

Microinsurance Operations in the Insurance Company

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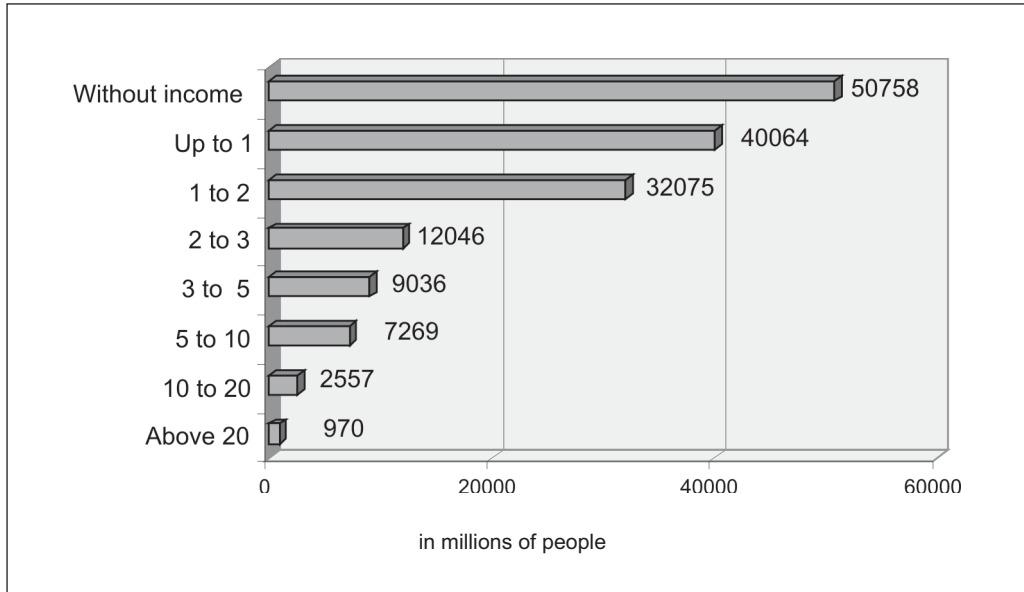
English version: Sandra Machado

Concept

Microinsurance and its Target Audience

According to the surveys performed and discussed in the Microinsurance Consultative Committee of the National Council of Private Insurance (CNSP), it has been defined that “microinsurance is insurance protection provided by entities authorized to operate in Brazil, that initially aims at preserving the personal or familiar socioeconomic status of the low-income population against specific risks, upon premiums payment proportionate to the probabilities and costs of the risks accepted, in compliance with legislation and internationally accepted principles of insurance”.

According to the Committee, it has been defined that the target audience is the “Brazilian low-income population that, for the purposes of Microinsurance, is the sector of people with *per capita* monthly income up to three national minimum wages.”

Graphic 1 – Classes of monthly income

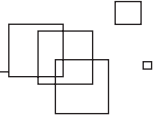
Source: IBGE – National Household Sample Survey – PNAD 2006

Pursuant to the Brazilian Institute of Geography and Statistic (IBGE – PNAD 2006), the potential market for microinsurance would be around 85 million people, considering potential consumers as those with *per capita* monthly income up to three minimum wages, which corresponds to almost 50% of the Brazilian population.

Current Regulatory Milestone (Summary)

Throughout the world, the regulation of microinsurance is quite recent a phenomena, and in most of the countries it does not even exist. But the regulation of some sectors of microfinance has been gradually introduced over the past 20 years. The experience in this sector showed that it is essential to have proper and favorable regulation, protecting not only the stability of the providers, consumers and market as a whole, but also helping to improve the capacity of the providers to render services to the low-income sectors in an efficient and effective way.

In compliance with government guidelines to encourage the development of products and financial services that are within the scope of the low-income population and formal and informal micro-entrepreneurs, the Superintendence of



Private Insurance (SUSEP) has, since 2003, introduced a series of actions aimed at stimulating the development and commercialization of simplified and low cost products for these sectors.

The main actions performed by SUSEP were the following:

- Publishing of the SUSEP Circular 267/2004 on popular group life insurance that established the General Standardized Conditions, and respective parameters (Annex 1).
- Publishing of the SUSEP Circular 306/2005 on popular motor insurance that established the General Standardized Conditions for the sector (Annex 2).

Another relevant incentive measure was Decree 5.172/2004 that reduced the Tax on Financial Transactions (IOF) for Life Insurance from 7% to 2%, reaching a rate of zero in 2006. This measure had a positive influence on the commercialization of Life Insurance products in general but the Decree was revoked in 2007.

These actions stimulated discussions on microinsurance because, until 2004, the Brazilian market was not aware of these themes and it sensitized the insurance market. Several insurance products have arisen since then, intended for the low-income consumer, and motivated by the favorable performance of Popular Life Insurance.

There is a consensus among regulators and experts that the majority of the features relevant to the traditional insurance apply to microinsurance, such as: actuarial and accounting issues, auditing, policy papers, reinsurance, performance evaluation and technical management.

Microinsurance is a tool of social inclusion and presents particular characteristics that demand a distinct regulatory approach. The main issues that require the attention of the regulator are: the premiums collection forms, income instability of the potential assured, poorly qualified agents, low value of the amounts insured, simple policies, and prompt loss adjustments requirement.

Specialized Insurance Company vs. Department of a Traditional Insurance Company

Considering that the main purpose is the development and prospective introduction of an industry sector that operates in microinsurance, firstly, we have to think about the form

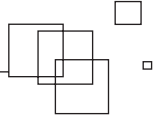
and structure the business might take. The specific characteristics of the microinsurance product, such as low value of premium, the spreading of the commercialization channels and prompt loss adjustments requirement, seem to demand a compact, agile and efficient structure.

The market for microinsurance products has an enormous potential in Brazil, taking into account the target audience of up to three minimum wages. But the current stage of development for this market is still quite incipient. Considering the preliminary concerns, we consider as inappropriate the creation of an insurance company specialized in microinsurance. The main purpose may be achieved by the development of a business unit operating microinsurance within the organizational structures of traditional insurance companies. Depending on the structure and degree of autonomy attributed to such a unit, it may be characterized as a Superintendence or a Microinsurance Department. When performing its operational activities, this unit shall be continuously interacting with the operating sectors of the insurance company. Although this department might enjoy a certain degree of operating autonomy, it should always be managed as an income source (profit center). In other words, this department shall be liable to the management for its incomes and outcomes. Management reports should be introduced in order to permit the companies' directors to evaluate clearly the performance of this department. This performance evaluation shall be conducted with regard to profitability targets and business development, established in the design phase.

Economic Environment

The risk is relevant to almost all the activities of the human condition. The economic risks are classified, by their nature, as Pure Risks and Speculative Risks. The Pure Risks are those that only produce losses and are the risks taken into account by the assured, when purchasing an insurance policy. In this case, therefore, there is no expectation of eventual earnings but merely that of proprietary protection. The Speculative Risks are those existent in financial operations that may cause loss or profit. Depending on the activity performed, the nature of the asset, the type of risk and its tendency to risk, the economic agent chooses different strategies of protection ahead of the potential risks confronted. These strategies may vary, from the total retention of the risk to the partial or total transfer of this risk, through the purchasing of insurance.

Galiza (2007, p.22-36) presents a series of concerns with regard to some preconditions for the existence of insurance demand and supply. These concepts are consolidated in



a simplified model, taking into account the main variables that compound insurance demand and supply. With regard to demand, the main elements are the following: income level of the economic agent, price of the insurance, loss probability, value of the loss related to claims, and a variable that represents the variation in the conditions of the properties replaced by the insurance. With regard to supply, the elements are taken into account to calculate the expected profit of the insurance company; that is the total value of the incomes and outcomes of all the insurances sold. The incomes are represented by the relationship between price weighed against the Amount Insured, resulting in a sum equivalent to the insurance premiums. The outcomes, that the insurance company expect to occur, are represented by the relationship between the expected probability of losses against the value of claims indemnities. Finally, the model considers the variable that represents the opportunity cost of the market, and also the variable of the actual interest rate.

