

MICROINSURANCE OPERATIONS
IN INSURANCE COMPANY

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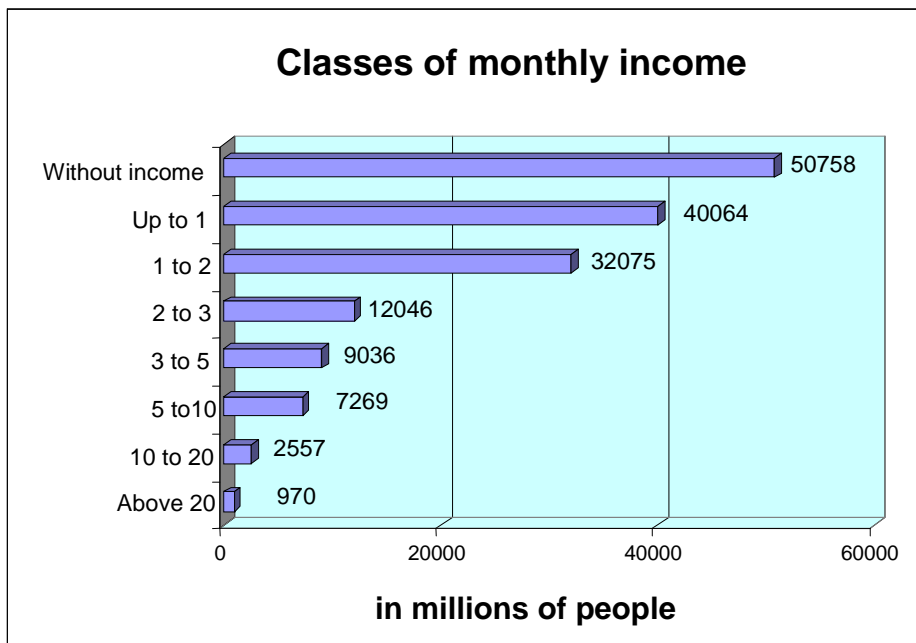
MICROINSURANCE OPERATIONS IN INSURANCE COMPANY

1. Concept

Microinsurance and its target audience

According to the surveys performed and discussed in the Consultative Committee on Microinsurance of the National Council of Private Insurance (CNSP), it has been defined that “microinsurance is the 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 people against specific risks, upon premiums payment proportionate to the probabilities and costs of the risks accepted, in compliance with the legislation and principles of insurance internationally accepted”.

Even according to such Committee, it has been defined that the target audience is the “Brazilian low-income people that, for the effects of Microinsurance, is the segment of people with *per capita* monthly income up to three national minimum wages.”



Source: IBGE – National Research by Domiciles Sample – PNAD 2006

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

2. Current regulatory milestone (summary)

The regulation of the microinsurance all over the world is rather recent, and in the most of the countries it does not even exist. But the regulation of some segments of the microfinances has been introduced gradually since 20 years ago. The experience in this sector showed that is indispensable to take a proper and favorable regulation, not only protecting the

stability of the providers, consumers and market as a whole, as well as helping to improve the capacity of the providers to render services to the low-income segments in an efficient and effective way.

In compliance with the governmental guidelines, to encourage the development of products and financial services into the reality of the low-income people and the formal and informal microentrepreneurs, since 2003 the Superintendence of Private Insurance (SUSEP) has been introducing a series of actions aiming at stimulating the development and commercialization of simplified and low cost products for these segments.

The main actions performed by SUSEP were the following:

Publishing of the SUSEP Circular 267/2004 on popular group life insurance that establishes the General Conditions standardized, and respective parameters. (Annex 1).

Publishing of the SUSEP Circular 306/2005 on popular motor insurance that establishes the General Conditions standardized for the branch. (Annex 2).

Other relevant incentive measure was the Decree 5.172/2004 that reduced the Tax on Financial Transactions (IOF) for the Life Insurance from 7% to 2%, reaching the zero rate in 2006. This measure influences positively in the commercialization of the Life Insurance products in general. But this Decree was revoked in 2007.

These actions stimulated the discussions on microinsurance, since until 2004 the Brazilian market was not aware of the theme and made sensitive the insurance market. Several insurance products arose since then, intended for the low-income consumer, motivated in the favorable performance of the Popular Life Insurance.

There is a consensus between regulators and experts that the greatest part of the features relevant to the traditional insurance applies 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 the particular characteristics that therefore shall require a distinguished regulatory approach. The main issues that should deserve the attention of the regulator are the following: the premiums collection forms, income instability of the potential assured, poor qualified agents, low value of the amounts insured, simple policies and prompt loss adjustments requirement.

3. Specialized insurance company vs. department of a traditional insurance company

Considering that the main purpose is the development and the prospective introduction of a business unit to operate microinsurance, we have to firstly think about the form and structure of such unit. The specific characteristics of the microinsurance product, such as, low value of premium,

spreading of the commercialization channels and prompt loss adjustments requirement ask for a compact, agile and efficient structure.

