

III Interim Report

**Object: Identification of stakeholders in
Microinsurance and their roles**

May, 2009

[This document was prepared by the Microinsurance Work Group created by SUSEP's Ordinance nº 2.960, of June 12, 2008]

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III Interim Report

Identification of Interested Parties on microinsurance and their Respective Roles

1. Preliminary Considerations:

According to the approved schedule, the SUSEP Task Force on Microinsurance (GT SUSEP), established by Ordinance SUSEP n° 2.960, from June 12, 2008, in its 3rd Interim Report shall present to the Superintendent a study on the identification of interested parties in the process of implementing a favorable environment for the development of microinsurance in Brazil, and the respective roles these parties may play.

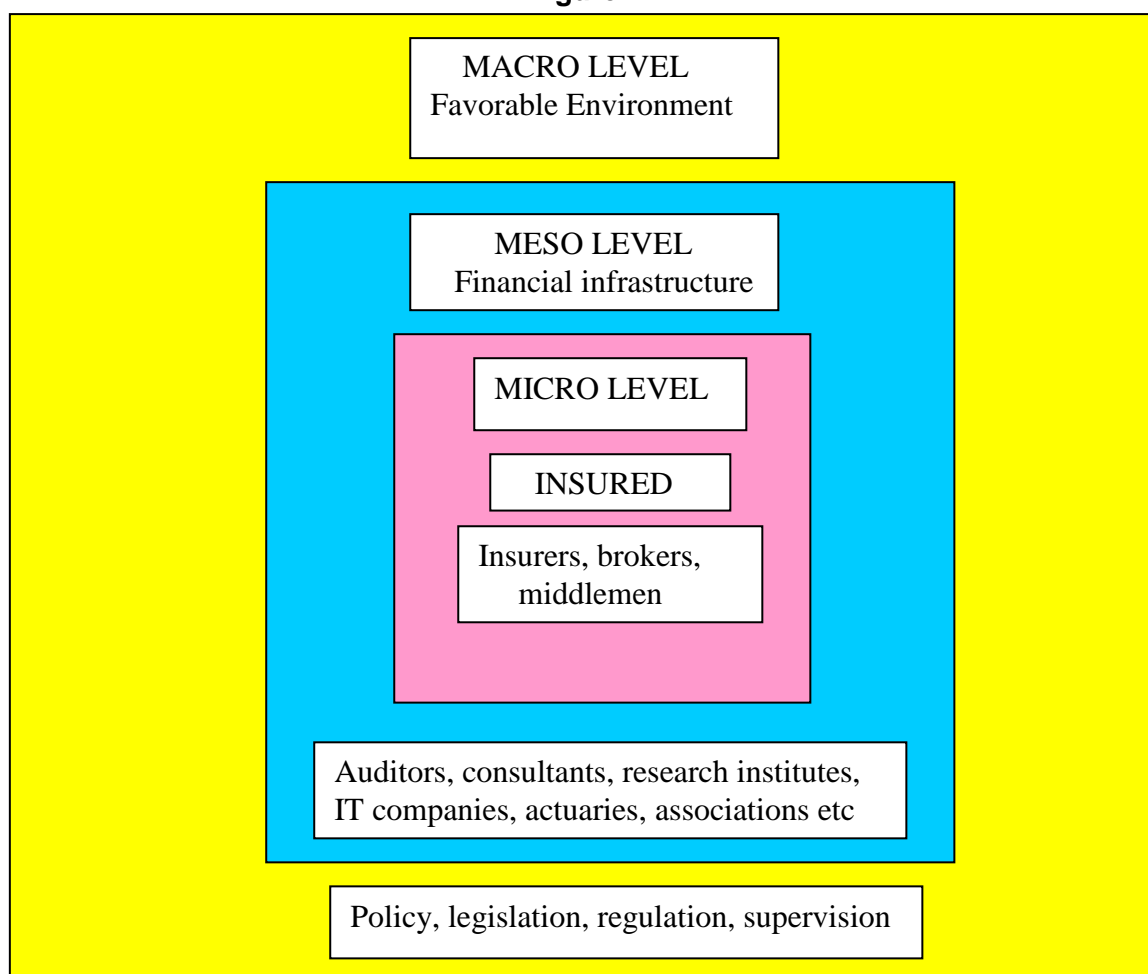
As a starting point to the proposed study, the GT SUSEP decided to adopt the following rules:

i) Classify the interested parties according to their level of action within the financial system: macro, meso and micro.

ii) Considering the active participation of SUSEP at the *IAIS-CGAP Joint Working Group on Microinsurance (JWG-MI)* and in the Microinsurance sub-group of IAIS, both chaired by SUSEP's superintendent, adopt as their main references the IAIS document "*Questions related to Regulation and Supervision of Microinsurance*" and also the works written by member of the Task Force, which are reputable experts in the fields of finance and insurance.

2. The Different Levels of the Financial System

Figure 1



Source: Michael McCord, adapted from CGAP for the document *Questions related to Regulation and Supervision of Microinsurance*.

Grupo de Trabalho de Microseguros – Portaria SUSEP 2.960, de 12/06/2008

According to the document “Questions related to Regulation and Supervision of Microinsurance”, the regulation for microinsurance is a complex task, with many questions and different actors involved in the several levels of the financial system: macro, meso (intermediate) and micro (see figure 1).

At the **micro level**, right at the center of the system, there are the insured, the microinsurance providers and the middlemen. The provider may be a single institution that takes the risk, distributes the product and administers the policy, or these several tasks may be taken separately by different organizations, one taking the risk, another distributing the product and a third one dealing with claims adjustment.

The **meso level** is formed by the general infrastructure and the supporting institutions needed for the operation of the micro level. For instance, actuarial services (to establish the appropriate premiums to the risks taken by insurers), training activities (for the insurers’ personnel and their crews), data storage and information technology, classifying agencies, reinsurers, associations and other supporting services. A critical point at the meso level is the quality of information about the market which, besides aiding in the development of good products, helps operations at the micro and macro levels.

The **macro level** comprises the macro-economical and political environment. In relation to microinsurance, such environment should be favorable and stable, with a financial policy favorable to low-income population. At this level, the Government institutes the rules under which the insurers shall operate and supervises the operations to ensure that such rules are obeyed. Beside regulating and supervising the insurers, the Government should oversee the several actors at the intermediate level (such as actuaries and auditors) and exert its role in protecting the consumer, stimulating the creation of ombudsman services.

Other actors to be considered are **donors** and **international development agencies**, which intervene at all levels and have a relevant role in encouraging and supporting sound practices. They may provide technical assistance and courses to improve the technical capacity of the different agents (e.g., financial education to consumers, improving the capability of middlemen and providers), as well as provide loans to the Government for specific activities. However, the efforts of donors and agencies may be hindered by the inadequacies of the meso and macro levels.

The GT SUSEP has considered each one of these levels in the process of identifying the role of the several parties interested in implementing a favorable milieu for the development of microinsurance in Brazil.

3. Interested Parties

In addition to the development of new products and new institutions, the growth of microinsurance depends, necessarily, on the coordinated efforts of all interested parties acting upon the different levels of the financial system. Follows a list of interested parties as identified by the GT SUSEP as essential for implementing an adequate regulatory structure favorable to the development of microinsurance in Brazil, together with the proposed roles each one should play in the process.

3.1. Macro level

In order to develop a policy that promotes the expansion of microinsurance in Brazil, it will be necessary that several governmental segments engage in a dialog about the promotion of insurance with view to social inclusion.