Considering the nature of the model variables, representing income, expected values and opportunity costs, it is reasonable to expect relevant impacts on the results of the model, due to fluctuations in the prices, interest rates and income level. Contador, Ferraz e Azevedo (1999 p. 9-25) analyzed the international expertise and have concluded that the rate of inflation influences the insurance sector. The survey shows that inflation affects the demand as much as the supply of the insurance. Regarding to demand, the effects are felt by the deterioration of income distribution and the devaluation of the expected values of indemnity. The survey also shows that the insurance supply is prejudiced by inflation, which affects not only the adjustments and the profitability of their reserves, but also the adjustments of their actuarial plans. In addition to other conclusions, the paper proves the impact on the profitability and the capital structure of the insurance companies, caused by the increase of the interest rates that are pushed by the inflationary effect. It has been verified that the *per capita* income level somewhat affects the insurance sector. The positive income elasticity above 1.0 in almost all the countries surveyed indicates extraordinary opportunities as the Brazilian economy continues to grow.

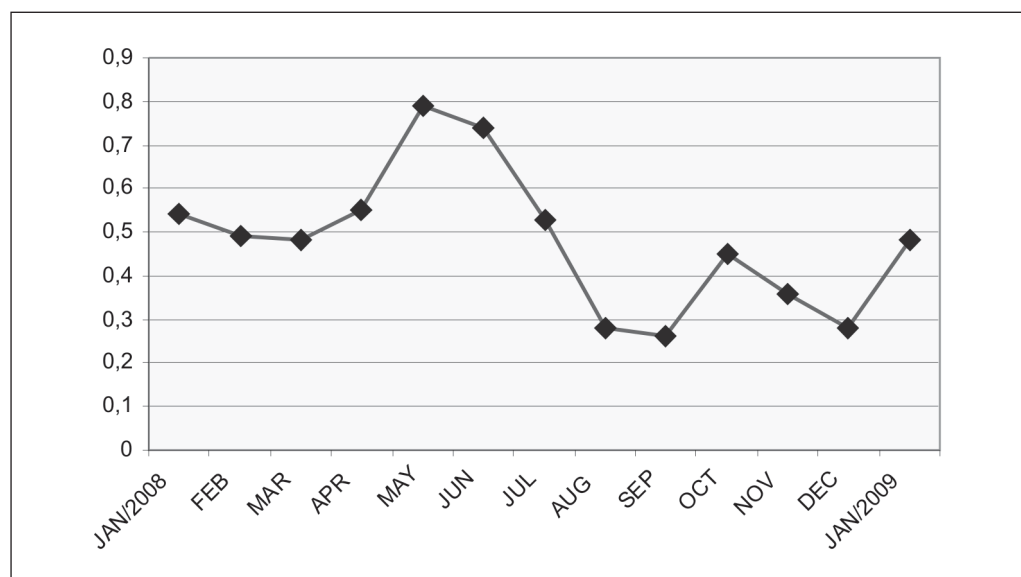
According to the previous concerns, it is evident the importance of the survey on the economic environment when evaluating any insurance product operation opportunity, including microinsurance products.

The main elements that compound the economic environment are the inflationary rhythm, the interest rate and the level of economic activity.

Inflation behavior, subsequent to introduction of the *Plano Real* (The Real Plan) in July 1994, has been quite favorable to long-term investment and to the launching of new products by insurance companies. Since its launch, the effect has been to control inflation,

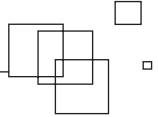
cancelled indexation and stabilized the currency. This favorable economic environment resulted in a number of opportunities for the launch of new products, as much in the property insurance as in the sector of personal insurance. Several surveys indicate an increase in the volume premiums, mainly in the motor, life and health segments. When analyzing the behavior of inflation during 2008, we note a relative instability. The monthly variations of the *Índice de Preços ao Consumidor Amplo* – IPCA (Amplified Consumer Price Index), the official index used to evaluate consumer inflation, recorded for 2008, show figures of 0.45% to 0.55%. In the two first months of 2009, the IPCA presented a monthly variation around 0.40%. In the twelve months, from January 2008 to January 2009, this index accumulated a 5.84% variation.

Graphic 2 – IPCA Behavior (% by month)



Source: IBGE

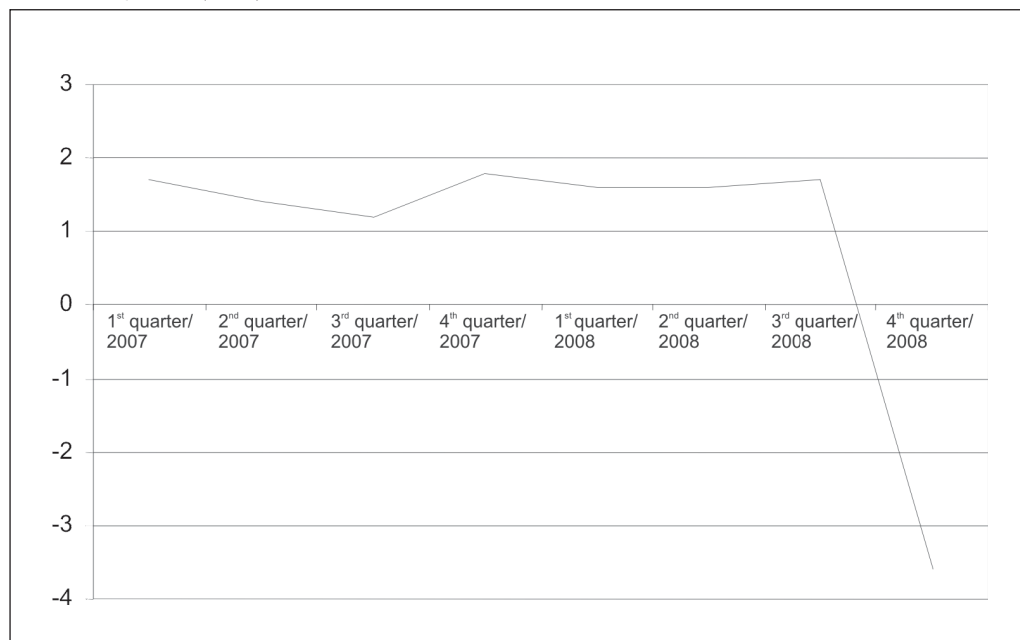
The inflation target estimated by the monetary authorities for 2009 is 4.5% per annum, with a margin of two points up and down. In light of the current global crisis negatively influencing the Brazilian economy, it is expected that the inflation of 2009 is rather under the target center of 4.5% per annum. This inflation target establishes a parameter to establish the *Sistema Especial de Liquidação e Custódia* (SELIC) – Special System of Clearance and Custody rate.



The SELIC rate is the basic interest rate of the Brazilian economy and the most important instrument of monetary policy. This rate has been maintaining increased levels during the last years. Brazil is currently situated among those world economies that have the highest interest rates. The SELIC rate showed constant growth from September 2007. In September 2008, the SELIC rate reached 13.75% per annum and remained at this level until January 20th, 2009. On January 21th, 2009, it was decided to effect a drastic change in the SELIC trend, by a reduction of one percentage point to 12.75% per annum. The disclosure, by IBGE, of the data relative to the Gross Domestic Product (GDP), indicating a severe dropping of 3.6% in the last quarter of 2008, was a warning sign of an intense slow-down of the Brazilian economy. Thus, it resulted in an opportunity to practice a less restrict monetary policy, with more frequent reductions of the interest rate. Confirming this expectation, in March 11th, 2009, the *Comitê de Política Monetária* (COPOM) – the Monetary Policy Committee decided on a new reduction of the SELIC rate from 12.75% to 11.25% per annum. Although this reduction has been quite large, market analysts estimate other reductions during 2009 which in December may reach 10% per annum.

Another element of the economic environment with relevant impact in the insurance market is the activity level of the economy. The direct impacts of the current global economic crisis are already clearly noted in the Brazilian economy. The data about the trade balance, disclosed by the Ministry of Development, Industry and Foreign Trade show a reduction in export of US\$8.3 billion in the last quarter of 2008. With regard to the internal economy, the industry sector already presented severe warnings of an intense drop in its performance in the last quarter of 2008. The monthly research of the IBGE on the industry sector indicated a production fall of almost 20% in the last quarter of 2008. This slow-down of the industry sector had a direct impact on the income and employment levels, as confirmed by data given on the large amount dismissals that occurred in the sector. According to the data, divulged by the Federation of Industries of the São Paulo State (FIESP), figures for November and December of 2008 alone, show that 160.000 employees were laid off in the São Paulo industrial sector. The deterioration of the external sector associated with the intense retraction of the industry sector resulted in severe negative influences on the performance of the Brazilian economy. Data from the Coordination of National Accounts of the IBGE showed a record fall of the GDP of 3.6% in the fourth quarter of 2008 against the previous quarter. The environment for 2009 is rather upsetting, with a trend towards poor growth of the GDP at around 1%.