The market for the microinsurance products has an enormous potential in Brazil, taking into account the target audience of up to three minimum wages. But the current development stage of this market is even quite incipient. Considering the preliminary concerns, we understand as improper the creation of an insurance company specialized in microinsurance. The main purpose may be achieved through development of a business unit, operating microinsurance within an organizational structure of a traditional insurance company. Depending on the structure and autonomy degree to be attributed to such 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 enjoys a certain operating autonomy, it should be always managed as an income-generating center. In other words, this department shall be the management liable for its incomes and outcomes. Management reports should be introduced in order to allow that the top direction evaluates clearly the performance of this department. This performance evaluation shall be conducted regarding to profitability targets and business development, established in the design phase.

4. Economic environment

The risk is relevant to almost all the activities of the human being. The economic risks are classified, by its 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, there is not an expectation of eventual earnings therefore, but there is the pure proprietary protection. The Speculative Risks are those existent in the financial operations that may cause loss or profit. Depending on the activity performed, the nature of the asset, the type of risk and its trend to risk, the economic agent chooses different strategies of protection before the risks faced. 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.

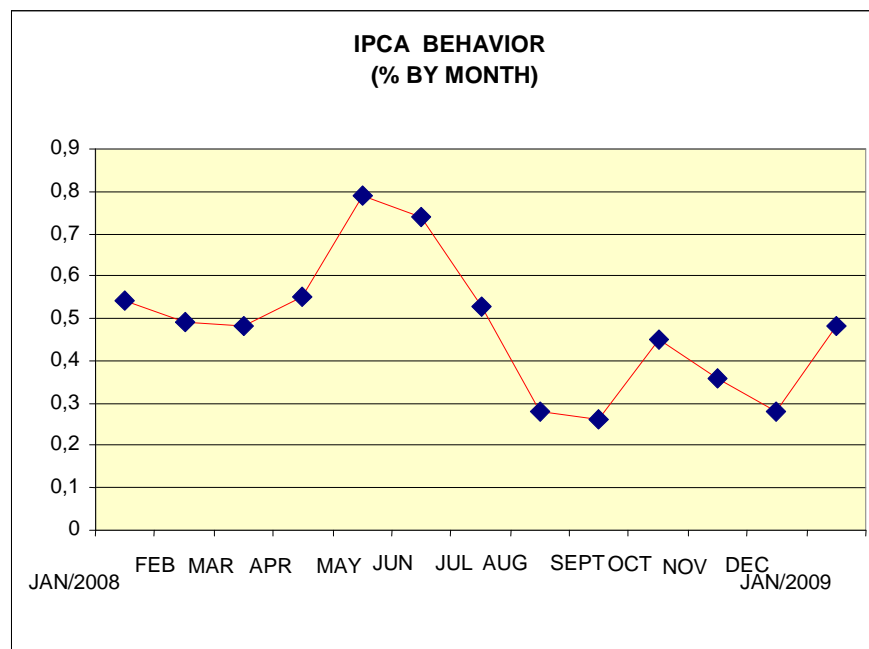
Galiza (2007, p.22-36) presents a series of concerns regarding to some preconditions for the existence of insurance demand and supply. These concepts are consolidated in a simplified model, taking into account the main variables that compound the insurance demand and supply. Regarding to demand, the 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. Regarding to supply, the elements are taking into account from the expected profit of the insurance company that is the added value of the incomes and outcomes of all the insurances sold. The incomes are represented by the relationship of the price against the Amount Insured, resulting in the equivalent to the insurance premiums. The outcomes the insurance company expects to incur are represented by the relationship of 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, expect values and opportunity costs, it is reasonable to expect relevant impacts in the results of the model, due to the fluctuations in the prices, interest rates and income level. Contador, Ferraz e Azevedo (1999 p. 9-25) analyze the international expertise and conclude that the inflation rate influences the insurance sector. The survey shows that inflation affects so much the demand as the supply of the insurance. Regarding to demand, the effects are felt by the deterioration of the income distribution and the devaluation of the expected values of indemnity. The survey also shows that the insurance supply is prejudiced by the inflation, since the insurance companies confuse 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 affects rather the insurance sector. The positive income elasticity and above 1.0 in almost all the countries surveyed, indicates extraordinary opportunities as the Brazilian economy continues to grow.

According to the early concerns, it is evident the importance of the survey on the economic environment at the evaluation of any insurance product operation opportunity, including the microinsurance products.

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

The inflation behavior after the Real Plan, in July 1994, has been quite favorable to the investments in long term and to the launching of new products by the insurance companies. Since then, it was achieved the inflation control, cancelled the indexation and obtained a stability of the currency. This favorable economic environment resulted in a series of opportunities to launch new products, so much in the property insurance as the personal insurance. Several surveys indicate an increase of the premiums volume, mainly in the motor, life and health segments. When analyzing the inflation behavior during 2008, we note a relative instability. The monthly variations of the Amplified Consumer Price Index (IPCA), the official index to evaluate the consumer inflation, have been kept during 2008, from 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.