Although the Executive branch will have a paramount role at the Macro level, it will be necessary nevertheless a joint work with the Legislative and Judiciary branches in order to

deepen and complete the construction and implementation of a legal framework that may support and uphold the whole process.

3.1.1. Executive Branch

At the Macro Level, the Federal Government has been taking several steps to stimulate micro-finance activities, in the areas of banking, micro-credit, and credit cooperativism, in order to create new jobs and increase the income of the lower social strata. Since June 2003, there has been an expansion of mechanisms and instruments to facilitate the access of the poor to financial products adapted to their socio-economical situation, such as: i) simplified checking accounts; ii) loans to micro-entrepreneurs and to low-income population at reduced interest rates; and iii) savings accounts, insurance and complementary social security.

In this context, within the Executive branch, and in accordance with its attributions and competence, several Ministries, single and collegiate authorities, Public Companies and Affiliated Entities play a very important role in the process of implementing a policy of social inclusion that should be capable of promoting the development of microinsurance in the country, so that the participation of their representatives in the discussions, debates and task forces on the subject is indispensable.

3.1.1.1. Insurance Regulators and Supervisors

3.1.1.1.1. National Council of Private Insurance - CNSP

The National Council of Private Insurance – CNSP – is the deliberative forum for the National System of Private Insurance and, as such, is responsible for the policies, recommendations and guidelines of the Brazilian Government concerning the insurance companies in Brazil. It is chaired by the Finance Minister or his representative, and has the Superintendent of SUSEP as its vice-chairman. The Council has representatives of the Central Bank, Ministry of Justice, Ministry of Social Security and the Securities and Exchange Commission (CVM). The Council was established by Decree-Law (Executive Order) N° 73/66, which states (Art. 32) that it has the sole competence to: i) dictate the guidelines and norms for the private insurance activity; ii) regulate the constitution, organization, operation and inspection of insurers and brokers, as well as the penalties that may be applied thereof; iii) the structure and general characteristics of insurance policies; and iv) establish the equity limits for insurers.

Thus, it has a central role in the regulations of the activity, since its resolutions steer the activities at the Brazilian insurance market and, consequently, the ordinances issued by SUSEP.

3.1.1.1.2. Superintendence of Private Insurance - SUSEP

An Agency created by Decree-Law (Executive Order) N° 73/66, SUSEP is directly under the Ministry of Finance, being responsible for the implementation of the policies established by the CNSP and for the inspection, organization, operation and control of the insurance market in Brazil¹.

Article 36 of Decree-Law 73/66 defines the responsibilities of SUSEP as the central organ in the process of regulation for microinsurance, in coordination with the CNSP. However, certain areas of SUSEP, because of their specific competence as defined by the Rules of Procedure², will be required to give special attention to the questions concerning this process. They are:

¹ SUSEP's field of competence does not cover all the insurance markets, because health insurance is supervised by the National Agency of Supplementary Health (ANS)

² SUSEP's Ruling No 132/2008, of 12/18/2008.

Steering Committee (Conselho Diretor)

SUSEP is run by a Steering Committee composed of the Superintendent and four directors, with authority to establish the general policy of regulations, in conformity with the resolutions of the CNSP, issuing norms within its competence.

According to Art. 10 of SUSEP's Rules of Procedure, among the powers vested in the Steering Committee are: i) set the general policy of SUSEP; ii) cause compliance with its resolutions and those of the CNSP; iii) formulate policies, fix guidelines and plan the activities pertaining to the Agency, in order to regulate the functioning of the markets under its supervision; and iv) approve instructions, regulations, rules and legal opinions in matters of its competence. For this reason, it is fundamental that members of the Committee be made fully aware of the implications and characteristics of microinsurance, so that they will support its development.

Technical Actuarial Department – DETEC

It is the role of DETEC to develop studies and actuarial controls, as well as to propose new technical norms or changes in the existing norms concerning the operations of insurers. It is also in charge of analyzing, approval and authorization of new products to be introduced in the market. Although DETEC, as a whole, is an Interested Party in microinsurance, some of its component sectors, due to their responsibilities and specific knowledge, may have a greater influence in the outcome of the process. Among them it is worth mentioning:

Capitalization and Property Insurance Division – DICEB, in charge of: i) analyze the general conditions and actuarial opinions on the insurance of property; and ii) monitor the evolution of the property insurance market, proposing modification of norms in order to adequate them to the dynamics of insurance companies and risk changes, as well as studying, shaping and proposing new products.

Division of Analysis of Damage Insurance Provisions, Reinsurance and Capitalization – DISEC, which is in charge, among other things, of: i) monitor the constitution of technical reserves for damage insurance, based on an Actuarial Technical Note, on the Periodical Information Form (FIP) or on any other information requested, which may be of a different nature in the case of microinsurance; ii) periodically prepare reports on the status of technical reserves, with the purpose of aiding the supervisory activities; iii) check on the quality of evaluations and actuarial auditing to monitor the evolution of assets; iv) canvass the evolution of the property damage market and propose changes, if needed, in the rules concerning the constitution of technical reserves; and v) develop studies about technical theories and operational procedures, recommending changes if necessary.

Personal Insurance Division – DIPES, in charge, among other things, of: i) analyse and, when appropriate, approve the general conditions and actuarial technical notes on personal insurance; and ii) monitor the evolution of the personal insurance market, proposing modification of norms, if deemed necessary, as well as studying, shaping and proposing new products.

Division of Analysis of Provisions for Life Insurance and Social Security – DIVIP, which is in charge, among other things, of: i) maintain follow-up systems on the constitution of technical reserves for personal insurance plans, based on an Actuarial Technical Note, on data from the Periodical Information Form (FIP) or on any other information requested, which may be of a different nature in the case of microinsurance; ii) periodically prepare reports to help in the process of inspection by SUSEP; iii) check the adequacy of evaluations and actuarial auditing, in order to keep an eye on the evolution of portfolios; and iv) canvass the evolution of the personal insurance market and propose changes in the standing rules, if appropriate.

Actuarial Technical Studies Section – GEESA, which is in charge, among other things, of: i) work in partnership with SUSEP's statistical area, in the structuring of a data base to register information related to the supervised markets, **which is essential in the case of microinsurance**; ii) evaluate statistical data and prepare technical reports according to the needs of the several departments in order to provide them with information to be used in analyzing the products to be offered to the markets; and iii) to approve the criteria used to elaborate and update the biometrical table submitted to SUSEP by an independent and well reputed institution.

Technical Section for Evaluating Subscription Risks – GESUB, which is in charge, among other things, of: i) elaborate and periodically update capital evaluation models in relation to subscription risks for companies operating at the supervised markets; ii) periodically supply the other sections with information about the procedures adopted in the capital analysis based on the subscription risks taken by the insurers; and iii) evaluate the impact, in capital risk, of pulverization policies based on subscription risks.

Economy Control Department – DECON

This is the department that issues operation permits to insurance providers and controls their operations financially and economically; furthermore, it issues and controls the register of brokers (individuals or firms), their agents and modifications of their by-laws.

As DETEC, DECON is an important Interested Party and some of its units may exert great influence in the process. Among these:

Statistics Section – GEEST, which is in charge, among other things, of: i) centralize and scrutinize statistical data received from the insurers (**an essential task concerning microinsurance, since the potential of its market is practically unknown**), guaranteeing the consistency of the information delivered to the several sections of SUSEP and, being the case, to the market and to the general public; ii) generate and divulge internal and external statistics based on the data received and on information from the Periodical Information Form (FIP); and iii) develop statistical studies and market projections.

