

## **Survey Report**

# Microinsurance – Partial Report I

Concept Definition and Target Audience Identification

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## **Microinsurance – Partial Report I: Concept Definition and Target Audience Identification**

ESCOLA NACIONAL DE SEGUROS - FUNENSEG

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# Introduction

The concern about the situation of less fortunate people is nowadays a global trend, not only due to humanitarian issues involved, but due to the social, economical, political and, even, the ecological consequences created by the dissimilarity and misery. The subject matter has been frequent in the most important international discussion forums, engaging the best experts of all the sectors seeking solutions to promote the reduction of the poverty and the social inclusion. The question is aggravated considering the effects of the climate change in virtue of the global warming, which impacts to the needy people are likely to be even more devastating.

In the last two years, not by chance, the Nobel Peace Prize was intended for honorable humanitarians more concerned with the welfare promotion of their similar and the balance of the world where we live than the peaceful solution for the specific global conflicts<sup>1</sup>.

Pursuant to recent surveys made by acknowledged international institutions, whereas at developed countries the great part of the people is covered by any type of insurance, in the 100 poorest countries of the world a little less than 3% of the people have any type of coverage. The poor households, however, are those especially vulnerable to both risks, caused by the nature and caused by the daily occurrences.

In Brazil the situation is not different, at the extent of the classes less favored are more frequently exposed to diseases, accidents, deaths and a series of losses and damages related to the assets and properties due to the nature of their activities and the environment they live. These occurrences, in addition to the social and economical impacts caused to the neediest, give rise a series of extra expenses for the Government every period, which resources could be best used if there would be any type of action offering a proper protection for the poorest segments of the population.

These segments are the same that, in the last years, obtained the access to credit through financial institutions and that are demonstrating ability to take and keep

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1 2006 – Muhamad Yunus and the Grameen Bank, for their efforts to create, from nothing, economic and social development.

2007 – Vice President Al Gore and the Intergovernmental Panel on Climate Changes, for their efforts to consolidate and diffuse a large knowledge on the climate changes caused by human activity, and to create the required conditions to face such changes.

undertakings. These people, although facing multiple risks, do not have any familiarity with conventional insurance, and do not know the protection that may be offered to them. As a result, they remain managing their risks by means of personal savings, emergency loans or other informal ways, and social protection networks. Nevertheless, upon the occurrence of diseases, natural disasters, crop losses, accidents and damages to assets and properties, only to mention some possibilities, it may be noted the inability of these tools to provide the required protection.

## **MICROINSURANCE as Inclusion Tool**

Within this context, MICROINSURANCE appears as an alternative to benefit the economic increasing and human development, playing an essential role, since it is already at the border between the financial services and the social protection, including components of both. It should also be part of a government key strategy to reduce the poverty, by making more inclusive the financial systems through the promotion of the access to savings, credit and insurance services for the low-income people.

It may be said that at the extent of other microfinance segments, as the microcredit and the savings, help people to progress and to acquire properties, the microinsurance help them to protect their earnings, being this way, an important and powerful tool of social inclusion. For this reason, it may be inferred that the microinsurance, as the microcredit, is not a care program, since it includes the payment of regular premiums in return of proper protection to the assured, encouraging the entrepreneur spirit more than the consumer.

## **Microinsurance Focus**

The microinsurance is not a branch or specific modality of insurance; neither it is limited to a type of specific provider; however it has a specific target-audience: the low-income people.

Since they are intended for a population economically less favored and, frequently, of a low education level, the products should have an affordable price and meet the particular needs of the assureds in respect of coverages, format and simplicity of procedures, especially observing the subject matters that include the due protection to the consumer rights.

## **Importance of a Proper Policy and Regulation for the Microinsurance**

The role the microinsurance may play within the community follows a basic economic logic. If the people at the bottom of the economic pyramid have at their disposal mechanisms able to protect them against the high risks they are exposed to, they may obtain resources with the purpose to invest, creating more employments and wealth within their communities. An institutionalized work shall create a safer environment and the large access to the capital at low costs, stimulating the economic growth, releasing the Country, creating new business opportunities and a new consumer market, protecting the poorest people and, basically, promoting the social inclusion.

The insurance is like that, a vital tool for the sustainability and the economic development. However, what may be noted is that the service is being kept out of the reach of the poor. So many factors inhibit the low-income segment to have access to insurance, including, but not limited to: the improper finance means, the regulatory restraints and the operating system for the providers, the insufficient information, the low perception of the risk, amongst others.