Graphic 3 – Economy Performance Gross Domestic Product (GDP) – Variation against the Previous Quarter (in %)



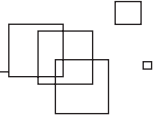
Source: IBGE

We may conclude that, in this environment of constant changes, any survey of new business opportunities in the insurance sector, and especially in the microinsurance, should come before a substantial evaluation of the national and world economic environment.

Products Development

Products/Features/Phases

Pursuant to the concepts and definitions taken from the Working Group on Microinsurance (SUSEP WG) “microinsurance is insurance accessible to the low-income population, provided by several different types of entity, but in compliance with generally accepted principles of insurance. Primarily, it means that the risk insured by a microinsurance policy is managed in accordance with the principles of insurance financed by premiums.” Thus, microinsurance operations should be classified within the scope defined by the regulator, in compliance with the existing legislation.



Therefore, the greatest part of the traditional insurance features applies to the microinsurance. For this reason, the development process of a microinsurance product is similar to that of traditional insurance. The phases to be fulfilled include from the inception to the launch and a critical evaluation of the development process.

The development of a microinsurance product should be included within the scope of the strategy for launching new products, as part of the global planning of the insurance company. A design coordinator should be defined at the time the opportunity of development of a microinsurance product is identified. The principal duty of such a coordinator is to manage the staff of the product development and also to control all the issues and phases of the process. Such control is made through follow-up reports sent to the members of the staff and to other appropriate managerial personnel. It is recommended that, subsequently, this coordinator should become the Manager of the Microinsurance Department. During all the phases of the development process up to the introduction of the product, it is essential to have the co-operation of all the operating sectors of the insurance company.

In the initial phase of the product design, it is important to have the input of expert members in the staff. Such expertise allows a better evaluation of the various suggestions focusing the efforts in a more objective way. The first evaluation to be made during this phase is to verify if the product that is being designed meets an actual need of its target audience. If this evaluation is positive, the development staff may then outline the first specifications of the product. This prototype should be submitted to the operating sectors for tests and evaluation with regard to its viability along with any technical issues relevant to each sector.

The marketing sector makes surveys on the competitiveness and the profile of the eventual products destined for the market. This sector also analyzes the target markets and the delivery channels that would be most appropriate. Furthermore, it defines the promotion strategy of the product. The actuarial sector defines the initial specifications of the product with regard to the underwriting, values covered, commissions and other financial issues. The main responsibility of the actuaries is to evaluate if the product may be priced so as to satisfy the competitiveness and profitability requirements. The claims-handling and information systems sectors evaluate whether their current systems meet, or may be adjusted to meet, the new product requirements. The legal sector and the supervision and inspection sector analyze the fulfillment of the legal and regulatory requirements. The accounting sector evaluates the influences in the financial statements, whilst the investment sector determines the appropriate types of investments necessary to achieve

the expected levels of solvency and profitability for the business unity of the Microinsurance Department.

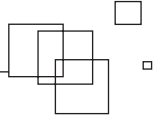
If the results of these surveys and analyses are favorable, indicating the attractiveness of the business, the development staff prepares the product proposal. The product proposal is a summary of the market surveys, regarding technical specifications, supervision and inspection concerns, information systems requirements and commercialization channels. Such a proposal shall be submitted to the approval of Directors of the insurance company.

After the proposal has been approved, the development phase of the technical design is initiated. In this phase is defined the model of policy and contractual provisions of the product, in compliance with the laws and regulations in place. In this phase, are also defined the price, benefits, commissions, and underwriting and issue specifications. Once the elaboration of the technical design is concluded, it takes the form of the final project that is submitted for the approval of the coordinator and the Directors.

The next product development phase is the execution which precedes the launch phase. In this execution phase of the project and introduction of the product, the structures, processes and decisive systems for the effective launching of the product are defined. These definitions and arrangements include: development of the model of policy and its registration, training for the operational support personnel and agents. These definitions and arrangements also include making operational the information systems required for the commercialization and management of the product. The promotional material and the disclosure channels for the new product are also defined during this phase. The training of the agents is an essential activity for the effective launching of a product. Training helps the agents to identify the advantages of the product and to highlight the points where it meets the needs of the potential client.

In the launch phase, the agent's training is reinforced and educational materials about the product are made available. The disclosure material for the new product is sent to the media by channels specifically intended for the low-income population, the target audience of microinsurance. The initial sales should be monitored and the results achieved shall be compared to the targets established in the planning phase. If the sales performance does not achieve the estimated volume, some measures shall be immediately taken to improve the effectiveness of the sales process.

The subsidies collected from the agents are extremely important, as much to evaluate the receptivity of the product as to obtain suggestions on further characteristics required for the product.



Pricing

The pricing of a product does not depend on the pricing mechanisms defined by an insurance company. The price of a new product should be established so that it covers all the losses, in addition to other expenses. This price should also assure a good return for the investors. The various managements, shareholders, officers and agents have conflicting priorities regarding to the long term profitability and solvency of insurance companies. The challenge of the person liable for the product is to conciliate these varied agendas and to reach a premium that balances the divergent and even conflicting.

The first step in the pricing process of a new product is the calculation of the net premium. The net premium is calculated to cover the cost of the expected benefits from the product. In life insurance, specifically, this calculation is made by the actuaries of the insurance company, based on the mortality rates of a certain group of potential assureds. The next step in the pricing process is to determine the gross premium for the new product to be launched in the market. The gross premium should be sufficient to cover, not only the estimated cost of the expected benefits, but also to cover the loading of the policy. The loading is the amount that should be added to the net premium to face all the expenses of the insurance company for developing and conducting its business, also providing reasonable earnings for the investors.

In the case of group life insurance, some issues of the pricing process are peculiar (exclusive) to this type of policy, in which coverage is governed by a group insurance base agreement. The first issue is that the pricing of the product depends on the loss ratio of the group for which the product is being developed. Another relevant issue is that in the group life policies, due to it being a short term feature, the return on investments is not a significant factor in the pricing process. In addition to these issues, it is not necessary to establish technical reserves because in these policies the annual premiums are sufficient to cover the losses of that same year.

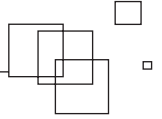
Finally, we should highlight the importance of the management of the pricing results for any new insurance product, including those of microinsurance. The monitoring of the results should be consistent and constant. The performance deviations of the expected values should be analyzed as to the nature of their cause. The cause of these deviations may have originated as much for reasons of operational inefficiency as for a price determination at improper levels. Either way, corrective actions should be taken as soon as practicable.

Strategy of Commercialization and Delivery

After defining the product, identifying its essential characteristics, the target audience and the extent of the potential market, the next phase is the choice of the appropriate and efficient way to provide the products to the potential assureds.

The choice process of the commercialization channel is a dynamic process, mainly in the initial phase of the launch of the product. This phase should be preceded by marketing planning. The support elements should also be available and the sales agent should be duly trained. This training should provide a full and complete knowledge of the product and the best way to provide it to the target audience, identified in the market surveys. Even if these preliminary stages have been fulfilled, and the sales increase, there shall be identified needs of adjustments and even of changes, in the characteristics of the commercialization channels. The critical points that are prejudicing the increase of the sales shall be promptly adjusted and monitored for a subsequent evaluation of the impact of these adjustments on the performance of the sales. The essential condition for the success of the sales operation is that all the phases of the process of development, introduction, and management of the commercialization channels rely on the intensive participation of the Manager of the Microinsurance Department. This management shall count on the support of the various operating sectors of the insurance company, with which this department interacts in the various phases of this process.