Market Monitoring Division – DIMES, which is in charge, among other things, of: i) calculate and maintain up-to-date the controls on the solvency margin and minimum capital required from the insurers; ii) propose accounting rules; iii) monitor the economic-financial status of the insurers; iv) examine the accounts of the insurers and the respective audit reports; and v) analyze the business plans of the insurance companies.

Registering and Authorization Section – GERAT, formed by two Divisions, both of considerable importance for the microinsurance market, especially considering the possible creation of specialized functions related to microinsurance, like specialized brokers and providers. The two divisions are named Providers' Register (DIREM) and Brokers' Register (DIREC).

DIREM takes care of: i) analyze the applications to organize new providers; ii) analyze appointments to, and destitutions from, statutory functions; iii) gather and supply information about the standing of persons or corporations acting at the supervised markets; iv) analyze the proceedings for the transfer of portfolios; and v) analyze the requests for the register of ombudsman services, for joining collective existing ones and the concession of prerogatives.

DIREC takes care of: i) enroll brokers and, if needed, cancel or suspend them; ii) issue ID cards to brokers; iii) create and update a database with information about the brokers.

Asset Analysis Section – GEATI, which takes care of: i) analyze and monitor the credit, market, operational and legal risks of insurers, elaborating models to calculate the appropriate capital allocation thereof and accompanying its implementation by providers; ii) analyze or establish, in

cooperation with the relevant sections, methods to control the several types of risk, in order to guarantee the solvency of the supervised companies; iii) develop studies, norms and partnerships to continually improve the evaluation methods of the various types of risk; iv) prepare and propose norms concerning its field of competence; and v) check the adequacy of coverage by technical reserves.

Inspection Department – DEFIS

It is the function of DEFIS to coordinate all inspecting tasks done by the Agency over insurers, insurance brokers and other operatives under the sphere of competence of SUSEP. Among the components of DEFIS, the most relevant are:

Division of Relations with the Public – DIREP, in charge of: i) plan and coordinate activities concerning denunciations, complaints or clarifications from the Public, for which a Consumers' Request File (PAC) shall be opened, to solve doubts or dissents about the fulfillment of contractual obligations or compliance with standing norms, as well as receiving pleas from consumers' defense organs; ii) keep permanent contact with the other units of the Agency in order to ensure uniformity in the procedures of attending the Public; iii) keep a log on the questions received from the Public, based on information from the several units of the Agency and on what has been filed in the PACs.

Market Inspection Section – GEFIS, in charge of planning, coordinating and carrying out the inspection activities with focus on the solvency of the operators and on compliance with standing norms.

On-going Supervision Section – GESUP, in charge of: i) planning, coordinating and carrying out the supervision based on risks and internal controls of the providers; ii) monitor the effectiveness of governance, and of the internal controls of risk management, in order to ensure the insurers' economic and financial soundness, as well as the conformity between their activities, products and services and the applicable norms; and iii) planning, coordinating and carrying out the supervision of planning, acquisition, implementation, use, customers' support, monitoring and evaluating information systems, IT and related technologies.

SUSEP's Federal Legal Council

Headed by a Chief Legal Counselor, its purpose is to take care of legal matters concerning the activities of SUSEP. Among them: i) examine bills about Constitutional Amendments, Laws, Provisional Measures and other normative acts which involve alteration of standing regulations; ii) prepare answers to requests for information originated from the Judiciary branch, from Public Attorneys' offices or other public entities; iii) examine consultations presented to SUSEP and write opinions on them, prepare legal studies and make research in the fields of private insurance, reinsurance, complementary retirement open funds, capitalization, brokerage and other activities that might come under SUSEP's inspection, and, when required by one of the technical areas, examine insurance plans and other products; and iv) check the drafts of resolutions, circulars and other normative acts to be issued by CNSP and by SUSEP.

3.1.1.1.3. National Agency of Supplementary Health – ANS

The ANS (www.ans.gov.br), an independent special agency created by Law n° 9.961/2001 jurisdictionally connected with the Ministry of Health, is responsible for the regulations, control and inspection of health services in the country. For this, **it shall have a central role in any process to implement a regulatory structure adequate to the development of a microinsurance system that includes health insurance.** This being the case, a task force should be put together within ANS in order to identify which units and sections would be more involved in the process. Among other responsibilities that put ANS at the core of discussions on health microinsurance, it is worth mentioning: i) propose to the National Council of

Supplementary Health Care – CONSU – policies and general guidelines for the regulation of the activity; ii) establish the general form of contracts; iii) fix the criteria to license professionals, clinics and laboratories to render health services to health care providers and to cancel said licenses; iv) establish criteria, responsibilities and procedures to guarantee rights of the insured; v) establish norms for the register and cancellation of products; vi) authorize the register and functioning of health providers, as well as their splitting, merging, alteration or change of control; vii) inspect the activities of providers; and ix) cooperate with consumers' defense organs viewing the effectiveness of their protection and defense.

3.1.1.1.4. Ministry of Social Security – MPS

This Ministry is “a public institution with the object of acknowledging and concede rights to its insured. Payments made by the Social Security aims at replacing the earnings of the worker when he loses his working capability as a consequence of illness, disability, old age, death or involuntary loss of job, or even maternity or reclusion”³. The mission of MPS is to guarantee “protection to the worker and his family, by means of a public system of social security policy, inclusive and sustainable, with the object of promoting social welfare”, with view, as an institution, to be “acknowledged as a social conquest of the working class through the **sustainability of social security system...**”

In this sense, one should remember that insurance is a **vital tool for sustainability**. And microinsurance, being placed at the border between financial services and social protection has the capability to strengthen the sustainability to the programs, thus being a “**powerful tool of social inclusion**” and a viable alternative to help economic growth and human development.

It is likely that Social Security could use microinsurance as a complementary instrument to sustain its system, and this makes essential the involvement of MPS in all phases of discussion about the creation of a regulatory structure which, per force, should enhance social inclusion.

About the participation of MPS in the process, it is worth noting that the GT SUSEP, in its II Interim Report, pointed to art. 24 of Decree-Law N° 73/66⁴ which may open an excellent opportunity for the microinsurance industry once Constitutional Amendment N° 20⁵ is regulated, chiefly considering that the Government engrossed in elaborating a National Program of Health and Work Safety, summoning for that purpose all concerned civil organizations and governmental agencies.

3.1.1.2. Office of Economic Policy (SPE)

This Office, which is part of the Ministry of Finance, has a relevant role in the process, since it has the function of advising the Minister “in the formulation, follow-up and coordination of economic policy, not only at the **macroeconomic aspect**, in analyzing the evolution of the main macroeconomic variables and the execution of a fiscal policy, but also at the **microeconomic aspect**, by proposing institutional reforms to support the effort **to maintain a stable macroeconomic context, contributing for a sustainable economic growth in the long range, in a socially equitable base.**”⁶

It is worth mentioning SPE's preoccupation with the deepening of the process of social inclusion as something indispensable to sustaining economic growth and, consequently, with measures

³ <http://www.mpas.gov.br/conteudoDinamico.php?id=33>

⁴ which foresees the participation of cooperative societies in offering insurance against occupational accidents.

⁵ modifies the social security system, fixes transition norms and deals with related matters.