The proper management of the risks and the development of best mechanisms to spread them become turning points to mitigate the poverty, since, as the insurance is referred intangible, it takes a substantial dimension upon the loss occurrence.

Thus, the microinsurance, provided by both, the private sector and public programs, should comply with the basic rules of supply: the products and services should be in pursuance with the principles of the insurance generally accepted.

The idoneity and professional expertise of the providers, as well as their solvency and financial strength are essential to keep the programs stability and credibility, demanding not only the proper financial requirements, but a potential and stimulating regulatory and taxable environment.

Therefore, the incentive to the access to the microinsurance should begin by building financial markets for the low-income people. The large number of clients and the great number of negotiations attract funds, support services and other elements for a developing business sector that may not be ignored.

Contrary to the experienced by other microfinance segments, which regulation occurred 20 years ago, the microinsurance regulation over the world is now a developing field. One of the lessons learned during the microfinance practice is that to succeed, the industry needs a proper regulation, favorable and timely that, at the same time it protects the providers, consumers, and market stability as a whole, it also helps to improve the

providers ability to render services to the less favored segments, in an efficient and effective way.

## **SUSEP Actions**

The Superintendence of Private Insurance – SUSEP, as the regulatory and supervisory agency for the insurance, open private pension, capitalization and reinsurance markets, in compliance with the government guidelines to stimulate the creation of finance products and services tailored to reality of the low-income people and the formal and informal micro entrepreneurs, since the end of 2003 has implemented actions to encourage the marketing of simplified and low cost insurances intended for these segments.

In September 21<sup>st</sup>, 2004 it was published the SUSEP Circular 267/2004 regarding to life insurance in popular group, specifying the General Conditions standardized and respective parameters.

In November 17<sup>th</sup>, it was published the SUSEP Circular 306/2005 regarding motor popular insurance, specifying the General Conditions standardized for this branch of insurance.

Another relevant issue occurred in 2004, and that counted on the SUSEP participation, was the publishing of the Decree 5.172/2004 that reduced the Tax on Financial Transactions (IOF) for the Life Branch from 7% to 2%, reaching the rate zero in 2006. This change had positive repercussions in the products marketing of the Life Branch in general and was the main claim of the industry during the preparation of the SUSEP Circular 267/2004. During 2007, such Decree was revoked by the Decree 6.306/2007.

Amongst the results obtained in Brazil since the beginning of the specific actions, it may be noted that the standards published by SUSEP encouraged the debates on microinsurance, since the subject matter was unknown in Brazil before 2004, and made sensitive the Brazilian insurance market. Since then, so many insurance products were created intended for the low-income consumer, inspired by the positive performance of the Popular Insurances of Life, then capturing the interest for this people segment.

Within the international scenery, SUSEP began its participation in focus groups on the subject matter in the beginning of 2006, at the time of the “IAIS-CGAP Joint Working Group on Microinsurance (JWG-MI)” or, in Portuguese, “Grupo de Trabalho Conjunto IAIS-CGAP sobre Microseguros”, when this Autarchy was invited to participate as member and cooperator.

It is important to highlight that the International Association of Insurance Supervisors – IAIS<sup>2</sup>, of which SUSEP is member, is the main international forum on issues related to insurance supervision that counts on, as permanent members, more than 190 supervisors and regulators, from more than 140 countries, in addition to the observers, represented by insurers groups, major consultancies and other related international entities<sup>3</sup>.

It should be also given a special highlighting to the fact that IAIS prepares the insurance global principles that are internationally accepted and influence the supervision activities over the world, being used as parameters to measure the developing level of the insurance markets on the estimates made by IMF, World Bank and other international organisms and consultancies. Therefore, it may not mention to follow the best international practices of insurance without seeking the compliance with the IAIS principles and standards, prepared by their several committees, sub-committees and working groups.

On the other hand, CGAP Working Group on Microinsurance was created in 2002 and their more than 80 members are representatives of donor organizations, international agencies of development, experts on development of financial systems, private insurance companies and other stakeholders involved in the microinsurance promotion and support in the emergent countries, through the promotion of the development and multiplication of the insurance services for low-income people. The group helps in the microinsurance development through surveys, action, coordination and awareness tools.

In May 2007, during meeting held at the Rio de Janeiro, the JWG-MI concluded the document, which heading is “*Issues in Regulation and Supervision of Microinsurance*” (or, in Portuguese, “*Questões de Regulação e Supervisão de Microseguros*”), which purpose is to stimulate and to provide basement to discussions about the regulation and the supervision of the microinsurance, amongst regulators, supervisors, providers and other stakeholders, counting on an integrated structure for its development, through favorable policies, legal and regulatory adjustments and building of the sector institutional capacity, coherent with the principles and practices internationally accepted – notably the Basic Principles of Insurance from IAIS – focused in operating, prudential, market governance and conduct issues.