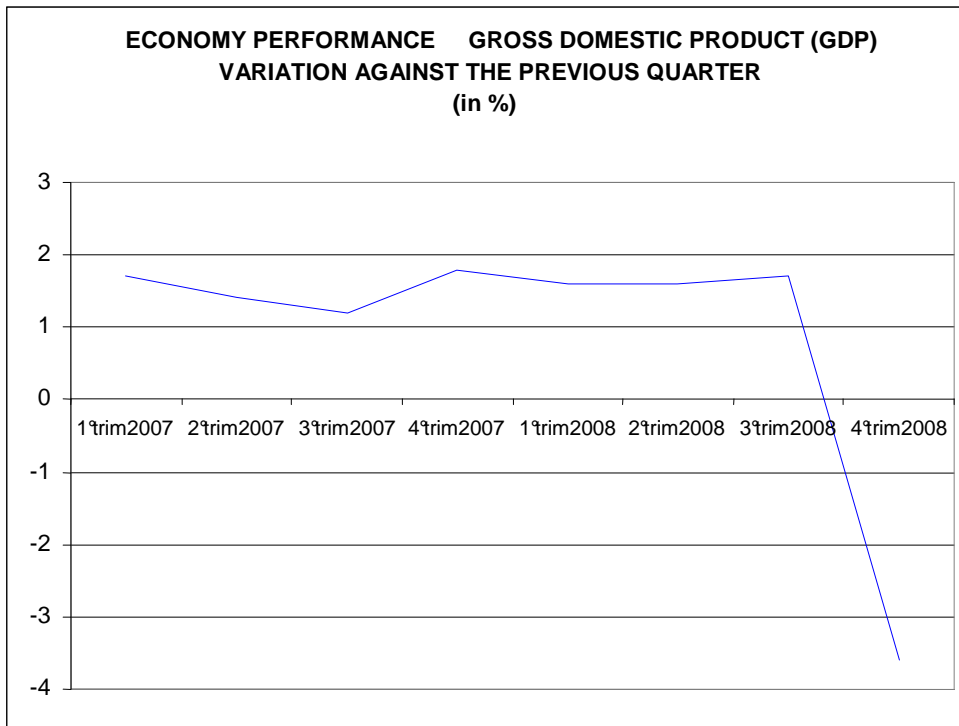
Source: IBGE

The inflation target estimated by the monetary authorities for 2009 is 4.5% by year, with margin of two points up and down. In view of the current global crisis, influencing negatively the Brazilian economy, it is expected that the inflation of 2009 is rather under the target center of 4.5% by year. This inflation target establishes a parameter to establish the Special System for Settlement and Custody (SELIC) 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 keeping during the last years, at so much increased actual levels. Brazil is situated amongst the economies with the highest actual interest over the world. SELIC rate presented a constant growth from September 2007. In September 2008, SELIC rate reached 13.75% by year and remained in this level until January 20th, 2009. In January 21th, 2009, it was decided a drastic change in the SELIC trend, with the reduction of one percentage point to 12.75% by year. 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 signal for an intense slow-down of the Brazilian economy. Thus, it resulted in an opportunity to practice a less restrict monetary policy, with more frequent cuttings of the interest rate. Confirming this expectation, in March 11th, 2009, the Monetary Policy Committee (COPOM) decided by a new reduction of the SELIC rate from 12.75% to 11.25% by year. Although this reduction has been quite large, the market analysts estimate other reductions during 2009 that in December may reach 10% by year.

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 noted clearly in the Brazilian economy. The data about the trade balance, disclosed by the Ministry of Development, Industry and Foreign Trade show a dropping in the exports of US\$8.3 billion in the last quarter of 2008. Regarding to internal economy, the industry sector already presents severe warnings of intense dropping of its performance in the last quarter of 2008. The monthly research of the IBGE in the industry sector indicates a production dropping of almost 20% in the last quarter of 2008. This slow-down of the industry sector has direct impact in the income and employment levels, as confirmed by the information on massive dismissals occurred in the sector. According to data divulged by the Federation of Industries of the São Paulo State (FIESP), only in November and December of 2008, were fired 160.000 employees in the São Paulo industry. The deterioration of the external sector associated with the intense retraction of the industry sector resulted in severe negative influences in the performance of the Brazilian economy. Data of the Coordination of National Accounts of the IBGE show a record dropping of the GDP of 3.6% in the fourth quarter of 2008 against the previous quarter. The environment for 2009 is rather upsetting, with the trend of the poor growth of the GDP around 1%.



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.

5. Products development

5.1 Products / features / phases

Pursuant to the concepts and definitions took by the Working Group on Microinsurance (SUSEP WG) “the microinsurance is the insurance accessible to the low-income people, provided by several different types of

entities, but in compliance with the practices of insurance generally accepted. Primarily, it means that the risk insured by a microinsurance policy is managed in accordance with the principles of insurance that is financed by premiums.” Thus, the 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 a traditional insurance. The phases to be fulfilled include from the conception to the phases of launching and criticism evaluation of the development process.

The development of a microinsurance product should be included within the scope of the strategic purposes for launching of new products, as part of the global planning of the insurance company. A design coordinator should be defined from the time the opportunity of development of a microinsurance product is identified. The principal duty of such 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 managements. It is recommended that afterwards this coordinator is the Manager of the Microinsurance Department. During all the phases of the development process until the introduction of the product, it is substantial the co-operation of all the operating sectors of the insurance company.

In the initial phase of the product design, it is important the attendance of expert members in the staff. Such expertise shall allow a better evaluation of the several suggestions focusing the efforts at a more objective

way. The first evaluation to be made in this phase is to verify if the product that is being designing meets an actual need of its target audience. If this evaluation is positive, the development staff outlines the first specifications of the product. This prototype should be submitted to the operating sectors to be tested and evaluated in respect of its viability and technical issues relevant to every sector.