⁶ <http://www.fazenda.gov.br/spe/site/home/default.asp>

that may speed up such progress, like stimulating formal entrepreneurship, expanding productive micro-credit and credit to programs of familial agriculture⁷ and housing for the poor. Thus being the case, it is important that representatives of SPE participate in discussions and task forces on the theme of microinsurance, so that they may better understand its nuances and unique characteristics.

3.1.1.3. Internal Revenue Service (Secretaria da Receita Federal)

The Brazilian Internal Revenue Service – SRF – is an office that belongs to the Ministry of Finance. It is responsible for the administration of federal taxes, including import or export duties, and payroll charges, thus handling a significant part of the social contributions. It helps the Executive branch formulate the fiscal policy and fights against tax evasion and commercial fraud.

Its responsibilities, which cover a wide field, are, among others: i) administrate federal internal tributes and those related to international commerce; ii) manage the collection of tributes, tax assessment, administrative collection, inspection, tax research and investigation; iii) interpretation and application of standing legislation and proposals to its improvement; iv) interaction with taxpayers through several communication channels, personally or by internet; v) formulation and management of the policy for fiscal and economic information; and vi) promote integration with similar public and private entities through agreements for the exchange of information.

At this point, it is worth listing the federal taxes that fall directly on insurance services: i) financial services tax – IOF (tax on Credit, Exchange and Insurance Operations); ii) Social Integration Program (PIS) and Contribution for the Financing of Social Security – COFINS; iii) Social Contribution on Net Profit (CSLL); and iv) Income tax.

The weight of these tributes on the price of insurance premiums, which was explained in the II Interim Report of GT SUSEP, together with the decision power wielded by SRF, given its many attributions in the federal tax collecting system, indicate the importance of having their representatives in the process of regulating microinsurance, so that they may better understand the peculiarities of the theme. It is also important to stress that, in the case of microinsurance, no considerations about tax waiver should be made, since it is not yet an on-going activity and, on the other hand, its development will certainly generate an increase in tax collection by other means.

3.1.1.4 National Monetary Council and Central Bank of Brazil

The National Monetary Council – CMN is the apex of the National Financial System, created by Law n° 4.595/64, with the responsibility of formulating the policy on money and credit, aiming at the stability of the currency and the economic and social development of the country.

Members of the council are the Minister of Finance, who chairs it, the Minister of Planning, Budget and Management and the Chairman of the Central Bank. The decisions of the Council are made into Ordinances.

The Central Bank of Brazil, also created by Law n° 4.595/64, is the monetary authority of the Country, with the mission of *“ensuring the stability of the currency purchasing power and a solid and efficient financial system”*, aiming at being acknowledged as *“an institution essential to the economic and financial stability indispensable for the sustained development of the country.”*

⁷ In the specific case of small farmers, the government has strengthened the PRONAF program and created the PROAGRO MAIS. PRONAF finances small farming units, whereas PROAGRO MAIS offers farm insurance in case of crop failure.

Since 1992, BACEN has been participating in discussions and decisions regarding micro-finance, following the example of other countries. Experience amassed by BACEN in the process of trying to increase the offer of financial services to the needy, notably through micro-credit and bank correspondents, should bring valuable information to those responsible for the elaboration of specific policies concerning microinsurance, besides enabling BACEN to collaborate on some essential themes as, for example, in fixing banking tariffs.

Bank Correspondents

These are institutions which are, or are not, part of the Financial System, which are retained by financial institutions to render certain services. Examples of such bank correspondents are lottery betting houses and the Postal Bank⁸.

Services rendered by such agents depend on the contract they sign with the financial institution. Standing regulations⁹ allow for several services, viz.: i) take in applications for opening accounts and receiving trade bills; ii) receiving service bills for telephone, water, electricity etc, according to agreements signed between public utilities and financial institutions; iii) payment orders; iv) loan applications; v) credit rating analysis; and vi) collecting services, **which would be pivotal for collecting microinsurance premiums**, taking into consideration that many potential buyers do not hold banking accounts and/or live in remote areas.

Banking fees

In Brazil, banking fees are regulated by Resolutions of the CMN and circulars of BACEN¹⁰, focusing on the most used services by natural persons, with the aim of making evident how much each bank is charging and allowing the clients to choose which bank best serves his needs, as well as stimulating competition in the industry.

Some banking services, deemed as essential, are to be offered free of charge. This aspect is particularly relevant in microinsurance marketing, because due to the low value of the premiums, an improperly high bank fee may turn the whole scheme impractical.

3.1.1.5 Regulatory Agencies for Public Service Concessions

Law n° 8.987/95, which deals with the rules for public services concessions, consider that such concessions are “*a delegation, from the conceding power, of its rendering, by public tender to a corporate entity or a joint venture which demonstrates itself capable of performing the service at its own risk and during a certain period of time*” where “*the conceding power is the Union, the State, the Federal District or the Municipality in whose area the service is to be rendered, (...) object of the concession...*” being the conceded services of their competence.

With the purpose of regulating and inspecting the activities of the concessionaries and guarantee to the consumers the quality and continuity of the services, Regulatory Agencies for Public Services¹¹ (as ANATEL¹² and ANEEL¹³) were created by law, with special statutory organization which gives them large self-governing powers in face of the Executive, Legislative and Judiciary branches, and gives them power to regulate and inspect the private enterprises which operate in their respective fields, in order to preserve the quality of the services rendered and their fair price, imposing sanctions and heeding consumers' complaints.

⁸ The Postal Bank (Special Finance Postal Service) uses the Post Office (ECT) network to render basic banking services in the whole country. The Post Office act as a correspondent to the financial institutions willing to sign in for the service.

⁹ Basic regulation is contained in Resolution CMN 3.110/2003, updated by Resolution CMN 3.156, of Dec.17. 2003 and additional norms.

¹⁰ CMN Resolutions n°s 3.516, 3.517 and 3.518, and BACEN Circulars n°s 3.371 and 3.377.

¹¹ The National Health Agency (ANS) regulates private activities.

¹² National Telecommunications Agency

¹³ National Agency for Electrical Energy

Thus, depending on the function the concessionaries may have in the process of microinsurance, be it as distribution channels or collecting premium network, the Regulatory Agencies should participate in the discussions, as Interested Parties to safeguard the rights of consumers/insured.

3.1.2 Legislative Branch

The Legislative Branch, within its competence and in coordination with the other branches, must act to help building a favorable legal framework. Some of the rules might be quite simple, to guarantee the fulfillment of contracts, whereas others might be somewhat more complex, like those which would lead to the formalization of microinsurance activities in the country.

Considering the difficult task the Legislative will have, it is absolutely necessary that its members be well informed about the specifics on microinsurance. Legislators have already shown interest about the subject, perceiving the benefits it may bring to the low-income population, and a bill has been presented proposing the creation of specialized insurance societies¹⁴.

3.1.3 Judiciary Branch

Formulating and implementing public policies is basically a prerogative of the Executive and Legislative branches, the State having the obligation to create effective conditions to ensure the rights of insurance buyers.

Nevertheless, the rights of microinsurance buyers, who are naturally dispossessed, depend ultimately on the Judiciary branch. And it must be recognized that the access to judiciary procedures is not only a problem of economic dispossession, but also a question of culture.

Although a single legal suit would not be sufficient to alter a public policy, if it results in an inadequate jurisprudence this might hinder the whole process. And this being the case, the needy would be the most hurt.