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2 [www.iaisweb.org](http://www.iaisweb.org)

3 In Brazil, the IAIS members are the following: Superintendence of Private Insurance (SUSEP) and the National Agency of Supplementary Health (ANS); and the observers are the following: National Federation of Private Insurance and Capitalization Companies (FENASEG), National School of Insurance (FUNENSEG) and Bradesco Insurance.

The paper also discusses other relevant topics identifying types of products, consumers and providers, highlighting the role played by the insurance supervisors and regulators, in charge of providing capable mechanisms, acting as enablers in respect of this world trend.

By acknowledgement to the work performed by SUSEP during the last two years, in October 2007, the Superintendent of the Autarchy, Mr. Armando Vergílio dos Santos Júnior was elected president of the JWG-MI (IAIS-CGAP Join Working Group of Microinsurance) and the IAIS Working Sub-Group of Microinsurance, being this the first time a representative from Brazil chairs a Working Group in the scope of the most succeed and acknowledged International Association of this nature.

### **National Council of Private Insurance (CNSP) Microinsurance Consultative Committee**

In April 15<sup>th</sup>, 2008, CNSP, through CNSP Act 10/2008, created the Microinsurance Consultative Committee, chaired by the Superintendent of the SUSEP and composed for:

- two representatives of the Ministry of Finance;
- two representatives of the SUSEP;
- one representative of the Brazilian Central Bank;
- one representative of the Ministry of Social Security;
- two representatives of the National Federation of Private Insurance and Capitalization Companies (FENASEG)
- two representatives of National Federation of the Insurance and Reinsurance Brokers, Capitalization, Private Pension and Insurance and Reinsurance Brokers Companies (FENACOR); and
- two representatives of National School of Insurance (FUNENSEG)

The Committee aims at promoting studies on microinsurance and advising CNSP in respect of their technical and operating issues, presenting conclusive work up to December 31<sup>st</sup>, 2008.

The creation of the Microinsurance Consultative Committee, considering its composition, means an essential step to the creation of a regulatory structure proper to the development of the Microinsurance in Brazil, since it is composed for representatives of various stakeholders of both, the Government and the private initiative.

The participation of other Governmental Agencies, besides SUSEP, enables the awareness increase of the authorities in charge of the definition of the sector policies – an essential recommendation to obtain the adjustment of regulation and supervision practices intended for the special peculiarities of the microinsurance, and also to ease the dialogue, especially regarding to fiscal and social issues. On the other hand, the private initiative may contribute with its marketing expertise and knowledge, helping to establish more consistent criteria for the elaboration of specific surveys about the consumer market potential, its peculiarities and demands.

## **Superintendence of Private Insurance (SUSEP) Working Group on Microinsurance**

In June 12<sup>nd</sup>, 2008, through SUSEP Ordinance 2960, SUSEP created the Working Group on Microinsurance, with the purpose to present studies and to advise the Microinsurance Consultative Committee, relative to the technical, legal and operational issues.

The Working Group is directly subordinate to the Superintendent of SUSEP and counts on 180 days from the date of the edition of such Ordinance to present its Final Report.

At its second meeting, the Working Group, amongst other decisions, approved a Working Schedule that establishes the presentation of Partial Reports to the Superintendent of SUSEP, before the presentation of the Final Report, regarding the following issues:

- Report I – Definition of the “microinsurance” concept, identification of the target audience and definition of the “low-income population” concept for microinsurance purposes.
- Report II – Identification of the Regulatory Barriers for the microinsurance in Brazil
- Report III – Stakeholders in Microinsurance and the roles they play
- Report IV – Probable Products of Microinsurance and its Minimum Parameters

The content of the Partial Reports shall be the basis for the Final Report. Following, SUSEP Working Group on Microinsurance (GT SUSEP, in Portuguese), created by the SUSEP Ordinance 2.960, dated June 12<sup>nd</sup>, 2008, presents the first of these partial reports.

# ***Preliminary Insights***

## ***Definition of the “Microinsurance” Concept***

### ***Identification of the Target Audience: Definition of the “Low-Income People” Concept for Microinsurance Purposes***

According to the schedule approved, SUSEP Working Group on Microinsurance (GT SUSEP, in Portuguese), created by the SUSEP Ordinance 2.960, dated June 12<sup>nd</sup>, 2008, in its first Partial Report should present to the Superintendent, a proposal for the “microinsurance” concept in Brazil, further defining its target audience, in that case the “low-income people”, which concept should be established for the microinsurance specific purposes.