The main sales modality used by insurance companies, especially in life insurance, is personal sales through its agents or through independent agents. Due to the characteristics of microinsurance, the system of sales through agents of the insurance company, is neither adequate nor viable. This is due to the high costs for financing and managing the activities of the agents. The systems through independent agents are the most adequate and that allow the microinsurance commercialization in a more efficient way. These systems enable the creation of a sales network with a greater number of points of sale, at a relatively low cost. The two main modalities are the following: through independent brokers and through self employed agents. In both systems, the payment is made through commission and the broker and the agent may represent more than one insurance company. The key point for the success of these systems is the know-how these agents should have about the product and about the needs of their potential assureds. The simpler the microinsurance product, the easier and quicker shall be its understanding by agents and the greater shall be its acceptance by the market.



A channel for microinsurance commercialization that has been consolidated in the recent years, and deserves to be explored in subsequent surveys, is the use of community leaders in the poor communities, as propagators of elements of a microinsurance agent network. These leaders, that are usually supported by a residents association, carry a high degree of respect and credibility from the members of these associations. Clarifying the members with regard to benefits of microinsurance, or by facilitating the agent's ability to do this, the leaders are attributing, automatically, credibility to the product. This system enables the business solution development to win the confidence of the target audience, and at the same time, adjusting the offer to the demand requirements of the microinsurance product consumer. This alternative would result in the creation of a "microbrokers" network, with knowledge and expertise about the commercialization of this product.

Another channel that shows some commercial promise is the sale of microinsurance through the large retail banks. These financial institutions, already manage products for large number of low-income clients. These clients have previously demonstrated a satisfaction with the services provided by these banks, through the fidelity maintained over the years, as bank account holders or savers. Furthermore, institutions like *Banco do Brasil* and *Caixa Econômica Federal* have already accumulated a large expertise in microcredit operations, benefiting millions of low-income clients. This expertise and the knowledge of the needs of these clients make this commercialization channel rather attractive for microinsurance sale.

In addition to the systems previously presented, the Superintendence of Private Insurance (SUSEP) allows the insurance companies to commercialize their products through alternative delivery channels. The main commercialization channels within this modality are the utilities concessionaries and providers. These companies encounter almost the all of the households of the low-income urban population that is the main target audience for microinsurance products. The good prospects for this sale modality are confirmed by the success of the launch, at the end of 2008, of some types of popular insurance made by insurance companies in partnership with electric power companies.

In the future, a new commercialization and delivery channel, via Internet, may be a viable alternative, but this is still rather distant from the current reality of the low-income people. The development of this alternative should be monitored and deserves more deepened surveys, since the process of digital inclusion reaches a significant part of the low-income population.

The choice of the microinsurance commercialization channels may result in the selection of only one modality or the combination of more than one alternative. The option of a mixed strategy is recommended when the presence of certain important characteristics, in different sectors of the target audience, results in a well defined segmentation of the market. In this way, distinct commercialization channels would reach and meet these sectors properly and efficiently. These characteristics might include the following: to be in the same geographical area, to belong to the same district association or union, to be clients of the same retail bank, or to use the same utilities concessionary.

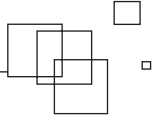
The main characteristic of the models presented is that all of them have a relatively low cost of development and implementation. This occurs because these alternatives do not require any investment to hire agents (of the insurance company), nor for the establishment of agencies.

The system chosen shall be the most appropriate one to achieve the strategic targets and purposes established in the commercial planning. This choice shall be always conditional to the amount of resources available for the development and introduction of this system. Although the cost differences among the systems are small, they should be taken into account in view of the low value of the microinsurance premium. The sale of products through the banking network is the alternative that affords the lowest cost and promptest introduction. Following, and taking into account the issues of cost and promptitude of introduction, the next alternative would be to use the utilities concessionaries and provider. The alternatives that contemplate the use of brokers and self employed agents would demand a greater period for proper training of these producers, aimed at ensuring the success of the venture in short and long term.

Other factors should be taken into account in the process of choosing the eventual commercialization channel, such as the previous expertise of the insurance company with some of these channels and the relationship with the key elements of these channels.

Financial Management

All the insurance companies have two basic business goals. The first, as trustee, is to protect the funds of the policyholders, being able to honor all their financial responsibilities. This target is related to the solvency concept. The second is the capacity to generate a return on the investment of the shareholders, including their capacity to generate net earnings and to increase the value of the company. This target is termed rentability or profitability. In the process of financial management it is



extremely important to administer the financial resources so as to reach the solvency and profitability targets.

Some specific functions in the financial sector are essential in order to provide support elements to the higher administrators in order to elaborate and control the fulfillment of the business targets. The first is the planning of the financial strategy, establishing targets and strategies of solvency and profitability. The second, but not less important, is the management of the shareholders' equity, that is the value by which the assets exceed its liabilities, so to ensure the financial strength of the company in long term while seeking a more attractive profitability. The next function is the management of the cash flow to ensure the availability of sufficient cash to honor the responsibilities determined in the terms and conditions. Other functions intended for the financial management are the management of the investments through the purchase transaction and the sale of securities, equities, real estates and other assets with the purpose of achieving the solvency and profitability targets. In addition to the management activities, there is a series of other activities that should be fulfilled to generate management reports and accounts analyses and to prepare the budget. This information is important to meet the questions or requirements of the internal public (management and administrators) and the external public (regulatory authorities, clients, investors, external auditors and ratings agencies).

Within the context of efficient financial management, analysis to identify the trends of the results and the deviations against the expected values are performed quite frequently. These analyses seek to explain the deviations and to identify their causes.

The financial statements are used for the understanding of the financial management of a specialized insurance company or a business unit termed Microinsurance Department. These financial statements summarize the principal events and financial operations of a company. The two main financial statements are the Balance Sheet and the Income Statement. These statements, with their basic concepts and methodology being that of elaboration and analysis, are used to evaluate the financial performance and condition of a microinsurance department. They are also used to determine the levels of solvency and profitability. Some concepts are essential to the analysis of the balance sheet, which is the representation of the proprietary profile of a business unit at a certain moment. In a simplified format, the balance sheet considers the properties and rights as asset and the responsibilities relative to third parties or partners as liabilities.

Assets are things of value such as investments, money, real estate, equipment and values due by third parties to the company. In the insurance companies, the main item of the asset is composed of the investments in securities, equities, real estates and others.

Liabilities are debts or prospective responsibilities. The most important liabilities in the insurance company are the technical reserves. These reserves added to the prospective premiums and the return on the investments should be sufficient to pay the prospective benefits of the policies in force. The insurance companies keep other reserves, such as those for outstanding losses, to offset the assets variation, for contingencies, for special risks, and others. An insurance company should seek to keep sufficient assets to guarantee their technical reserves.

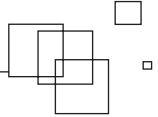
In the following figure, we represent in a simplified format, the main accounts of the balance sheet.

Table 1 – Balance Sheet – Main Accounts

ASSET	LIABILITY AND SHAREHOLDERS' EQUITY
Current Asset	Current Liability
Available Funds	Accounts Payable
Receivables	Others
Inventories	
Deferred Expenses	Long-Term Liability
Noncurrent Receivable	
Permanent	Shareholders' Equity
Investments	Share Capital/Reserve
Fixed Assets	Retained Earnings
Deferred Expenses	

Another relevant concept in the analysis of the balance sheet is the shareholders' equity, which is the capital value added to the retained earnings. The capital is the value of the financial resources provided by the shareholders. The retained earnings are the earnings accumulated across the operating years. The level of the shareholders' equity significantly influences the solvency margin of an insurance company.

The balance sheet of an insurance company uses a lot of concepts that are common to other companies, although it presents some special concepts. In the assets of an insurance company, for example, two accounts may be highlighted. The first is the Operational Credits account, included in the Current Asset that shows entries of the total receivables against assureds, insurance companies, insurance brokers, loss adjusters and others. The other account is Deferred Expenses of Commercialization which allows an expense to be allocated according to its accrual period.



On the other hand, for the liabilities of an insurance company, two groups of accounts are peculiar to this type of company. The first group is that related to the Operating Debits accounts, where the entries are similar to the asset. The second group is that related to the Reserves accounts. The main reserves are the following: Unearned Premium Provisions (UPP), claims payable, claims incurred but not reported (IBNR) and the mathematics specific to the life insurance.