The marketing sector makes surveys on the competition and the profile of eventual products existing in the market. This sector also analyzes the target markets and the most proper delivery channels. Furthermore, it defines the promotion strategy of the product. The actuarial sector defines the first specifications of the product regarding 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 that to satisfy the competitiveness and profitability requirements. The claims handling and information systems sectors evaluate if 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 proper and required types of investments to achieve the expected levels of solvency and profitability for the business unity of the Microinsurance Department.

If the results of these surveys and analysis 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 to technical specifications, supervision and inspection concerns, information

systems requirements and commercialization channels. Such proposal shall be submitted to the approval of the top direction of the insurance company.

After the proposal is 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 force. In this phase, are also defined the price, benefits, commissions, and underwriting and issue specifications. Once concluded the elaboration of the technical design, it takes the form of the final project that is submitted to the approval of the coordinator and the top direction.

The next product development phase is the execution that precedes the launching phase. In this execution phase of the project and introduction of the product, are defined the structures, processes and decisive systems for the effective launching of the product. These definitions and arrangements include: development of the model of policy and its register, training for the staff of operational support and agents. These definitions and arrangements also include operationalization of 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 in this phase. The training of the agents is an essential activity for the effective launching of the product. This 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 launching phase, the training of the agents is reinforced and educational materials regarding the product are made available for such agents.

The disclosure material of the new product is sent to the media by channels specifically intended for the low-income people, the target audience of the 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, so much to evaluate the receptivity of the product as to obtain suggestions on further characteristics required for the product.

5.2 Pricing

The pricing of a product does not depend on the pricing purposes 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 different managements of the insurance company, shareholders, officers and agents have conflicting purposes regarding to the long term profitability and solvency of the insurance companies. The challenge of the person liable for the product is to conciliate the several purposes and to reach a premium that balances the divergent interests 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 case of group life insurance, some issues of the pricing process are particular to this type of policy, 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 to which is being developed the product. Other relevant issue is that in the group life policies, due to its 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 the group life 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 of any new insurance product, including those of microinsurance. The monitoring of the results should be constant. The performance deviations of the expected values should be analyzed as for the nature of their cause. The cause of these deviations may be originated so much for operational inefficiencies as for a price determination at improper levels. Anyway, corrective actions should be taken as soon as practicable.

6. 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 proper 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 launching of the product. This phase should be preceded by a marketing planning. The support elements should also be available and the sale agent should be duly trained. This training shall allow a perfect 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, since the sales increase, 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 sale operation is that all the phases of the process of development, introduction and management of the commercialization channels count on the intense participation of the Manager of the Microinsurance Department. This management shall count on the support of the several operating sectors of the insurance company, with which this department interacts in the various phases of this process.

The main sales modality used by the insurance companies, especially in life insurance, is personal sales through agents of the insurance company or through independent agents. Due to characteristics of the microinsurance, the systems, through agents of the insurance company, are not adequate neither viable. It occurs because of 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 to create 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 as much the broker as the agent may produce for 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 simplest is the microinsurance product, the easiest and promptest shall be its understanding by agents and grater shall be its acceptance by the market.

A channel for the microinsurance commercialization that has been consolidating in the recent years, and deserves to be explored in subsequent surveys, is the use of communitarian leaders in the poor communities, as propagator elements of a microinsurance agent network. These leaders that are usually supported by a dwellers association count on a high credibility before the members of these associations. Clarifying the members regarding to benefits of the microinsurance, or enabling that the agent does it, the leaders are attributing, automatically, credibility to the product. This system enables the business solution development to allow conquering 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 commercialization channel that is rather promising is the microinsurance sale through the great retail banks. These financial institutions, so much of the private sector as the officials, manage great portfolios of low-income clients. These clients already show their satisfaction with the services provided by these banks, through the fidelity kept across the years, as bank account holders or savers. Furthermore, institutions like Brazilian Bank and Federal Savings and Loans Bank (CEF) already accumulate 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 the 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 meet almost the totality of the domiciles of the low-income urban people that is the main target audience for the microinsurance product. The good perspective for this sale modality is confirmed by the success of the launching, at the end of 2008, of some types of popular insurance made by insurance companies in partnership with companies of electric power.

In the future, a new commercialization and delivery channel, via Internet, may be a viable alternative, but even 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 people.

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 very important characteristics in different segments of the target audience results in a well defined segmentation of the market. In this way, distinct commercialization channels would reach and meet these segments more properly and efficiently. These characteristics may be the following: to be at the same geographic area, to belong to the same district association or union, to be client 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 introduction. It occurs because these alternatives do not require investments to hire agents of the insurance company, neither to establish agencies.

The system chosen shall be the most proper system 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 amongst the systems are small, they should be taken into account in view of the low value of the microinsurance premium. The sale through the bank network

is the alternative of lower cost and promptest introduction. Following, taking into account the issues of cost and promptitude of introduction, to use the utilities concessionaries and providers would be the next alternative. The alternatives contemplating brokers and self employed agents would demand a greater period for proper training of these producers, aiming at ensuring the success of the venture in short and long term.