As starting point to the definition of these concepts and taking into account:

- i) The active participation of this Autarchy in the IAIS-CGAP Joint Working Group on Microinsurance (JWG-MI) and in the IAIS Sub-Working Group on Microinsurance, both chaired by the President of the SUSEP;
- ii) The fact that the International Association of Insurance Supervisors ( IAIS) is the major international forum for the subject matters related to the insurance supervision, and that its several working groups prepare global principles that are internationally accepted and influence the supervision activities over the world;
- iii) That it may not mention in following the best insurance international practices without seeking the compliance with the IAIS principles and standards.

SUSEP WG understands as necessary that the “microinsurance” definition for Brazil, that is to be used in specific regulation, is in line with the definition contained in the IAIS paper “Issues in Regulation and Supervision of Microinsurance”, dated June 2007, prepared by JWG-MI.

Relating to the definition of “low-income people” for microinsurance specific purposes, SUSEP WG decided that would be essential to hear, initially, the Brazilian Institute of Geography and Statistics (IBGE), particularly its Poverty Rates Management,

completed by contacts with experts and/or entities of the financial sector, like the Financial, Accounting and Actuarial Research Institute Foundation/University of São Paulo (FIEPECAFI/USP).

It may be highlighted that this action line is in accordance with the recommendations of the IAIS paper *“Issues in Regulation and Supervision of Microinsurance”*:

*“(...) it is important that the supervisors understand what means the microinsurance, in general, and define it for its jurisdictions prior to envisage any different regulatory approach in terms of its treatment related to prudential, market conduct and operating peculiarities”* [Emphasis added]

## Definition of the “Microinsurance” Concept

The IAIS paper “*Issues in Microinsurance Regulation and Supervision of Microinsurance*”, used by the SUSEP WG as main reference, adopts the following definition for microinsurance:

*“Microinsurance is the **insurance accessible to the low-income people**, provided by various different entities, but in accordance with the insurance practices generally accepted (that should include the Insurance Essential Principles). Mainly, it means that **the risk insured by a microinsurance policy is managed pursuant to the principles of insurance and funded by premiums**. The microinsurance operations, therefore, should be naturally adjusted within the scope of the local insurance’s regulator/supervisor, or any other qualified authority in compliance with the national regulation of the relevant jurisdiction.”* [Emphasis added]

*And further: “microinsurance is neither a specific product or a branch of insurance. It is not also limited to a specific provider. Microinsurance is intended for a specific segment of income, i.e., the low-income people segment.”* [Emphasis added]

An explanatory note also highlights that “microinsurance does not include (...) governmental programs of social welfare, since they are not financed by risk-based premiums, and the benefits are not financed by a common fund managed according to the insurance and risk principles. For the same reason, it does not include the emergency care provided for governments in cases of, for instance, natural catastrophes, floods/fire at low-income locations, etc”. [Emphasis added]

The country, anyway, “as the last instance risk manager “, may determine on the need to sponsor the access to microinsurance, through resources redistribution practices, financing programs managed in accordance to the principles of insurance. In this case, from the politic starting point, would be fundamental that the border line between the social programs and the initiatives under the market authority were clearly defined, and the eventual subsidies would not inhibit the market initiative.

It may be concluded from the IAIS paper that the microinsurance target audience is formed basically by: i) low-income households, “that may not count on coverage by other insurances and/or social security programs”; ii) people working at the informal economy, “that have not access neither to the traditional insurances nor to the social protection benefits provided directly by the employers, or by the government through the

employers”; and iii) formal segment low-income workers, “that may also demand microinsurance services”.

Microinsurance presents, however, two important focus: i) the focus on the extension of the social protection and ii) the focus on the offering of vital financial services.