Court decisions, therefore, in addition to affecting the social rights of destitute people, may prevent the formulation of adequate public policies, which makes essential the participation of representatives of the judiciary for the success of the process of implementing appropriate policies for the development of microinsurance, especially for judges sitting in Small Claims Courts and Higher Court Judges.

It should be mentioned, furthermore, the role of the Public Prosecutor Office¹⁵, which takes care of public actions concerning general public interests and homogeneous individual rights, thus being able to interfere in cases involving large groups of insured people, due to the collective nature of such judicial action.

3.2. Intermediate (Meso) Level

In order to discharge their duties, retailers at the Micro Level and governmental institutions at the Macro Level need the help and different types of support provided by other institutions, such as research institutes, specialized services and activities prone to improve the services and advance its interests.

¹⁴ Bill introduced by Federal Representative Adilson Soares proposing the organization of insurance societies specialized in microinsurance, specialized brokers and related matters.

¹⁵ It is important to clarify that the Public Prosecutor Office is not part of the Judiciary branch. It is an organ of the Executive branch which takes care of certain interests before the Courts.

3.2.1. International Associations of Supervisors

In order to exert in full its activities, SUSEP is a member of International Entities (IAIS, ASSAL, ASEL etc) which congregate insurance supervisors of diverse countries. The importance of SUSEP's membership in these associations comes not only from information interchange but also from its participation in their several committees, where relevant questions about the supervised markets are discussed, especially those whose object is the improvement of controlling mechanisms, the surveillance of the financial health of providers and the setting of international standards for supervision.

3.2.1.1. International Association of Insurance Supervisors – IAIS

This association is the main international forum for insurance supervision matters. More than 190 insurance supervisors and regulators, from around 140 countries, have full membership in it. 97% of the world's insurance premiums occur under their jurisdiction. There is another category of associates, the "observers", which are large insurance conglomerates, consultants and similar international entities.

The objects of IAIS are: i) improve the supervision of insurance the world over, in order to maintain efficient, air, healthy and stable markets, for the protection of the insured; ii) promote the development of well-regulated insurance markets; and iii) contribute to global stability. To this end, among other activities, IAIS prepares documents such as Insurance Core Principles, Standards and Guidance Papers, offers training and support on subjects related to insurance supervision and organizes meetings and seminars.

SUSEP's participation on IAIS-CGAP JWG-MI

In 2006 SUSEP was invited to join the recently created IAIS-CGAP Joint Working Group on Microinsurance (JWG-MI). Its active participation in the group resulted in its Superintendent's being elected president of the group.

Participation of the Agency in this group, composed some of the best international experts on the subject, has been quite fruitful for microinsurance in Brazil, not only through the knowledge acquired in its meetings, in working groups and specific training, but also through making the theme better known in the Brazilian market, advancing the motivation of Interested Parties and, consequently, stimulating and improving the quality of debates.

3.2.1.2. Latin American Insurance Superintendents' Association – ASSAL

This Association is an international forum of Latin America insurance supervisory authorities. 21 countries are represented there, plus Spain and Portugal, as invited countries.

Due to the growing interest Latin American countries are showing in the theme, in November 2008 ASSAL organized a Working Group on Microinsurance, chaired by SUSEP. The group started its activities by investigating the status of microinsurance activities in member countries. The activities of the group will keep connected with the IAIS-CGAP JWG-MI.

3.2.1.3. Association of Portuguese-speaking Insurance Supervisors – ASEL

This is a small association comprising insurance supervisors of 8 Portuguese-speaking countries, viz.: Brazil, Portugal, Macau, Angola, São Tomé & Príncipe, Mozambique, Cape Verde and East Timor. The main importance of this association lies on the common cultural aspects among these countries, Brazil and Portugal being the two where the insurance markets are most developed, in size as well as in supervising techniques. As with ASSAL, members of ASEL have been demonstrating an increasing interest in microinsurance, seeing in it an attractive form of enlarging their insurance markets, considering that their populations are in general extremely poor. In this respect, it is worth mentioning the importance of the document "Questions on the Regulation and Supervision of Microinsurance", translated to Portuguese by SUSEP.

3.2.2. National Insurance College – FUNENSEG

Organized as a foundation, the National Insurance College – FUNENSEG is maintained by SUSEP, FENASEG and FENACOR, and has the mission of spreading the knowledge about insurance through teaching and researching. It contributes to the development of the insurance business by offering educational programs, funding technical research, publishing a vast gamut of papers and promoting events, some of them in partnership with SUSEP.

FUNENSEG is noted by the exchange of experience with other teaching institutions in Brazil and abroad, through technical cooperation agreements. It offers the Insurance Brokers' Qualification Course and also manages programs on social responsibility and financial education.

For all these facts, FUNENSEG is part of CNSP's Consulting Commission on Microinsurance, acting as its research branch. For this purpose, in November of 2008, its directorate has announced the appropriation of a fund to support studies and other initiatives aimed at encouraging microinsurance.

3.2.3. National Federation of Private Insurance and Capitalization Entities – FENASEG

FENASEG is an association formed to produce studies, to coordinate activities to protect and legally represent companies dedicated to insurance, open supplementary security and capitalization, to promote the development of their activities, defining and defending their interests and representing them politically.

In order to fulfill its object, FENASEG, besides representing its associates before the Executive, Legislative and Judiciary branches, collaborates with the government in the study and elaboration of norms that contribute to the development and improvement of the markets and help solve operational problems. To this end, FENASEG has consulting and advisory services, and develops technical studies, presents proposals and promotes the interests of associates.

In terms of representativeness, FENASEG is by far the main association of its kind. Its associates collect 99.2% of all premiums paid, it congregates 8 state associations of insurers¹⁶. 160 companies are affiliated to FENASEG, of which 143 operate in insurance. It is important to stress that "*Societies licensed to operate with private insurance*"¹⁷ as part of the Brazilian System of Private Insurance are represented before CCM-CNSP by FENASEG.

3.2.4. National Federation of Private Insurance and Reinsurance Brokers, of Capitalization, of Private Security, of Insurance and Reinsurance Organizations – FENACOR

This entity is acknowledged as the coordinator of the interests of the economic category comprising Insurance and Capitalization Brokers¹⁸, with powers to represent their 26 affiliated syndicates in court or otherwise.

Beside protecting and defending the interests of the category, FENACOR has the mission, among others, of: i) collaborate with the public administration in studying and solving problems that may come up; ii) through empowerment by SUSEP, by means of a special covenant, carry out the routine to qualify and register brokers; and iii) hand out, through affiliated syndicates, the professional identity cards issued by SUSEP to brokers that have qualified.

¹⁶ In the states of Bahia, Minas Gerais, Paraná, Pernambuco, Rio de Janeiro, Rio Grande do Sul, Santa Catarina and São Paulo.

¹⁷ Item 'd', article 8° of Decree-Law n° 73/66.

¹⁸ Acknowledgement given by a letter from the Ministry of Labor and Employment, 03/21/1975
Grupo de Trabalho de Microseguros – Portaria SUSEP 2.960, de 12/06/2008

FENACOR participates at CCM-CNSP representing the brokers¹⁹, who are also part of the National System of Private Insurance.

3.2.5. Study and Research Institutions

These institutions, some of them affiliated to universities, have an important role at the intermediate (meso) level, by developing specialized studies and critical analysis about the risks and tendencies of the market which are useful to all Interested Parties, especially to providers of microinsurance.