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

7. Financial management

All the insurance company has two basic business targets. 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 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 named rentability or profitability. The process of financial management is extremely important to manage the financial resources, seeking to reach the solvency and profitability targets.

Some specific duties in the financial sector are essential to provide support elements to the top administrators to elaborate and to 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 that to assure the financial strength of the company in long term while seeking a more attractive profitability. The following duty is the management of the cash flow to assure the availability of sufficient cash to honor the responsibilities in the conditions and terms determined. Other duty intended for the financial management is to manage the investments through the transaction to purchase and to sale securities, equities, real estates and other assets with the purpose to achieve 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 account analysis and to prepare the budget. These information are important to meet the asking or requirements of the internal public (management and top administrators) and the external public (regulatory authorities, clients, investors, external auditors and rating agencies).

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

The financial statements are used to the comprehension of the financial management of a specialized insurance company or a business unit named 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 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 that is the representation of the proprietary profile of a business unit at a certain moment. As a simplified way, 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 as investments, money, real states, equipment and values due by third parties to the company. In the insurance companies, the main item of the asset is composed by 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, for outstanding losses, to offset the assets variation, of 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 as a simplified way, the main accounts of the balance sheet.

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

Other most relevant concept in the analysis of the balance sheet is the shareholders' equity that 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 influences significantly 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 asset of an insurance company, for example, two accounts may be highlighted. The first is the account of Operational Credits, included in the Current Asset that entries the total of the receivables against assureds, insurance companies, insurance brokers, loss adjusters and others. The other account is

Deferred Expenses of Commercialization that allows that an expense is allocated according to its accrual period.

On the other hand, in the liability of an insurance company, two groups of accounts are particular to this type of company. The first group is that related to the accounts of Operating Debits, which entries are similar to the asset. The second group is that related to the accounts of Reserves. The main reserves are the following: Unearned Premium Provisions (UPP), losses payable, incurred losses 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 that are represented in the Income Statement. Whilst the balance sheet is a statistic survey at a certain moment, the income statement shows the result of the company during a 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 premium and the earnings generated by its investments. The resources outflows are the expenses that in the case of an insurance company are preponderantly the benefits payments to the policyholders. Other less relevant expenses are the agent commissions, salaries, product development cost, marketing cost, facilities maintenance and taxes.

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

The income statement appears in 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 usually 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 named Shareholders' Equity/Asset ratio not weighted.

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

All the insurance company, by the nature of its operations, faces risks known as contingency risks that may threat its solvency margin. By this reason, it is increasingly used, by the regulatory authorities of several countries, the Shareholders' Equity/Asset ratio weighted 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 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 short-term, the insurance companies use the balance sheet.

Always 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 development of the shareholders' equity account that shows the accumulated effects of the company operations.

The most used profitability index by the insurance companies is the shareholders' equity profitability index that 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.

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

Seeking to reach the profitability target it is necessary to undertake a certain deal of risks, since the protection of the solvency means to avoid risks. To deal with this conflict seeking a balance point is essential to the success and survival of an insurance company.

8. Investments management

The operating activities relative to investments management of a microinsurance department are developed according to an organizational structure, to which such department is 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 made within the context of the investments policy established by the top administrators. Such investment policy is established taking into account the financial status and the current investments portfolio. The investments purposes and the types of proper and required investments to achieve such purposes are also taken into account. The compliance with the minimum standards to preserve the capital and the earnings levels of the investments are essential to establish such policy.

All over the countries, the authorities that regulate and supervise the insurance sector establish rules to be applied on the management investments. In Brazil, the National Council of Private Insurance (CNSP), through its Resolution no. 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 collaterals”. (Annex 3) Collaterals are defined as the assets offered as guarantee of the resources of the reserves, provisions and funds. The insurance companies, from time to time, inform to the Superintendence of Private Insurance (SUSEP) 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 taking into account the liquidity of every type of asset that are grouped in governmental securities, private securities, equities and real estates. CNSP,

even aiming at preserving the safety of the investments of the insurance companies, prohibits some types of investments, requires that the securities are registered in the SELIC and the ownership of the real estates in the Registry.

The Microinsurance operations may be included in the operations of the Investments Department in two distinct ways. The first would be in a global way, taking part of the total portfolio of the insurance company, according to a criterion, for example, microinsurance sales volume in relation to the total of the sales. The second way would be to select an investment securities portfolio, especially to face 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 portfolio and of its level of profitability are extremely simplified and the results obtained become more relevant.

When evaluating an investment are taken into account, in addition to the cash flow of such investment, the expected rate of profitability, the nature of the investment risk and its liquidity. The analysis of the cash flow is important to conciliate the available resources with the financial responsibilities at the extent they are due. When evaluating the potential profitability of an investment, the insurance company should give more 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. As larger the risk, the larger should be the profitability expected. On the other hand, as smaller the risk of the investment, the smaller should be the profitability expected. The insurance companies use the diversification of their investments portfolio to spread the

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

The real estates' acquisitions through direct purchasing represent capital investment and provide to the insurance company a rental income. The risk, in this operation, is the vacancy of the real estate stopping 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, then ensuring an income expected during a long time.

The top 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 to compromise between these two levels of assertiveness. The most assertive strategy means to assume more risks in the investments, seeking greater earnings. The most conservative strategy nevertheless, prioritizes the protection of the assets, giving up of greater earnings. In a microinsurance department in the operating initial phase, is recommended to take a more conservative strategy, prioritizing the growth and consolidation of the business.