The various works developed by the IAIS-CGAP JWG-MI also offer to us important information on the microinsurance activities in different countries, noting that, depending on the jurisdiction and/or the country, “microinsurance” may present different meanings, as well as common peculiarities. Some of these specificities are the following:

- i) At the most of the countries **microinsurance is not considered as distinguished type or branch of insurance**, but only seen as an available insurance in small values, what could explain the non-existence of a distinguished set of rules for the microinsurance in these countries.
- ii) Microinsurance is **not limited to any type of risk in particular**, covering a large diversity of risks, including diseases, personal accidents, death and damages to properties – basically, any type of risk insurable and which coverage is structured so that to be financially practicable and accessible for low-income households.
- iii) Microinsurance **may be provided as an only one coverage product or as a “package” of coverages**.
- iv) The coverages may be provided in **individual or group insurance policies**.
- v) **Regarding to the provider**, considering the global context, it may be said that the microinsurance is impartial in relation to the size of the entity that assumes the insurance risk – it may be small or large insurance companies, **from different legal form**, depending on the regulation of each country (Amongst the entities providing microinsurance are included programs of small base communities, mutual associations, cooperatives or companies formed as joint stock companies). It may be **entities with or without profit purposes**, and neither all of them are regulated by the insurance regulation.
- vi) **In respect of the delivery channels**, the entities that operate microinsurance frequently establish connections with a range of other operators to reach the low-income market (cooperatives; microfinance institutions (MI); federal, state and municipal government; outsourcing services providers, as companies of mobile telephony; post office locations; and non-governmental organizations (NGOs), amongst others).

In addition, it is majority between the regulators and financial services experts that the greatest part of the traditional insurance’s characteristics is, in large scale, applied to the microinsurance, such as the following aspects: the actuarial, accounting, audit, policy documentation, reinsurance, monitoring of the performance indicators, technical

management (admission, claims process), contracts with service providers of medical care, etc.

Some unique characteristics of the microinsurance, however, may require a different regulatory approach, for example: the fact it is a social inclusion tool; the means of premiums collection; the irregular cash flows of the potential assureds; the intermediaries that are not so qualified; the non financial education of the consumer; the small amounts insured; the need for adoption of simple policies; the promptitude in the loss settlement, etc.

## **“Microinsurance” Concept for Brazil**

In view of the above considerations, the SUSEP WG understands that microinsurance:

1. Is a financial service that provides social protection;
2. Should be necessarily provided by authorized provider, in compliance with the legislation and adjusted to the scope of the local insurance regulator/supervisor ;
3. Has the low-income people as target audience, including people that may work in both sectors of the economy, the formal and the informal;
4. Should have premiums proportional to the probabilities and to the costs of the risks assumed;
5. Should note the principles of the insurances internationally accepted.

Based on these assumptions, SUSEP WG proposes the following terms as microinsurance concept:

*Microinsurance is the financial protection provided by authorized providers for the low-income people against specific risks in return for premiums payments proportional to the probabilities and risks assumed, in compliance with the legislation and the principles of insurance internationally accepted.*

SUSEP WG considers as important that the concept to be adopted in Brazil for “microinsurances” is defined in specific standard, so that it may be obtained a majority regarding to its understanding by both, the Government as the other stakeholders.

# ***Definition of the Concept of “Low-Income People” for Microinsurance Purposes***

The population of Brazil, in 2005, according to the data collected by the National Research by Domiciles Sample (PNAD, in Portuguese) – 2005-2006, from IBGE, was 184.388.620 inhabitants<sup>4</sup> and its economically active population<sup>5</sup> represented 52% of this total (chart 1).

Chart 1

:

Total Population:  
Economically Active Population  
Population not classified as EAP

Source: IBGE – National Research by Domiciles Sample - 2005

The PNAD/IBGE data also show that a great part of this population received less than three minimum wages monthly. In fact, 46.1% had a per capita monthly income of up to 2 minimum wages (chart 2) and, depending on the region of the country this percentage could surpass the 50%. Thus, whilst in the North East 54.7% of the population received per capita monthly income of up to 2 minimum wages, in the South East this percentage was 41.7%.

4 Population of Brazil in 2008: 186.690.583 inhabitants (source: IBGE)

5 The Economically Active Population (EAP) includes the potential of manpower the productive sector may count on, i.e., the population occupied and the population unoccupied, defined as: i) population occupied – those people that, within a certain reference period, worked or had a job but did not work (for example, people on vacation) and ii) Population Unoccupied – those people that had not a job at a certain reference period, but were willing to work, and that, for this, took some effective measure (consulting people, newspaper, etc.).

## Chart 2

### Classes of Monthly Income

More than 20

Minimum Wages

Without income

in thousand of people

Source: IBGE, National Research by Domiciles Sample – 2006  
Without income: including people that received only as per benefits.

