject to prior approval by SUSEP.
SUSEP Circular 256/04	Specifies the minimum structure of Agreement Conditions and Actuarial Technical Notes of the General Insurance Agreements, and sets out other arrangements.
SUSEP Circular 255/04	Specifies the values updating related to the operations of insurance, open private pension and capitalization, and sets out other arrangements.
SUSEP Circular 251/04	Specifies the proposal acceptance and attachment date of coverage, in the insurance agreements, and sets out other arrangements.
SUSEP Circular 239/03	Amends and consolidates the rules that specify the premiums payment related to the general insurance agreements.
SUSEP Circular 176/01	Specifies the criteria of collecting the issue cost.

Resolutions, Circulars and Circular-Letters in Portuguese:

<http://www.susep.gov.br/menubiblioteca/biblioteca.asp>

Other rules in Portuguese: [www.planalto.gov.br](http://www.planalto.gov.br)