9. Information Technology Policy

The information, in its full sense of organized data, appears in all the universe of an insurance company. So much the functional sectors as the operational sectors use several sets of information to perform their activities. In order to be useful to their users and to assist the operations of an insurance company, these information need to have certain characteristics or qualities.

The first 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, these information require an effective information management, taking, constantly, measures aiming at preserving these essential characteristics. It is important to monitor this set of characteristics, since the default of 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 concurrent and provide a better quality service to their clients.

Currently, the 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 an apportionment of 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 the debit by the cost relative to the frequency this department use the information systems.

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

The first set of information systems used in an insurance company comprises the systems that record its business transactions. These systems process and record the work-a-day activities that usually are repetitive and deal with a great volume of data. From the moment an insurance proposal is submitted to the insurance company, begins the record process of a series of data relative to the applicant, assured, beneficiary, agent or broker, and data of 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 more 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 for the management of the insurance company to analyze the development of the business and to 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 these data are presented in the proper way 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 system that allows that these data are stored and used by the other management systems.

Some insurance companies develop special information systems to allow a better special operations management existent in 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 the following: massified product with relatively low premium value, issue of great number of tickets, segmented market, commercialization channels of different natures (retail banks, utilities concessionaries and others), great number of brokers or agents and promptitude requirement in the losses settlement. Furthermore, it is recommended that the information management regarding to microinsurance is made separately from the heavy systems of the insurance company. Thus, in addition to become more agile the processing, this segregation shall allow a more transparent and effective management of the financial and investments management of this business unit (Microinsurance Department). This decentralization, recommended to the special information systems in the microinsurance sector is simply operational, due to the explanations previously presented. But in the development of these systems, the concern about the integration compatibility and possibility with the global system of the insurance company should always exist in order to allow the performance evaluation of the insurance company as a whole.

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Annex 1

SUSEP CIRCULAR No. 267, dated September 21th, 2004.

Establishes the operating rules and criteria for popular group life insurance operation and makes available in the SUSEP website, its general conditions standardized and respective parameters.

THE SUPERINTENDENT OF THE SUPERINTENDENCE OF PRIVATE INSURANCE – SUSEP, under the authority granted to him by the article 36, subparagraphs "b" and "c", of the Decree-Law no. 73, dated November 21th, 1966, in view of the set forth in the article 10 of the SUSEP Circular no. 265, dated August 16th, 2004, and considering the contained in the SUSEP process no.15414.000828/2004-13,

DE C I D E S :

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

Article 2nd It is prohibited to the insurance companies to accept, as assured, in the insurance plan related to this Circular, minor of 18 (eighteen) years old.

Article 3rd It shall be used control mechanisms that identify the assureds by Individual Taxpayer Identity Card (CPF) or, in the absence of it, ID, Working Papers, Certificate of Live Birth, Marriage Certificate or other official papers of identity valid within national territory.

Article 4th The insurance companies interested to operate the insurance plan referred to in this Circular shall use the general conditions standardized and send to SUSEP, prior to the commercialization, the actuarial

technical note and the parameters of the general conditions, to analysis and filing.

Article 5th The amount insured of the basic cover may not be above R\$10,000.00 (ten thousands Brazilian Reais).

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

I – insurance coverages provided in the plan;

II – specification of the rates or pure premiums;

III – statistics used to define the rates, specifying the period and source used and the respective calculation schedule or biometric tables, if appropriate;

IV – rates reevaluation criteria, including formula and periods;

V – loading applied;

VI – technical reserves; and

VII – signature of the actuary and the ID number before the Brazilian Institute of Actuaries

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§ 1st The specified rates, as per subparagraph II of this article, may be revised within a periodicity not less than 1 (one) year, due to variation above 100% (a hundred per cent) in the loss ratio of the product, calculated based on the pure premium, and should be previously established, as per subparagraph IV of this article, the respective technical methodology.

§ 2nd In case of rates review, according to the terms of the paragraph 1st of this article, the insurance company shall send to SUSEP amendment to the actuarial technical note, presenting the calculation of the new

rates, indicating the number of the administrative proceeding corresponding to the plan.

§ 3rd According to the set forth in the paragraphs 1st and 2nd of this article, the effective amendment of the rates applied may only be included in the plan after the previous and express consent of at least $\frac{3}{4}$ (three fourths) of the group insured.

Article 7th The value charged by way of loading to meet the administrative expenses, the brokerage and the profit margin of the plan, may not exceed the pure premium.

Article 8th The insurance referred to in this Circular shall be contracted collectively, by contract entered into with the applicant, in compliance with the set forth in the specific regulation in force.

Article 9th For every applicant accepted within the insurance shall be issued an individual certificate to distinguish its acceptance within the plan, presenting the amounts insured, detailed by coverage provided, premium, date of commencement and termination of the insurance period and identification of the assured, under the terms of the article 3rd of this Circular.

§ 1st It shall be sent to the assured new individual certificate in case of the values referred to in the caput of this article are amended, by force of monetary updating or rates revaluation mentioned in the paragraphs 1st, 2nd and 3rd of the article 6th of this Circular.