An insurance company, when developing its business activities, makes the entry of continuous inflows and outflows of resources of the company which are represented in the Income Statement. While the balance sheet is a statistical survey at a certain moment in time, the income statement shows the result of the company over a certain period of time. The resources inflow is the income of the company generated by its business operations. The two principal incomes of an insurance company are the insurance premiums and the earnings generated by its investments. The resources outflows are the expenses that, in the case of an insurance company are, predominantly the benefits payments to the policyholders. Other less relevant expenses are the agent's commissions, salaries, product development costs, marketing costs, facilities maintenance, and taxes.

The insurance companies' earnings are defined as the excess of incomes against expenses at a certain period of time. When the expenses surpass the incomes this excess is named loss.

The income statement appears on the balance sheet by the inclusion of the income summary to the shareholders' equity.

As previously mentioned, the two targets desired by the financial management of an insurance company are to protect the solvency and to increase the profitability.

The insurance companies normally use the relation between the value of the shareholders' equity and the total value of their assets to evaluate their solvency margin. This relation is termed the non-weighted Shareholders' Equity/Asset ratio.

$$\text{Shareholders' Equity/Asset Ratio} = \frac{\text{Shareholders' Equity}}{\text{Assets}}$$

Every insurance company, by the nature of its operations, faces risks known as contingency risks that may threaten its solvency margin. For this reason the Shareholders' Equity/Asset ratio weighted is increasingly used, by the regulatory authorities of several countries, to adjust the shareholders' equity to the value it should have, taking into account the risks the insurance company is exposed to. This adjustment model is known as Risk-Based Capital (RBC).

The profitability of an insurance company in the short-term may be obtained in the income statements expressed in the value of the net earnings or in the value of the net loss at a certain moment. On the other hand, to know the profitability in the short-term, the insurance companies use the balance sheet. Whenever an insurance company makes an income statement, the earnings or loss assessed is transferred to the balance sheet in the shareholders' equity account. Therefore, it is the movement of the shareholders' equity account that shows the accumulated effects of the company operations.

The profitability index most used by the insurance companies is the shareholders' equity profitability index which is a ratio between the earnings of the company and its shareholders' equity. This index evaluates the efficiency of the insurance company in the management of its resources to generate earnings during a period.

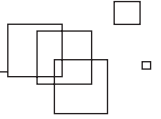
$$\text{Profitability index of the shareholders' equity} = \frac{\text{Earnings}}{\text{Shareholders' Equity}}$$

In seeking to reach the profitability target, it is necessary to undertake a certain amount of risk, yet the protection of the solvency means to avoid risks. Dealing with this divergence and seeking a balance is essential to the success and survival of an insurance company.

Investments Management

The operating activities relative to the investments management of a microinsurance department are developed according to an organizational structure, to which such departments are connected. Such operations are usually performed by the Management of the Investments Department and comply with the investments standards established in the company. This department acts in harmony with the actuarial sector, so that there is a compatibility of the investments with the responsibilities generated by the insurance products existing in the portfolio of the insurance company.

The investments management of an insurance company is performed within the context of the investments policy established by the Directors. Investment policy is established by taking into account the financial status and the current investments portfolio. The investments objectives and the types of proper and required investments to achieve such objectives are also taken into account. Compliance with the minimum standards to maintain the capital and the earnings levels of the investments are essential when establishing such policies.



Throughout the world, the authorities that regulate and supervise the insurance sector establish rules to be applied to the management investments. In Brazil, the National Council of Private Insurance (CNSP), through its Resolution 088, disposes on the investments criteria made by the insurance companies. According this Council, “investments are the assets and the operating modalities of the insurance company, including the collateral”. (Annex 3) Collateral is defined as the assets offered as guarantee of the resources of the reserves, provisions and funds. The insurance companies periodically inform to the Superintendence of Private Insurance (SUSEP) as to the composition of their investments portfolio and their technical reserves. The insurance companies should comply with the maximum limits of the assets to be used in every type of technical reserve. These limits are established by taking into account the liquidity of every type of asset that are grouped in governmental securities, private securities, equities and real estates. CNSP, with the aim of preserving the security of the insurance companies’ investments, prohibits some types of investments, requires that the securities are registered in the SELIC and the ownership of the real estates in the Registry.

Microinsurance operations may be included in the operations of the Investments Department in two distinct ways. The first would be in a global way, forming part of the total portfolio of the insurance company, according to a criterion; for example, volume of microinsurance sales in relation to the total sales. The second way would be to select an investment securities portfolio, especially to satisfy the responsibilities of the microinsurance portfolio. In this way, combining the specific assets and specific liabilities, the monitoring of the development of the microinsurance portfolio becomes more transparent. Therefore, the evaluations of the solvency margin of such portfolios and of its level of profitability are simplified and the results obtained become more relevant.

When evaluating an investment, in addition to the cash flow of the investment, the expected rate of profitability, the nature of the investment risk, and its liquidity are taken into account. The analysis of the cash flow is important to conciliate the available resources with the financial responsibilities at the extent to which they are due. When evaluating the potential profitability of an investment, the insurance company should pay close attention to the analysis of the risk of a certain investment. In the evaluation of an investment there is always the relation between risk and profitability. The larger the risk, the larger should be the expected profitability. Conversely, the smaller the risk of the investment, the smaller should be the expected profitability. The insurance companies use the diversification of their investments portfolio to spread the total

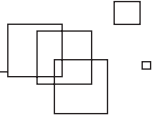
risk of their portfolios. The investment modalities used most are the following: government securities, private securities, equities, and real estates. In several countries, these securities are classified by rating agencies in relation to the default risk of negotiable instruments. This classification helps the insurance company make a decision on investments of this type. There are several characteristics of these negotiable instruments that make them different with respect to their degree of risk, such as: maturity term, default risk of the drawer (rating), repurchasing clause, convertibility and the guarantees provided. The governmental securities, issued to finance the public debit, are considered low risk and low profitability and are termed fixed-income investments, with their yields being paid on a predetermined date. Equities represent a part ownership of a company and provide capital earnings at the moment of the sale and dividends are distributed following the earnings assessment of the company. Equities are variable-income investments and their risk is greater than that of government securities. In the event of insolvency of the drawer of the equities, the shareholder shall only be paid if there are available resources remaining subsequent to the payment of all the debits and securities.

Real estates' acquisitions through direct purchasing represent capital investment and provide a rental income to the insurance company. The risk in this operation is the vacancy of the real estate, halting the flow of the rental income. In order to avoid this risk, many insurance companies use the purchasing and leasing modality. In this operation, the insurance company purchases the real state and simultaneously leases it to the previous owner through a long-term contract, thus ensuring an expected income over a long period.

The administrators of an insurance company, when establishing an investment strategy based on its solvency and profitability purposes, may choose a more assertive or conservative strategy, or some compromise between these two levels of assertiveness. A more assertive strategy tends to assume more risks in the investments, seeking greater earnings. A more conservative strategy, however, prioritizes protection of the assets, eschewing greater earnings. In the initial operating phase of a microinsurance department, it is recommended to take a more conservative strategy, prioritizing the growth and consolidation of the business.

Information Technology Policy

Information, in its complete sense as organized data, is present in all aspects of an insurance company. The functional sectors use several sets of information to perform their activities as do the operational sectors. In order to be useful to its users and to



assist in the operations of an insurance company, this information needs to have certain characteristics or qualities.

The initial characteristics that attribute value to the information are the following: to be prompt, complete, concise, relevant, clear, updated, accessible, economic and safe. In order to preserve their value, the information requires effective information management, constantly taking measures aimed at preserving these essential characteristics. It is important to monitor this set of characteristics, since the default by any of them may reduce the efficiency of the operations of the insurance company. The insurance companies that manage their information effectively become more competitive in relation to their counterpart providers in the market and provide a better quality service to their clients.

Currently, effective management of the information requires the use of computerized technology. Such technology requires permanent updating of equipment and systems, resulting in high investments. Considering a Microinsurance Department in operation within the organizational structure of an insurance company, this unit would be burdened by a small share of these investments. This share may be proportionate to the total value of the investments, considering the microinsurance sales volume against the total sales of the insurance company. Other definition criterion of this portion may be debit by cost relative to the frequency this department uses the information systems.