In recent times, some of these institutions have demonstrated a special interest on the theme, contacting SUSEP for the purpose of organizing seminars and debates. Other institutions, due to their structure, staff qualification and massive data base, are in condition to supply much useful information to the analyses on microinsurance.

Among these institutions, the Brazilian Bureau of Geography and Statistics – IBGE certainly stands out, as it holds the most important data base on the Brazilian population. In the following item the IBGE is described in more detail.

3.2.5.1. Brazilian Bureau of Geography and Statistics – IBGE

The Brazilian Bureau of Geography and Statistics – IBGE is an organ of the Federal Administration, under of the Ministry of Planning, Budget and Management, whose function is to collect and provide data and information about the country, to be used by the civil society and the several levels of government, federal, state and municipal. Its institutional mission is declared to be *“picture Brazil by collecting all information needed to know its realities and to allow the exercise of citizenship.”*

In performing its functions, among which are the production, analysis, coordination and consolidation of statistical information, IBGE offers a complete and current vision of the country, analyzing and identifying the territory, measuring the population, showing how the economy evolves through the work of its people and revealing life conditions of its society.

In order to cover in full the national territory, IBGE has a network of 27 state units (26 in the state capitals and 1 in the Federal District), 27 agencies of documentation and information dissemination (same distribution) and 533 agencies for data collection in major municipalities.

Beside being acknowledged by the quality of its research, IBGE holds one of the largest assemblage of statistical information (social, economical and territorial) about the country, available in publications and electronically, making it a valuable partner to the Interested Parties in microinsurance.

3.2.6. Federal Savings Bank (Caixa Econômica Federal)

The Federal Savings Bank – CAIXA, for short – is a public enterprise that is the main agent for the public policies of the Federal Government. It deals not only with its account holders, but also with all formal workers, in that it is the agency that pays the FGTS (Unemployment Guarantee Fund), PIS (Social Integration Program) and unemployment insurance, beside social programs, as the “bolsa-família” (Family bonus).

Giving priority to sectors like housing, water and sewage, infrastructure and sundry services, CAIXA exerts a fundamental role in promoting urban development, contributing to raise the quality of life for the population, especially in the lower economic strata.

¹⁹ Item ‘e’, article 8º of Decree-Law nº 73/66.

As the Operator of the Workers' Single Register, CAIXA serves at the meso (intermediate) level, helping the government in formulating and managing policies geared to segments of the needy population.

Workers' Single Register

The Single Register for Social Programs functions as an instrument for identification and socio-economic characterization of low-income families. Its use is mandatory for the selection of beneficiaries and integration of the social programs of the Federal Government, avoiding the overlapping of benefices to the same family.

Registration is done at the municipal level by means of a specific form, and the criterion is to include families with a monthly income of half the minimum wage per member. However, families with an income above that level may be included if they receive benefices from other social programs run by the Union, the States or the Municipalities, to avoid overlapping. The register is also fundamental for the accompaniment of the results of the programs.

The processing of register entries is done by CAIXA. Each member of the registered family receives a Social Identification Number (NIS), which is personal and not transferable. By using this number, the Single Register operators can find a person, update the corresponding data, check the situation of the benefit, if any, and perform any other managing operation.

In its role as Operator of the Workers' Single Register, and under authorization from the Ministry of Social Development – MDS, CAIXA has the duty of: i) supply the forms used for registering; ii) develop the software needed for entering and transmitting register data; iii) training and qualifying managers and technicians to operate the system; and iv) maintaining a call center and providing in-loco technical support to municipalities.

The main items of information entered in the register are: characteristics of the dwelling (number of rooms, type of construction, water and sewage system, garbage collection); composition of the family (number of persons, pregnant women, aged residents, breast-feeders, handicapped people); civil identification, degree of instruction, work qualifications, position in the workforce and earnings for each member; and family expenses (rent, transport, food etc).

The data base of the Single Register may be used by the different levels of government (municipal, state and federal²⁰) for obtaining socio-economical diagnostics of the registered families. It is a tool that affords an analysis of their main needs and, as already mentioned, helps the public administration in the formulation of policies directed to these strata of the population.

3.2.7. Auditors/ Brazilian Institute of Independent Auditors – IBRACON

Independent auditors have an essential role in vouching for the credibility of financial information by issuing a statement that such information represents in reality the financial status of the audited enterprise as well as its past performance.

IBRACON is the institute that represents professional auditors, accountants and accounting students. Its object is stated as *“search for the improvement of Brazilian Accounting Norms (...) and their natural convergence towards international practice.”*

²⁰ At present, the Federal Government uses the Single Register to identify potential candidates for its social programs, such as Family Bonus, Projovem adolescente/Young Agents, Program for Eradication of Infantile Work, Home Energy Subsidized Rate and others. Furthermore, it is used for granting exemption of application fee for participating in federal public service admission examination (Decree no 6.593, of Oct 2, 2008).

In consequence, IBRACON has been producing opinions and deliberations with the aim of gradually reducing the asymmetry between Brazilian and international accounting practice so as to add leverage to the national economy.

The zeal IBRACON puts in its work and the technical quality of the documents it issues (auditing norms, accounting guidelines etc) are acknowledged by regulatory organs such as CVM, SUSEP and BACEN, which have been using the technical production of IBRACON as reference and support to edited norms.

The Consulting Commission on Accounting Norms, of CVM, participates in the process of approving the documents and, customarily, approves and authenticates IBRACON's papers. SUSEP and BACEN, in their turn, complement the works produced by the Institute, making the rules and norms mandatory. For this reason, approved documents shall be binding, and the rules thereof shall determine auditing proceedings all over the country, with direct reflection in the development of the companies and positively influencing the economy.

With specific focus on the insurance market, IBRACON formed Working Group 2, to participate in discussions, studies and analyses of auditing and accounting activities concerning insurance companies, proposing methods of work and advising the Institute's representatives in the Accounting Committee instituted by SUSEP²¹.

In the case of microinsurance, as already pointed out in the II Interim Report produced by GT SUSEP, it should be discussed with IBRACON a new, simplified model of auditing taking into consideration the small size of the operator. Such model would contemplate the minimum necessary information for the work of the auditor, and should drastically reduce the cost thereof.

3.2.8. Special Consultants

The presence of national or international reputable consultants and consulting firms specialized on insurance and supporting areas, is of great importance at the different steps of process development, considering that their experience enables them to effectively help to set the standards for microinsurance.

Among the areas in which their expertise will be of value are the studies to determine the potential demand for microinsurance in the country, allowing the Interested Parties to get a better knowledge of a field where information is scarce, showing, for example: what is the risk perception of the needy, to what risks they are commonly exposed, what do they know about insurance, what is her willingness to buy certain products etc.

Furthermore, the adequate participation of a consultant is an extremely valuable element to establish good partnerships (e. g., between providers and middlemen), helping to develop products well adapted to clients' wishes, offering better conditions and adequate price.

Thus, there are a great number of areas in which the presence of a consultant may contribute to the implementation of an adequate program of microinsurance, through: technical assistance in specific objectives, formatting the type of microinsurance to be offered by a certain provider to a certain public; elaborating indicators; qualifying personnel; developing software; and many others.

²¹ This Committee has representatives of IBRACON, FENASEG, ANAPP, CFC and IRB. Its function is to serve SUSEP as a consulting forum for the issuing of norms about insurance accounting.
Grupo de Trabalho de Microseguros – Portaria SUSEP 2.960, de 12/06/2008

3.2.9. Reinsurance Companies

In the occurrence of catastrophic events, the protection against risks may be the guarantee of the microinsurance providers' continuous operation, since the low-income population is most vulnerable to this type of risk.