§ 2nd Through the individual certificate may be provided the major information of the insurance contracted, and should be proved that shall be make available by the applicant and the insurance company, at any time, upon the assured requirement, the full general conditions.

Article 10 The assured shall indicate, in the application form, its beneficiary or beneficiaries.

Single paragraph. At any time, the assured may amend the beneficiary or beneficiaries indicated, upon formal requirement, dated, signed and filed with the insurance company.

Article 11 The insurance plan may provide the premium collection directly with the insurance company or through utilities bills, such as light, gas, telephone or other viable means, since the value intended for insurance is identified perfectly, as well as the date of such payment.

Single paragraph. The individual certificate, together with the identification of the premium payment referred to in the caput of this article, shall be proof, at any time, of the insurance contract execution.

Article 12 The commercialization of the popular group life insurance in disagreement with the established in this Circular shall subject the malfasant to the legal and regulatory sanctions provided in the standards in force.

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Article 13 Any matters not provided for in this Circular shall be dealt with by the legal and regulatory provisions in force.

Article 14 This Circular comes into force at the date of its publication.

RENÊ GARCIA Jr.

Superintendent

Annex 2

MINISTRY OF FINANCE

Superintendence of Private Insurance

SUSEP CIRCULAR No. 306, dated November 17th, 2005;

(Annexes in the website)

Regulates the operating rules and criteria for the operation of popular motor insurance for used vehicles and establishes the contractual conditions standardized.

THE SUPERINTENDENT OF THE SUPERINTENDENCE OF PRIVATE INSURANCES (SUSEP), under the authority granted to him by the article 36, subparagraphs “b” and “c” of the Decree-Law no. 73, dated November 21th, 1966, and considering the contained in the SUSEP Process no. 15414.004359/2004-01,

D E C I D E S :

Article 1st To regulate the operating rules and criteria to operate the popular motor insurance, under the terms of this Circular.

Article 2nd To establish, in the Annex of this Circular, the contractual conditions of the plan standardized of the popular motor insurance for used vehicles.

Article 3rd For the effect of this Circular, it is hereby defined as popular insurance, that intended solely for coverage of the used vehicles.

Article 4th The insurance companies that commercialize the insurance plan referred to in this Circular shall use the contractual conditions standardized in the Annex of this Circular, sending to SUSEP, prior to the commercialization, for analysis and filing, the actuarial technical note and the eventual punctual amendments.

Article 5th The insurance proposal referred to in this Circular shall include, at least, the following information:

- I – detailing of the basic coverages included within the plans provided, as well as the additional coverages, if any;
- II – identification of the vehicle insured;
- III – maximum indemnities limits and premiums detailed by coverage;
- IV – information regarding to bonus, if any;

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- V – deductibles, if applicable;

VI – information regarding to the ability of the assured to choose by the use of accredited network, as set forth in the §§ 6th and 7th of the article 9th of this Circular;

VII – information regarding to the ability of the assured to choose the premium payment form, as set forth in the article 10 of this Circular; and

VIII – answers to the risk evaluation questionnaire, if any.

Article 6th The popular motor insurance for used vehicles may be contracted upon simplified standard policy that shall include at least the following:

I – in the frontispiece of the policy, in addition to the information provided in specific normatives, shall be detailed:

- a) the basic coverage of the selected plan, as well the additional coverages, if contracted, with its respective maximum indemnities limits and premiums,
- b) percentage determined to characterize the full indemnity, defined in the § 7th of the article 9th of this Circular, and
- c) bonus and deductibles, if any; and

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

Single Paragraph. The full text of the contractual insurance conditions shall be at disposal of the applicant prior to the signature of the respective proposal, and the applicant, his/her representative or insurance broker should sign declaration that may be included in such proposal, that he/her was aware of the said contractual conditions.

Article 7th The policy cost, if charged, shall be limited to R\$20.00.

Article 8th The popular motor insurance for used vehicle shall be contracted solely in the modality of “determined value”.

Single paragraph. For the effect of this Circular, it is hereby set forth that the coverage of “determined value” is the modality that ensures to the assured, in case of full indemnity, the payment of fixed amount, in local currency, determined by the parties at the moment the insurance is being contracted.

Article 9th The insurance companies that commercialize the insurance plan referred to in this Circular shall provide solely one or more of the following basic coverages:

- a) BASIC I – Comprehensive Coverage A (full indemnity for fire, lightning, explosion, collision, theft or robbery) and third party liability – property damages (TPL-PD);

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- b) BASIC II – Comprehensive Coverage B (full indemnity for fire, lightning, explosion, theft or robbery) and third party liability – property damages (TPL-PD);

- c) BASIC III – Third Party Liability – property damages (TPL-PD);

§ 1st The insurance companies may also to provide other additional coverages, in addition to the coverages of third party liability – bodily injury (TPL-BI) or passengers’ personal accident (PPA) already provided in the Annex of this Circular, since if previously submitted to the analysis of SUSEP.

§ 2nd The coverages contained in the previous paragraph may be contracted facultatively by the assured if one of the basic coverages provided in this article is contracted.

§ 3rd It shall be established MIL value, equivalent to or above R\$10,000.00, separate for the coverage of Third Party Liability – Property Damages.