## Chart 3

### Allocation by occupation

unpaid

employers

for own account

home workers

employees with papers signed

employees with papers not signed

militaries and public servants

Source: IBGE, National Research by Domiciles Sample – 2005

In respect of the percentage allocation of the economically active population by position in the occupation at the main work<sup>6</sup>, it may be noted a trend to the informality (chart 3), since 41% of the people of this population would carry out activities classified as for by

their own (23%) or would be employees of working papers not signed (18%). This trend increases in the low-income classes (table 1)

Table 1<sup>7</sup>

| Occupation                             | Up to ½ salary | More than 2 salaries |
|--|----------------|----------------------|
| Employees of working papers not signed | 30.3           | 15.8                 |
| Employees of working papers signed     | 11.6           | 26.0                 |
| Militaries and Public Servants         | 6.1            | 46.3                 |
| Home workers                           | 34.3           | 5.4                  |
| By their own                           | 28.9           | 18.3                 |
| Employers                              | 4.1            | 61.9                 |

Source: IBGE, National Research by Domicile Samples – 2005

As already mentioned before, according to the IAIS paper “Issues in Microinsurance Regulation and Supervision of Microinsurance”, the microinsurance target audience is formed for: i) low-income households; ii) people working in the informal economy; and iii) formal sector low-income workers.

But in Brazil, what would be the border line of the people segment classified as low-income?

6 The people occupied are classified in:

- a. Employees - those people who work for one employer or more, carrying out a working journey, receiving in return a payment in cash or other form of payment (dwelling, food, vestment, etc.). It is included, amongst the people employed, those that are rendering compulsory military service and the clergymen. The employees are classified according to the existence or not of working papers signed.
- b. For Own Account – those people who explore an economic activity or carry out a profession or occupation, without employees.
- c. Employers – those people who explore an economic activity or carry out a profession or occupation, with the assistance of one or more employees.
- d. Unpaid – those people who carry out an economic occupation, unpaid, for at least 15 hours a week, providing assistance to member of the domicile in its economic activity, or to religious, charitable or co-operation institutions, or even, as learner or trainee.

7 IBGE compares people with per capita income of up to ½ minimum wage and above 2 minimum wages, aiming at proving the social dissimilarities' level in which are situated such people segments.

According to the Poverty Indicators Management of the Brazilian Institute of Geography and Statistics (IBGE), in respect of the poverty measurement, Brazil does not have an “official poverty line”, although its definition is a commitment of the current

Government. It may be noted, however, that some “lines” are being divulged by independent institutions and researchers. The main difficulty is due to the so many variances that influence and intervene in the poverty concept and that, in Brazil, these factors are aggravated due to the existing contrasts amongst its different regions. For this reason, at IBGE there is a majority that special attention should be given to the building of reliable statistic sources that allow make viable the development of various arrangements.

Amongst the several variances that influence the “poverty” concept, in addition to the average value of the household income, are the education level and the data that distinguish the physical structure of the domicile, such as the occupation conditions, sanitation services available, access to the electric light, existence of landline, the possession of durable goods, amongst others.

Thus, considering the countless variances that influence the “poverty” concept and, on the other hand, the need to obtain focused data that enable to meet the specific goals defined in the Activities Schedule related to the first Partial Report, amongst them, the definition of the “low-income people” concept for the purposes of “microinsurance” in Brazil, SUSEP WG decided to adopt, primarily, variances associated to “education” and “domicile characteristics”, notably in relation to the provision of essential services, associated to the “income”, so much familiar as per capita.

The choice of these variances has as initial purposes:

- i) to carry out a preliminary study on the education profile of the potential consumer of the microinsurance services; and
- ii) to analyze possible delivery channels and/or microinsurance premiums collection networks.

## **Income Class x Education**

Although the situation is improving in the last years, the illiteracy and the low education level represent serious problems for the country. According to the data from 2005 collected by the Economic Committee for Latin America and Caribbean (CEPAL, in Portuguese), the Brazilian illiteracy rate of the people who are 15 or more years old, of 11.1%, is greater than the average of the Latin America, of 9.5% (chart 4).

Chart 4

## Illiteracy rate of the people who are 15 or more years old – 2005

Venezuela  
Peru  
Paraguay  
Uruguay  
Mexico  
Haiti  
Colombia  
Chile  
Brazil  
Bolivia  
Barbados  
Argentina  
Latin America and Caribbean

Source: Anuário Estadístico de América Latina y El Caribe, Santiago de Chile: CEPAL, 1998; Anuário Estadístico de América Latina y El Caribe, Santiago de Chile: CEPAL, 2007.

The National Research by Domiciles Sample – PNAD 2006, from IBGE, deepens and details the issue, showing that this analysis is not so simple, especially if we consider the different situations noted in every region of the country.