Monitoring the rhythm of these technological changes is defined in the strategic planning of the information management activity. This planning evaluates and quantifies the investment in new technology required to achieve an intended level of improvement in the efficiency of the operations. These investments are evaluated; as much the hardware as the software. For sales made through agents, the insurance companies use hardware-like mobile processors that are made available to the agents. The main applicative software that perform the specific functions in an insurance company are in the following sectors: actuarial, accounting, claims handling, investments management, and the management sector of the producer which includes the generation of production reports and commission values.

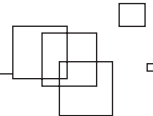
The first set of information systems used in an insurance company comprise the systems that record its business transactions. These systems process and record the work-a-day activities that are usually repetitive and deal with a large volume of data. From the moment an insurance proposal is submitted to the insurance company, the recording

process begins for a series of data relative to the applicant, assured, beneficiary, agent or broker, and data for the policy itself. After the proposal acceptance, the processing of the transactions associated with the underwriting, premium collection and commission payment generates more data to be recorded and information to be properly and effectively managed.

The second set of information systems use data already processed by the systems that record the operations, generating management reports about the work-a-day transactions and operations of the insurance company. These reports are extremely useful to the management of the insurance company to analyze the development of the business and make decisions to correct the deviations relative to the targets established in the planning. During the elaboration of these reports, a considerable volume of data is handled, in order that these data are presented in a suitable format for the purposes of management information.

The information systems of an insurance company so much generate data as use data that compose the database. This data base is managed by systems that permit data stored to be used by the other management systems.

Some insurance companies develop special information systems to facilitate better special operations management of their business portfolio. This is typical of a traditional insurance company that creates a specific department to operate microinsurance products. In this case, the special information systems requirement arises from the particular characteristics of the microinsurance product. These characteristics are: massified products with relatively a low premium value, issuance of a large number of policies, segmented market, commercialization channels of different natures (retail banks, utilities concessionaries and others), large number of brokers or agents and promptitude requirement in the losses settlement. Furthermore, it is recommended that the information management with respect to microinsurance is performed separately from the normal systems of the insurance company. Thus, in addition to the processing become more agile, this segregation shall allow a more transparent and effective administration of the financial and investments management of this business unit (the Microinsurance Department). This decentralization, recommended for special information systems in the microinsurance sector is simple to operate, due to the explanations previously presented. But in the development of these systems, the concern over possible integration and compatibility with the global systems of the insurance company should always be considered in order to allow performance evaluation of the insurance company as a whole.



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Annex 1 – Susep Circular 267, dated September 21th, 2004

Establishes the operating norms and criteria for popular group life insurance operations and makes their general conditions and parameters available in the SUSEP's website.

THE SUPERINTENDENT OF THE SUPERINTENDÊNCIA DE SEGUROS PRIVADOS – SUSEP, exercises the powers conferred upon him by art. 36, items “b” and “c”, of Decree-Law 73, of November 21, 1966, in view of the provisions of art. 10 of the Circular Letter 265, of August 16, 2004, and considers the contents of the process SUSEP 15414.000828/2004-13

D E C I D E S:

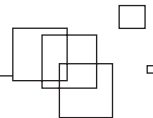
Article 1 To establish the operating rules and operational criteria of the popular group life insurance to be made available on the SUSEP website, its general standardized conditions and respective parameters, being contained in the Annexes I and II of this Circular.

Article 2 It is prohibited for insurance companies to accept, as assured, in an insurance plan related to this Circular, a minor of less than 18 (eighteen) years old.

Article 3 Control mechanisms shall be employed that identify the assureds by Individual Taxpayer Identity reference (CPF) or, in the absence of this, ID, Working Papers, Birth Certificate, Marriage Certificate or other official identity documents valid within the national territory.

Article 4 The insurance companies interested in operating the insurance plan referred to in this Circular shall use the standard general conditions and forward to SUSEP, prior to the commercialization, the actuarial technical note and the parameters of the general conditions, for analysis and filing.

Article 5 The insured amount of the basic guarantee may not exceed R\$10,000.00 (ten thousands Brazilian Reais).



Article 6 The technical actuarial note shall contain at least the following:

- I – the insurance coverage provided in the plan;
- II – the specification of the rates or pure premiums;
- III – the statistics used to define the rates, specifying the period and source used and the respective calculation schedule or biometric tables, if appropriate;
- IV – the rates re-evaluation criteria, including formula and periods;
- V – the loading applied;
- VI – the technical provisions; and
- VII – the signature of the actuary and the ID number before the Brazilian Institute of Actuaries.

§ 1 The rates specified in the form of section II of this article may be reviewed at intervals of no less than 1 (one) year, when the variation in the loss ratio of the product is more than 100% (a hundred percent), which is calculated based on the pure premium, and should be determined in advance, pursuant to item IV of this article, its respective technical methodology.

§ 2 In case of revision of rates pursuant to paragraph 1 of this Article, the insurance company must send to SUSEP an additive to the Actuarial Note, showing the calculation of the new rates indicating the administrative process number corresponding to the plan.

§ 3 Subject to the provisions of paragraphs 1 and 2 of this article, the actual change in the rates adopted may only be made to the plan after the prior expressed consent of at least $\frac{3}{4}$ (three quarters) of the insured group.

Article 7 The amount charged for the loading, with the objective of covering administrative costs, the brokerage fees and the profit margin of the plan, must not exceed the pure premium.

Article 8 The insurance mentioned in this Circular should be purchased in a collective way, by means of a contract signed with the contractor, subjected to the stipulations of the specific regulations in force.

Article 9 For each applicant admitted to the insurance an individual certificate must be issued, which states his/her acceptance in the plan, stating the insured capital specified in what concerns the guarantees offered, premium, date of commencement and termination of the insurance validity and the identification of the insured as established in Article 3 of this Circular.

§ 1 A new individual certificate should be sent to the insured, when the values referred to at the top of this article change due to inflation adjustment or review of the rates referred to in paragraphs 1, 2 and 3 of Article 6 of this Circular.

§ 2 By means of the individual certificate, key information about the insurance contract may be provided, and it must be clear that the complete general conditions will be made available by the contractor and by the insurance company at any given moment at the insured request.

Article 10 The insured shall indicate on the proposal form, his/her beneficiary(ies).

Sole paragraph. At any given moment, the insured may change the indicated beneficiary through a formal request, which has to be dated, signed and registered at the insurance company.

Article 11 The insurance plan may provide for the recovery of premiums directly from the insurance company or through utility bills such as electricity, gas, telephone or other feasible means, provided that the value for the insurance is fully identified, as well as the date of the corresponding payment.

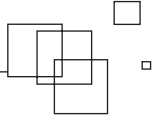
Sole paragraph. The individual certificate, together with the identification of the premium payment referred to at the top of this article shall be the evidence, at any given moment, of the signing of the contract.

Article 12. The commercialization of popular group life insurance which violate the provisions of this Circular shall subject the violator to legal measures and sanctions foreseen in the regulations in force.

Article 13. For cases not provided for in this Circular, legal provisions and regulations shall apply.

Article 14. Circular shall enter into force on the date of its publication.

RENÊ GARCIA JR.
Superintendent



Annex 2 – Susep Circular 306, dated November 17th, 2005

MINISTRY OF FINANCE

(Annexes in the website)

Regulates the operating rules and criteria for popular insurance operation for used cars and establishes the standard contractual conditions.

THE SUPERINTENDENT OF THE *SUPERINTENDÊNCIA DE SEGUROS PRIVADOS* – SUSEP, exercising the powers conferred upon him by art. 36, items “b” and “c”, of Decree-Law 73 of November 21, 1966, and considering the contents of the SUSEP Process 15414.004359/2004-01,

DE C I D E S:

Article 1 To regulate the operating rules and criteria for popular insurance operation for cars, as established in this Circular.

Article 2 To set, in the annex to this Circular, the contractual terms of the standardized plan for popular insurance of used cars.

Article 3 For the purpose of this Circular, it is defined as popular insurance that insurance intended exclusively to cover used vehicles.

Article 4 The insurance companies who will commercialize the insurance plan provided for in this Circular should use the standard General Conditions in the Annex of this Circular, forwarding the technical actuarial and any specific changes to SUSEP, prior to its commercialization, for analysis and filing.