§4th In the basic coverages, the guarantees of fire, lightning, explosion, collision and theft or robbery shall not provide coverage in case of partial losses, only including the full indemnity.

§ 5th If the insurance companies choose to provide additional coverages for partial losses, it shall be provided the free choice of the machine shops by the assureds to fix the damaged vehicles.

§ 6th If the insurance company makes available accredited network to fix the damaged vehicles, it shall be ensured to the assured, at the moment of the filling up the proposal, the right to choose by use or not such network.

§7th The offering of accredited network, as set forth in the previous paragraph, only may be made if, in addition to submit previously to SUSEP the “Additional Coverage for Partial Losses”, the insurance company also submits the “Additional Coverage for Partial Losses Using the Accredited Network”, detailing, in this case, the advantages obtained by the assured if his/her option is to use it.

§8th It is hereby prohibited to apply the deductible in cases of full indemnity or damages caused due to fire, lightning or explosion.

§9th The full indemnity is characterized always the damages resulting from a same loss reach or surpass 75% of the agreed value established in the policy.

§10 It is hereby prohibited the deduction of the values related to damages previously verified in the vehicle insured.

§Article 10. The premium may only be paid after the acceptance of the proposal by the insurance company.

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

§2nd Furthermore, other forms to pay the premium in installments may be offered in the proposal by the insurance companies, since if provided in the specific clause of premium payment in installments, previously submitted to the

analysis of SUSEP, in accordance with the right of the assured to choose the payment form.

Article 11. The information related to the policies contracted in the popular motor insurance for used vehicle shall be accounted in the branch 26 – Popular Insurance for Used Vehicle.

Article 12. The actuarial technical note shall be in perfect line with the contractual conditions and shall also contain the information that the insurance was contracted on a first absolute risk basis.

Article 13. The insurance companies are hereby exempted to submit the specification of the rates or statistic and pure premiums related to A and B Comprehensive Guarantees.

Article 14. In case of differential premiums, it shall be specified the calculation criteria.

Article 15. It shall be established, in specific provision previously submitted to SUSEP, the form to be paid the full indemnity of vehicles subject to chattel mortgage, commercial leasing, consortium or other forms of lien.

Article 16. The legal and regulatory provisions in force related to the general insurance and motor insurance are applied to the popular insurance for used vehicle, subsidiarily to the set forth in this Circular.

Article 17. The commercialization of the popular motor insurance for used vehicle in disagreement with the set forth in this Circular shall subject the malfasant to the legal and regulatory measures and sanctions provided in the regulations in force.

Article 18. It is hereby expressly prohibited the designation “Popular Insurance” in the commercialization of insurance for used vehicles that do not satisfy the set forth in this Circular.

Article 19. This Circular comes into force at the date of its publication.

RENÊ GARCIA JR.

Superintendent

Annex 3

CNSP RESOLUTION No. 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 no. 60.459, dated March 13th, 1967, combined with the set forth in the article 26 of the Internal Regulation approved by the CNSP Resolution no. 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 the Decree-Law no. 73, dated November 21th, 1966, in the § 1st of the article 3rd of the Decree-Law no. 261, dated February 28th, 1967, and in the articles 73 and 74 of the Complementary Law no. 109, dated May 29th, 2001, in view of the set forth in the National Monetary Council no. 2.967, dated May 31th, 2002, and no. 3.000, dated July 24th, 2002, as well as considering the contained in the CNSP process no. 4/2001 – originally, process no. 10.003985/01-61, dated July 9th, 2001,

DE C I D E D :

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

CHAPTER I

DEFINITIONS

Article 2nd. For the purposes of this Resolutions, 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 organisms, provided statutorily or regimentally, 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 conditions standardized 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 3rd The investments shall be:

I – registered in 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.

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

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

§ 3rd 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.

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

Article 4th The real states and grounds that compose the investments of the company/entity should be registered in the real state title Registry.

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

CHAPTER III

SPECIAL CONDITIONS FOR FIFE

Article 5th 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 6th 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.

Single 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.

CAPÍTULO IV

PROHIBITIONS

Article 7th It is hereby prohibited to the company/entity:

I – to perform operations with derivatives, unless when 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, which portfolios are managed by natural persons, as well as in portfolios managed by natural persons;

III – to apply resources abroad, unless 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 participating the people referred to above, unless if the participation is up to 5% (five per cent) as shareholder of publicly traded company; and

c) being as adversary party, even indirectly, connected natural persons and legal entities.

§ 1st 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.

§ 2nd 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.

§ 3rd 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 8th In addition to the set forth 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 without register to transact in stock exchange or in over-the-counter market organized by entity accredited in the Securities Commission;

VII – to offer as collateral, assets not admitted under the Resolution CMN no. 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.

§ 1st 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 no. 9.496, dated September 11th, 1997, or the Provisional Remedy no. 2.185-35, dated August 24th, 2001, are excluded.

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

CHAPTER V

GENERAL PROVISIONS

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

I – the high 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.

Single paragraph. For the effect of the set forth in the caput:

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

II – it may not be considered as creditory 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 set forth in this Resolution.

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

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

Rio de Janeiro, August 19th, 2002.

HELIO OLIVEIRA PORTOCARRERO DE CASTRO

Superintendent of the Superintendence of Private Insurance