The functional illiteracy rate<sup>8</sup> of the people who are 15 or more years old fluctuates considerably in the different regions, reaching high percentages in the low-income classes. In the North East, for example, in the per capita familiar monthly average

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8 Functional illiteracy: failure to dominate the abilities of reading, writing, calculations and sciences, corresponding to an education of up to 3 completed grades of the high school.

income of up to ½ minimum wage, the illiteracy rate reaches 41.5%, while in the South East this rate is 26.0% and the national average is 34.4%. In the per capita familiar monthly average income of up to 2 minimum wages the differences are less accentuated, 5.7% and 5.5%, respectively, for the North East and South East, for a national average of 5.7% (chart 5), considerably below the Latin American average.

## Chart 5

Functional illiteracy rate of the people who are 15 or more years old

Brazil

North

North East

South East

South

Center East

Income in number of minimum wages

Source: IBGE, National Research by Domicile Samples – 2006

## Chart 6

Functional illiteracy rate of the people who are 15 or more years old

Brazil

North

North East

South East

South

Center East

Total

Urban Area

Rural Area

Domicile situation

Source: IBGE, National Research by Domicile Samples – 2006

It may also note that the functional illiteracy of the people who are 15 or more years old by domicile situation is greater in the rural areas, where the rate of the country reaches 44% against 18.1% in the urban areas. These conditions present, however, a relevant variance if compared to the large regions of the country (Chart 6).

Regarding to people education years average, we may note that, although the income influences it decisively, there is a relevant variance in view of the region and federation unit of domicile of the people. For example: In Alagoas, the education years average of the people who are 15 or more years old is 5.1 years, while in Piau  is 5.4 years; in Rio de Janeiro and S o Paulo, the average is 8.2 years, reaching to 9.2 years in the Federal District.

However, as well occurs with the illiteracy rates, this variance is accentuated when the correlation between the incomes and education years is analyzed (chart 7). While the national average of education years of the people who are 25 or more years old, classified between the 20% richest, achieves 10.2 years, that from the 20% poorest is only 3.9 years. Between the 2nd and 3rd fifth, the variances noted are less expressive.

#### Chart 7

Education years average of the people who are 25 or more years old by fifths of per capita familiar monthly income

Brazil  
North  
North East  
South East  
South  
Center East  
  
20% poorest  
2nd Fifth  
3rd Fifth  
4th Fifth  
20% richest  
Total

Source: IBGE, National Research by Domiciles Sample – 2006

## Income Class x Domicile Characteristics

According to the PNAD/IBGE, there is around 55 million of domiciles in the country, with an average number of 3.4 people by domicile. From these, 46.3 million of domiciles are situated in urban areas, corresponding to an urbanization area of 85%. This trend – the intense urbanization – may be noted, in larger or lesser grade, in all the Latin American Continent.

The percentage allocation of the urban permanent particular domiciles by per capita domicile monthly income class in the large regions of the country (chart 8) confirms that the profile of the urban people in Brazil is formed in its large majority by domiciles with per capita income of up to 2 minimum wages. In the North East, the urban people percentage with per capita domicile monthly income of up to 2 minimum wages reaches 86%. Even in the South and South East this percentage keeps high, 68.9% and 67.7% respectively.

It is further noted that from this majority, 20.6% of the Brazilian urban domiciles are in the range of up to ½ minimum wage of per capita domicile income. But, one more time, this situation presents a relevant variance, according to the region, since, if in the North East 39% of de domiciles present this monthly average income, in the South East this percentage does not surpass the 12.5%.

### Chart 8

Urban domiciles percentage by per capita familiar monthly income

Brazil  
North  
North East  
South East  
South  
Center East

20% poorest  
2nd Fifth  
3rd Fifth  
4th Fifth  
20% richest  
Income in minimum wages

Source: IBGE, National Research by Domicile Samples – 2006

In respect of the several elements that distinguish the physical structure of the domicile, SUSEP WG limited to note the association to the income of those associated to the provision of the essential services, as sanitation (where it is included, water provision, sewage system and waste collection) and electric light, and others as landline and Internet, aiming at obtaining the data that may influence in the definition of possible delivery channels and in the insurance premiums collection.

## Chart 9

Urban domiciles percentage, including sanitation services, by per capita familiar monthly income

Brazil  
North  
North East  
South East  
South  
Center East

Total  
Up to ½  
> ½ up to 1  
> 1 up to 2  
> 2 up to 3  
> 3 up to 5  
> 5

Income in number of minimum wages

Source: IBGE, National Research by Domicile Samples – 2006

At first sight, the access to essential and communication services, although it presents an important correlation with the income, it is mainly associated to the existing urban infrastructure, reflecting the level of regional economic-social development.