Article 5 The insurance proposal referred to in this Circular should contain at least the following information:

- I – description of the basic coverage included in the plans offered, as well as the additional coverage, if any;
- II – identification of the insured vehicle;
- III – maximum indemnity limits and premiums broken detailed in each coverage;
- IV – bonus information, if any;
- V – deductibles, if applicable;
- VI – Information about the possibility for the insured to choose to use the accredited network, as provided in § § 6 and 7 of art. 9 of this Circular;
- VII – information about the insured’s right to choose the form of premium payment as provided for in art. 10 of this Circular; and
- VIII – responses from the risk assessment questionnaire, if any.

Article 6 The purchase of the popular insurance for used cars may be made by simplified standard policy, which will contain at least the following elements:

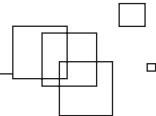
I – on the front page of the policy, besides the information provided for in specific legislation, the following information shall also be provided:

- a) the basic coverage of the chosen plan, and the additional ones, if purchased, with their maximum loss limit and premiums,
- b) percentage set to characterize the full compensation, as defined in § 7 of the art. 9th of this Circular, and
- c) bonuses and deductibles, if any, and

II – answers to the risk assessment questionnaire, if any.

Sole Paragraph. The full contractual terms of this insurance should be available to the applicant prior to signing the respective proposal form, and his/her representative or his/her insurance agent, shall sign a statement, which may be part of this proposal, asserting that he/she was informed of those contractual conditions.

Article 7 The insurance policy cost, when charged, will be limited to R\$ 20.00.



Article 8 The popular insurance of used vehicles will be purchased exclusively in a “determined value” modality.

Sole Paragraph. For the purposes of this Circular, it is established that the coverage of a “determined value” is the modality that, in the case of full indemnity, guarantees the payment of a lump sum in national currency to the insured, as stipulated by the parties at the time of contracting the insurance.

Article 9 The insurance companies, which commercialize the insurance plan addressed in this Circular should offer, exclusively, one or more of the following basic coverage:

- a) BASIC I – Comprehensive Guarantee “A” (full indemnity due to fire, lightning, explosion, collision, theft or robbery) and property damage liability – PD (RC-DM);
- b) BASIC II – Comprehensive Guarantee “B” (full indemnity due to fire, lightning, explosion, theft or robbery) and property damage liability – PD (RC-DM);
- c) BASIC III – liability property damage – PD (RC-DM);

§ 1 The insurance companies may also offer other additional coverage, besides liability coverage – bodily injury liability – BI (RC-DC) or personal accident for passengers (APP), already contained in the annex of this Circular, if previously submitted to SUSEP for analysis.

§ 2 The purchasing of cover contained in the preceding paragraph may optionally be put into effect by the insured when he/she purchases one of the basic covers provided in this article.

§ 3 The Maximum Loss Limit (LMI) under this coverage shall be R\$ 10,000.00, or greater, as an additional insured cover for property damage liability.

§ 4 In the basic cover, the guarantees in cases of fire, lightning, explosion, collision, theft and robbery, will not offer coverage for partial losses, but only for full indemnity.

§ 5 In the event that insurance companies choose to offer additional covers for partial losses, the insured will be entitled to have a free choice of auto body shops to repair the damaged vehicles.

§ 6 If the insurance company makes available its accredited network of auto body shops to repair damaged vehicles, the insured will have the right to opt or not for this network at the time of completing the insurance proposal.

§ 7 The accredited network offer, as set forth in the preceding paragraph, may only be made if the insurance company previously submits the “Additional Coverage for Partial Losses” to SUSEP, and also submits the “Additional Coverage for Partial Losses with the use of Accredited Network of auto body shops” specifying, in this case, the benefits for the insured if he/her chooses to use it.

§ 8 It is prohibited to apply deductibles in cases of full indemnity or damages caused by fire, lightning or explosion.

§ 9 The full indemnity is characterized whenever the losses resulting from a single claim, reach or exceed 75% of the contracted amount established in the policy.

§ 10 It is forbidden to deduct amounts related to damage previously found in the insured vehicle.

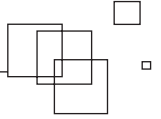
Art. 10 The premium can only be paid after acceptance of the insurance proposal by the insurance company.

§ 1 The insurance companies shall offer in the insurance proposal, as payment forms of the premium, the options for single annual premium and monthly premium.

§ 2 In addition, other ways of fractioning the premium may be offered by the insurance companies in the insurance proposal, provided they are foreseen in a specific clause of premium fractioning which has previously been submitted to SUSEP for analysis, respecting the right of the insured to elect the form of payment.

Art. 11 Information relating to the purchased popular insurance policies for used vehicles will be accounted in the branch insurance # 26 – Popular Insurance for Used Cars.

Art. 12 The actuarial note shall maintain a perfect relationship with the contractual conditions and contain, in addition, an indication that the insurance purchase is the first absolute risk.



Art. 13 The insurance companies are exempted from submitting rates specification or statistical and pure premiums related to comprehensive guarantees A and B.

Art. 14 In cases of using differentiated premiums, the calculation criteria shall be specified.

Art. 15 It shall be established in a specific provision previously submitted to SUSEP, the way that full indemnity payments of vehicles subjected to liens, leasing, trust or other kinds of liens will be made.

Art. 16 Legal dispositions and regulations concerning property and car insurance shall apply to popular insurance for used vehicles supporting the provisions of this Circular.

Art. 17 The commercialization of popular insurance for used vehicles in violation of the provisions of this Circular shall subject the violator to legal measures and sanctions provided for in the regulations and norms in force.

Art. 18 The denomination “Popular Insurance” in the commercialization of insurance for used vehicles that do not meet the provisions of this Circular is expressly forbidden.

Art. 19 This Circular shall enter into force on the date of its publication.

RENÊ GARCIA JR.
Superintendent

Annex 3 – CNSP Resolution 88/2002

Disposes on the criteria of investments made by the insurance companies, capitalization companies and open private pension entities and set other arrangements.

THE SUPERINTENDENCE OF PRIVATE INSURANCE (SUSEP), under the authority granted to him by the article 34, paragraph XI of the Decree 60.459, dated March 13th, 1967, combined with the proposals in the article 26 of the Internal Regulation approved by the CNSP Resolution 14, dated December 3rd, 1991, makes public that the **NATIONAL COUNCIL OF PRIVATE INSURANCE (CNSP)**, in Regular Session of this date, based on the paragraph III of the article 32 of Decree-Law 73, dated November 21th, 1966, in the § 1 of Article 3 of Decree-Law 261, dated February 28th, 1967, and in the articles 73 and 74 of the Complementary Law 109, dated May 29th, 2001, in view of the proposals in the National Monetary Council 2.967, dated May 31th, 2002, and no. 3.000, dated July 24th, 2002, as well as considering the contained in the CNSP process 4/2001 – originally, process 10.003985/01-61, dated July 9th, 2001,

D E C I D E D:

Article 1. To dispose on the criteria of investments made by the insurance companies, capitalization companies and open private pension entities.

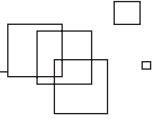
CHAPTER I DEFINITIONS

Article 2. For the purposes of this Resolution, are considered:

I – collaterals: the assets offered as guarantee of the resources of the reserves, provisions and funds, as per guidelines established by the National Monetary Council;

II – companies/entities: the insurance companies, capitalization companies and open private pension entities;

III - investments: the assets and operating modalities of the company/entity, including the collaterals;



IV – in respect of the companies:

- a) those that the share capital of one company is 10% (ten per cent) or more of the share capital of the other company, directly or indirectly;
- b) those that the share capital of the administrators and respective relatives until second degree of one company, jointly or separately, is 10% (ten per cent) or more of the share capital of the other company, directly or indirectly;
- c) those that the share capital of controlling members of non-profit open private pension entities and shareholders is 10% (ten per cent) or more of the share capital of one company, hold 10% (ten per cent) or more of share capital of the other company, directly or indirectly;
- d) those whose administrators, in whole or in part, are the same of the company/entity, except the positions in the collegiate organizations, provided statutorily or regimentially, and since the position of such administrators does not include duties with management authorities;

V – Negotiable Instrument of Rural Product (CPR), including financial settlement;

VI – The insurance of Negotiable Instrument of Rural Product to meet the following conditions:

- a) to be developed according to the standardized conditions in regulation of the SUSEP; and
- b) the Actuarial Technical Note has been approved by SUSEP prior to the commercialization of the insurance;

VII – the application fund in quotas of investment funds specially constituted (FAQE), according to the guidelines established by the National Monetary Council in the regulation that disposes the resources application of the reserves, provisions and funds of the insurance companies, capitalization companies and open private pension entities, as well as the acceptance of the corresponding assets as collateral of such resources; and

VIII – the fund of financial investment specially constituted (FIFE), according to the guidelines established by the National Monetary Council in the regulation that disposes on the resources application of the reserves, provisions and funds of the insurance companies, capitalization companies and open private pension entities, as well as the acceptance of the corresponding assets as collateral of such resources.