However, the reason for bringing the reinsurance industry into the microinsurance activity is not necessarily their capacity for taking risks but rather their know-how, which is of great interest to local insurers who do not have access to large the data bases of their multinational competitors. On the other hand, small and medium-size companies in general do not have sufficient human resources to tackle new projects.

Under this aspect, it should be stressed that the launching of each new product presents many risks, especially the risk of innovation. In general, the approval of new products takes a rather long time, frequently ending by its being refused, either by the insurance company management or by local supervisory agencies. By assembling a team of international specialists who bring in knowledge and global experience, risks and period for approval may be significantly reduced.

3.3. Micro Level

3.3.1. Microinsurance providers

According to IAIS document "*Questions about the Regulation and Supervision of Micro-insurance*", there are three distinct categories of providers, according to the rules that apply to each group, whose characteristics are presented below.

3.3.1.1. Regular providers under the insurance legislation

These are the ones inspected and regulated by the supervisory agencies. In Brazil, the insurance concerns organized as corporations are under the supervision of CNSP and SUSEP. It should be pointed out that Art. 24 of Decree n° 73/66 allows insurance cooperatives to deal with farm insurance. In this case, the supervision is carried out by other government agencies.²²

3.3.1.2. Providers under different legislation / Health Providers

Under this category are formal entities regulated or licensed according to legislation other than that concerning insurance. Depending on the jurisdiction, such legislation might not be based on the principles of insurance regulations.

In Brazil, there are the so-called "Health Assistance Plan Operators", which are subordinated to the ANS (National Health Agency). The definition, segmentation and classification of these operators are fixed by Resolution RDC n° 39/2000, whereas Resolution RDC n° 65/01 establishes the rules to be adopted by insurance societies specialized in health insurance.

So, beside the specialized insurance companies²³, there are other legal ways to organize health insurance providers, those being:

Medical Cooperatives – a non-profit association of individuals constituted according to Law n° 5.764/71 which operates private health plans;

²² The Farming Activities Guarantee Program (PROAGRO), which deals with farmers and cooperatives, is run by the Ministry of Agriculture and BACEN; and the sub-program PROAGRO-MAIS, intended to strengthen small, familiar farmers, is run by BACEN and the Ministry of Agrarian Development (MDA).

²³ Information provided by ANS to IAIS-CGAP Joint working group Survey on the role of mutual societies, cooperatives, and basic communities organizations concerning microinsurance.

Dentistry Cooperatives – a non-profit association of individuals constituted according to Law nº 5.764/71 which operates plans that are exclusively for dentist care.

Self-governing entities – this group comprises entities that operate health assistance, or companies which, through their Human Resources Department, take direct care of health plans exclusively destined to assist their employees (active or retired), pensioners or ex-employees, and their respective families. It also encompasses groups formed by members (natural or legal persons) of foundations, unions, professional societies and the like, for themselves and their dependants.

Philanthropic entities – non-profit concerns that operate private health plans and have obtained philanthropy certificates from the national Council of Social Assistance – CNAS, as well as a Public Interest Certificate from the Ministry of Justice or from any State or Municipal government.

Dentistry treatment group – organizations that operate exclusively dentistry plans, except those that are classified as Dentistry Cooperatives.

Medicine group – organizations that operate private health assistance plans, except those that are classified as Medical Cooperatives, Self-governing entities and Philanthropic entities.

3.3.1.3. Informal or Non-Regulated Providers

Informal insurance providers may be individuals or non-formal groups who share their risks but are not subject to any legal rule, supervision or register.

Usually, such providers appear following the need of a group to share risks. They have the advantage of using very low-cost production and distribution mechanisms, and also of being free to innovate since they are not constrained by insurance rules and norms. They fill an empty space in the market and exert a useful role in giving protection to low-income families.

However, when these informal or semi-formal programs start to grow, risks outgrow the benefits of simplicity, because very seldom insurance operations which are not regulated or supervised have their prices supported by actuarial principles, nor do they accumulate technical reserves to face the risks. As a result, their members do not enjoy an effective protection.

When SUSEP detects some irregular activity, it seeks to take immediate action. However, SUSEP sometimes has difficulty in taking effective action, because of limited resources in personnel or funds in face of the vast Brazilian territory and all its complexities.

Among the non-regulated activities most commonly found by SUSEP are some types of funeral insurance and informal self-insurance schemes run by trade cooperatives, like transport and taxi associations which provide insurance for the vehicles of their members without a legal permit.

3.3.2. Intermediaries, Policy Administrators and Distribution Channels

According to the document *“Making Insurance Markets work for the Poor: Microinsurance Policy, Regulation and Supervision”*²⁴, insurance intermediation may take the most varied forms of contact with potential buyers, among others: selling teams from the providers, independent agents, banks, retail networks, credit cooperatives, post office branches, NGOs, public utilities and teams of brokers specialized on microinsurance.

These assorted types of intermediaries may be more or less adequate to the distribution of microinsurance, depending on the different scenarios presented by each country. However, no matter how the circumstances show up, the key element for the effective development of the business will always be mutual trust between middlemen and the insured. Otherwise, the whole insurance institution may suffer irreparable reputational risks.

²⁴ CGAP Working Group on Microinsurance, of Oct 24, 2008.
Grupo de Trabalho de Microseguros – Portaria SUSEP 2.960, de 12/06/2008

At any rate, intermediaries in the field of microinsurance must be well motivated and capable of providing the consumer sufficient information for a well-based decision.

In this context, it is important to call attention to the role of the Policy administrator, defined in Brazil in Article 21 of Decree-Law n° 73/66, since many insurance distribution channels take this form, chiefly in life insurance.

As already stressed in the II Interim Report, the subject of establishing specific conditions for the function of Policy Administrator deserves special attention in the case of microinsurance, mainly with respect to “Open Policies”, since the Civil Code determines that the Policy Administrator is the representative of the insured and, should any amount of premiums collected be unduly retained by the Policy Administrator, he is the one to be sued, not the insurance provider.

Follows a list of the most common intermediaries, as identified by GT SUSEP in the Brazilian scenario.

3.3.2.1. Brokers

The conventional brokers' system normally deals with high income clients, like companies and wealthy individuals and, in general, has no affinity with, or experience in, the low-income market.

It is known that efforts have been made to promote microinsurance through conventional brokers, but results up to now obtained are not consistent or well known.

One of the difficulties is the low value of fees, due to the meager amount of premiums, which discourages traditional brokers. Their habit of selling insurance under strict rules and sophisticated procedures may also turn to be an obstacle in dealing with microinsurance. For these reasons, in some countries the distribution of microinsurance is done through unlicensed agents, whose activity is not regulated.

In Brazil, CCM-CNSP is particularly interested in stimulating the activity, proposing the formation of a Subgroup with representatives from FENACOR, FENASEG, FUNENSEG and SUSEP, with the mission of defining the role of microinsurance brokers, their objects and their field of action.

3.3.2.2. Associations, Churches, Cooperatives, NGOs, etc...

Due to the trust they develop among the population groups they attend, these institutions have conditions to operate very close to potential consumers and feed them with the adequate explanations and clarifications, as long as they properly train their selling teams.