For example, the PNAD/IBGE 2006 data on the proportion of the domiciles with essential sanitation services<sup>9</sup>, by per capita familiar income class (chart 9), show that, although there is relevant variances in the services provision in view of the income, these same variances are even greater when considered the country region of domicile locality

These regional differences related to the provision of the water supply<sup>10</sup>, electric light and communication services in the Brazilian urban centers may be clearly noted in the chart 10.

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9 It is considered as proper or complete essential sanitation the domiciles with simultaneous services of water supply through general network with internal plumbing, connected to the general network of sewage system and/or pluvial network, and waste collection service.

10 Although the completed essential sanitation services already include the water supply services, the chart presents a regional variance in this service provision, noting its provision not simultaneously with de sewage system and waste collection.

## Chart 10

Domiciles percentage, including the access to several services

Brazil  
North  
North East  
South East  
South  
Center East

water supply  
electric light  
landline  
internet

Source: IBGE, National Research by Domicile Samples – 2006

The charts further provide important information regarding to possible delivery channels and/or microinsurance premiums collection in urban areas of the country. As we may conclude, even presenting regional sceneries so much different, almost the

totality of the urban people is supplied by electric light services (99.7%) and a relevant percentage is provided by water supply (91.6%) and landline services (53.4%).

SUSEP WG believes that a most encompassing research carried out by specialized entity may inflict more consistent conclusions from other important factors, as the possession of durable goods (as computer and electrical appliances) and other features connected to the type of domicile (if house, apartments, bedrooms...) and its occupation condition (proper real states, rented or ceded), offering an outlook quite large on the profile of the microinsurance potential consumer in Brazil.

### **“Low-Income People” Concept**

Due to the above mentioned and considering:

1. That the microinsurance, according to the IAIS understanding, are intended for:
  - i) low-income households;
  - ii) people who work in the informal economy; and
  - iii) low-income workers of the formal sector;
2. That in Brazil the per capita monthly income of around 46% of the people is up to 2 minimum wages.
3. The trend to the informality noted in the economically active people, especially amongst people with per capita monthly income of up to 2 minimum wages.

SUSEP WG proposes the following terms to be used as low-income people concept:

Low-income people, for microinsurance effects in Brazil is the people segment with per capita monthly income of up to two minimum wages, which position in the occupation may be classified in the both sectors of the economy, the formal and the informal.

# ***Conclusions and Recommendations***

SUSEP WG recommends that the concept to be adopted in Brazil for both, “microinsurance” and “low-income people” is included in the specific rules in order to obtain a majority on these understandings, by the Government as well as by the other stakeholders, proposing the following terms:

“Microinsurance is the financial protection provided by authorized providers for the low-income people against specific risks in return of premiums payments proportional to the probabilities and to the cost of the risks assumed, in compliance with the law and the principles of insurance internationally accepted.”

“Low-income people for microinsurance effects in Brazil is the people segment with per capita monthly income of up to two minimum wages, which position in the occupation may be classified in the both sectors of the economy, the formal and the informal.”

Considering the analysis and studies carried out up to now, SUSEP WG considers that is relevant also to make the following notices and recommendations:

- i) The education profile of the potential consumer of the microinsurance services – presenting low average of education years, significantly influenced by region and federation unit of domicile, and high functional illiteracy rates, especially amongst the poorest – shall encourage proper finance education programs, able to raise this segment of population;
- ii) The education profile of the potential consumer of the microinsurance services should be considered upon the preparation of specific legislation, mainly to that related to the products contracting and to the consumer defense;
- iii) The domicile of the potential consumer of the microinsurance services in Brazil is mainly urban, what could indicate that the programs and policies for the microinsurance developing in the country may be, in its early phase, intended for the low-income people of the large urban centers of the country;

- iv) Almost the totality of the urban people, in which is included the people segment with per capita monthly income of up to 2 minimum wages, is supplied by electric light services (99.7%) and a relevant percentage is provided by other services, whose providers should be considered as potential delivery channels and/or microinsurance premiums collection network;
- v) A more encompassing research should be carried out by specialized entity, in order to inflict more consistent conclusions about the profile of the potential microinsurance consumer in Brazil;
- vi) The concept to be adopted in Brazil for “low-income people” is included as specific standard, in order to obtain a majority on its understanding by the Government as well as by other stakeholders.

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# ***Survey Credits***

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