CHAPTER II

REGISTRY, FINANCIAL SETTLEMENT AND CUSTODY

Article 3 The investments shall be:

I – registered in the name of the company/entity, in specific accounts opened in the SELIC, in systems of register and financial settlement of assets authorized by the Brazilian Central Bank or institutions or entities authorized to provide these services by the said Autarchy or the Securities Commission (CVM); and

II – deposited, if acceptable, in custody account in financial institutions or authorized entities to provide this service by CVM.

§ 1 The company/entity should authorize the managers of the systems, the institutions and the entities referred to in I of the preamble to make available to SUSEP information related to its investments.

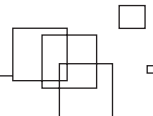
§ 2 Solely, in respect of the investments not offered as collateral, the term for the company/entity to adapt itself to the proposals in the § 1, is until October 31st, 2002.

§ 3 The register of CPR offered as collateral or that form part of the FIFE portfolio should contain the number of the insurance policy of CPR that guarantees it, the name of the respective insurance company, as well as the number of the SUSEP process that approved the insurance.

§ 4 In case of CPR with insurance coverage, the register referred to in I of the preamble should be made by the insurance company that issued the respective insurance policy.

Article 4. The real estates and lands that compose the investments of the company/entity should be registered in the real estate title Registry.

Sole paragraph. The deed of purchase and sale of real estates and lands, as well as any disposal with price payment on demand or in installment, shall be also registered under the terms of the preamble.



CHAPTER III SPECIAL CONDITIONS FOR FIFE

Article 5. When performing the operations agreed the FIFE manager may only make commitments aiming for admitted assets under the Resolution CMN no. 2.967/2002, and subsequent amendments, in accordance to the limits and further conditions established therein.

Article 6. The FIFE action in derivative markets:

- I – it should be performed, solely for the protection of the portfolio; and
- II – it may not generate exposition above 50% (fifty per cent) of the respective shareholders' equity.

Sole paragraph. For the effect of classification of the operations with derivatives, regarding to the assessment of the corresponding limits mentioned in this Resolution, the manager of the FIFE should comply with the complementary standards published by SUSEP.

CHAPTER IV PROHIBITIONS

Article 7. It is hereby prohibited for the company/entity:

- I – to perform operations with derivatives, unless where they are intended for the protection against the risks the asset is exposed to, limited to 80% (eighty per cent) of the market value of such asset;
- II – to apply resources in investment funds, in FIFE and FAQE, where portfolios are managed by a natural person (i.e. private individual), as well as in portfolios managed by natural persons;
- III – to apply resources abroad, unless in the cases expressly provided in regulation approved by the National Monetary Council;
- IV – to guarantee, to endorse, to accept or to co-obligate itself under any other way;
- V – to act as financial institution, granting loans or advances, or extending credit under any modality to legal entities, unless the exclusions expressly provided in regulation of the CNSP;

VI – to perform any commercial or financial operations:

- a) with its administrators, members of the statutory boards and respective spouses or companions and their relatives up to the second degree;
- b) with companies where the participants are the people referred to above, unless where the participation is not more than 5% (five per cent) as shareholder of publicly traded company; and
- c) as an adversary party, yet being indirectly connected to the natural persons and legal entities.

§ 1 The prohibition to co-obligation referred to in the paragraph IV does not apply to the insurance company when participating in the co-insurance operations.

§ 2 The prohibitions referred to in the paragraph VI do not apply to:

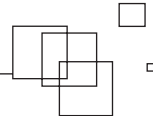
- I – the participants of plans or assureds that, in this condition, perform operations with insurance company or open private pension entity, when they are in the sole action of its social purpose, according to specific regulation published by SUSEP; and
- II – the operations of services rendering.

§ 3 Solely, regarding to the investments not offered as collateral, the prohibition referred to in “a” and “c” of the paragraph VI does not apply to the insurance company authorized to operate, exclusively, in:

- I – non-life insurance; and/or
- II – life insurance in allocation regimen.

Article 8. In addition to the proposals in the previous article, it is prohibited to the company/entity, solely in respect of the resources of reserves, provisions and funds, and the collaterals:

- I – to offer collaterals as guarantee for the operations in the markets of future settlement or any other situations;
- II – to disposal, the promise to disposal or by any way, to encumber collaterals, as well as the rights arising therefrom, without the previous and express authorization of SUSEP;
- III – to rent, to lend, to pledge or to bond the collaterals;
- IV – to perform operations with actions through private transactions;



V – to act as financial institutions, granting loans, financial assistance or advances to natural persons or legal entities, or extending credit under any modality;

VI – to offer as collateral equities issued by companies not registered to transact on the stock exchange or in the over-the-counter market organized by entity accredited in the Securities Commission;

VII – to offer as collateral, assets not admitted under the Resolution CMN 2.967/2002, and subsequent amendments;

VIII – to offer as collateral securities issued, co-obligated or managed by connected companies;

IX – to offer as collateral quotas of investments funds and FIFE, which portfolio contains securities issued and/or co-obligated:

- a) by the administrator institution itself, its controllers, the companies directly or indirectly controlled by it, and connected companies or other companies under common control; and
- b) by the company/entity, its controllers, the companies directly or indirectly controlled by it, and by connected companies or other companies under common control.

X – to offer as collateral CPR without the relevant insurance coverage; and

XI – to offer as collateral quotas of FIFE which portfolio contains CPR without the relevant insurance coverage.

§ 1 The negotiable instruments issued by the National Treasury, the negotiable instruments issued by the Brazilian Central Bank, the credits which securitization is made by the National Treasury, and the negotiable instruments issued by the states and districts that are the subject of the contracts entered into under the protection of the Law 9.496, dated September 11th, 1997, or the Provisional Remedy 2.185-35, dated August 24th, 2001, are excluded.

§ 2 For the effect of those proposals in this article, the insurance coverage of CPR is not characterized as co-obligation.

CHAPTER V GENERAL PROVISIONS

Article 9. The investments should be managed so that safety, profitability, solvency, and liquidity are guaranteed to them, and such investments should comply with:

I – the highest ethical standards; and

II – the specificities of the company/entity, such as the features of its responsibilities, aiming at keeping the required financial-economic balance between assets and liabilities.

Article 10 The company/entity should keep the procedures of control and evaluation of the market risk and of the further risks relevant to its investments, in compliance with the regulation published by SUSEP.

Article 11 The equities, bonds and other securities of public distribution, as well as the subscription bonus of publicly traded companies and the certificates of deposit of shares that compose the investments of the company/entity, should have their distribution previously registered in the Security Commission.

Article 12 When covering the unearned premiums provisions, the insurance companies may deduct the value of the creditory rights resulting from the insurance premiums paid in installments.

Sole paragraph. For the effect of the proposals in the preamble:

I – the value of the creditor rights should be net from the shares ceded in co-insurance and reinsurance; and

II – it may not be considered as creditor rights the values related to the installments of the premiums overdue and even not paid, regarding to the shares of risks already elapsed.

Article 13 The noncompliance with the provisions of this Resolution subjects the company/entity and its administrators to the sanctions provided in the legislation and regulation in force.

Article 14 SUSEP is hereby authorized to publish complementary standards and to take the required measures to the enforcement of the proposals in this Resolution.

Article 15 This Resolution comes into force at the date of its publication.

Article 16 CNSP Resolution no. 52, dated September 3rd, 2001, is hereby revoked.

Rio de Janeiro, August 19th, 2002.

HELIO OLIVEIRA PORTOCARRERO DE CASTRO
Superintendent of the Superintendence of Private Insurance