The possibility of creating partnerships between providers and dwellers' associations in poor neighborhoods or associations of typically poor tradesmen, like construction workers, is worth mentioning, as there are several successful examples of such arrangements in Brazil.²⁵

One way to organize an effective sales force is to train and qualify people chosen from the communities themselves, who will enjoy the initial advantage of confidence from their peers and will be able to explain the benefits of insurance protection in simple words, fostering the enlightenment and the financial education of the poor.

²⁵ One good example is the Immediate Social Support Plan (PASI), developed in 1989 by an insurance broker and an insurer (Vera Cruz Seguradora, presently renamed Mapfre Seguros). Its target group is construction workers and nowadays it encompasses 2 million insured members and 13 thousand agreements.
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3.3.2.3. Microfinance Institutions – MFIs

These are organizations that provide financial services to low-income persons and to micro-entrepreneurs. *“Several types of organizations fit this description, with diverse juridical structure, aim, methodology and sustainability, but with a common point, which is the offering of financial services to a clientele that does not have access to traditional banks.”*²⁶

Consequently, MFIs may become key distribution channels for microinsurance, on account of their financial transactions with their target public.

Contrary to what occurs in other countries (where MFIs cannot act as insurance intermediaries, due to licensing requirements), in Brazil there is no restriction for an MFI to function as a distribution channel, which facilitates the sale of insurance, since its borrowers are potential microinsurance users, especially those in the credit life modality.

This emphasizes the role that agents from these institutions may have, if adequately trained to help the financial education of the potential users of microinsurance.

Credit Cooperatives

Among the MFIs special attention should be given to Credit Cooperatives²⁷, a segment of the National Financial System, which follows a model regulated by the National Monetary Council.

The object of these cooperatives is to render financial services to their associates, such as credit, call and time deposits, checking accounts, custody, collecting and other services as specified in the relevant legislation²⁸. They constitute important development instruments in many countries and, since they still play a very modest role in the Brazilian economy, it is easy to see that they have a large potential for growth. In fact, this segment has been showing a significant expansion, not only in volume but also in its share of financial services as a whole.

3.3.2.4. Banks and Bank correspondents

Due to the very nature of their operations, banks have excellent data bases containing privileged information about their clients. Not without cause, large commercial banks in Brazil are nowadays the main distribution channels for life group insurance and the big life insurance companies are affiliated to such banks.

Not all regions of the country have bank branches, and there are many people who do not have bank accounts. In general, this deficiency is successfully covered by the banking partners already mentioned in item 3.1.1.4 above. The program allows these organizations to provide basic financial services to low-income populations, especially for those who live far from urban centers, and so may be advantageously used to extend the premium collecting network for microinsurance.

For that, however, it will be necessary to adapt the procedures to this additional activity, mainly to feed the target population with clear and transparent information, expressed in a language easily understandable.

3.3.2.5. Retail Networks

²⁶ <http://pt.wikipedia.org/wiki/Microfinan%C3%A7as>

²⁷ Organized according to Law n° 5.764, from December 16, 1971.

²⁸ Pinheiro, Marcos Antônio Henriques. Cooperativas de Crédito: história da evolução normativa no Brasil – 6ª edição – BCB – 2008 (Credit Cooperatives: evolution of their legal organization in Brazil).

Retail networks in general have a good knowledge about their clientele and this allows the insurance companies to offer products that fill the needs of those clients. For this reason, partnerships with retailers contemplate insurance distribution through shops that cater for the low-income public, and such schemes have attained good results in Brazil.

Initially, insurance companies focus on developing and selling products of extended guarantee (low-value insurance for financial protection in the acquisition of durable goods). Then, they offer a wider variety of insurance services to cover other types of protection needed by the clients, like personal and familial protection (life, personal accidents, hospitalization, residential). It is not rare that such products present innovative characteristics, and some of them may be purchased through the internet.

The success of these models consists in adapting sales procedures so that they depend less on expensive consultations and rely more on clear and transparent information. To reach this goal, it is necessary to have solid and reliable partner networks, capable of attending the specific needs of low-income families and their providers in order to contribute effectively to the construction of a financial system that be socially inclusive.

3.3.2.6. Public Utility Companies

Public Utility Companies are corporate entities or consortiums organized as private enterprises but with certain characteristics of public enterprises, in that the services they render are concessions from the public administration, such as telephones, health services, electric energy, urban transportation and water supply, among others.

Payment for these services is made directly by consumers to the utilities by means of tariffs approved by the Regulatory Agencies, who also control and inspect the concessionaries, as already commented in item 3.1.1.5 above.

As some of these services are rendered to low-income populations, the utilities may serve as efficient insurance distribution and premium collecting channels, as is already being done in the country.

Obviously, regulations must make sure that the process of commercialization through these channels allow full understanding by the consumer about insurance services and afford adequate consumer protection.

Mobile Phone Concessionaries

According to the World Bank, in 2005 100 million Brazilians had mobile phones, although only 60 million had a bank account. These numbers have grown considerably and, in November 2008, ANATEL reported that the number of cell phones had reached 147 million, that is to say, 75% of the country's population. This shows that mobile phones have become an important means of contact with a large part of the population that does not have a bank account nor uses insurance services. There are international examples of mobile phone platforms being used as an auxiliary means to collect premiums (included in the telephone bills), to communicate losses and other procedures related to the procurement and maintenance of an insurance policy. In South Africa, it is possible to hire a microinsurance through the use of SMS (Short Message Service?)

3.3.2.7. Capitalization Societies

Capitalization Bonds are a type of application in which the subscriber builds up an equity according to rules and clauses mentioned in the security itself (General Conditions of

Investment), which will be redeemed within a maximum term. The bonds are legally considered a market security and are sold by “Capitalization Societies”.

Capitalization Bonds, for their ability to make tangible a product which in itself is intangible, such as insurance, may be used to stimulate the trading of microinsurance, luring a public who is generally not aware of its protective benefits. However, the Interested Parties must be alert to the need to carefully design the product and its selling procedures in order to avoid risks of credibility for the insurance institution.

One of the aspects to be considered relates to the periods of validity, which are necessarily long in Capitalization Bonds²⁹, since it is not a matter of simply buying a product, but to encourage the clients to stick to the plan and continue to pay the premiums (whatever be the payment conditions), so enhancing the perception about the importance of insurance as a protection tool.

A product with a short period of validity will not have this effect, since its main attraction may rest in the gambling aspect of drawing lots for redemption instead of the advantages of insurance protection, deflecting the focus from the product itself and its purpose.

3.3.5. Insurance Buyers and Beneficiaries

Microinsurance fits a clientele different from that of traditional insurance. Even showing some variation from country to country, microinsurance clienteles show similar characteristics in respect to income, dwelling, educational level, occupation etc.

Microinsurance buyers and their beneficiaries are, undoubtedly, in the lower-income brackets, and frequently have irregular earnings. Concerning their occupation, they may be formal employees or informal workers, autonomous tradesmen or formal or informal micro-entrepreneurs. They may live in crowded, sub-standard urban areas, generally in the outskirts or in shantytowns, or in remote rural areas where services (water, sewage, energy) are deficient or non-existent. In the average, the level of instruction is low, what makes difficult the understanding of financial questions. Other common question is the inexistence of formal identification, be it in a Register or a national identity card, or a health certificate or booklet.

An important feature has to do with the habits of potential consumers, especially those with some financial experience. Microinsurance clients are more accustomed to save and, beside using traditional savings accounts, they resort to non-financial means, like physical assets, credit associations and funeral aid groups. If a mishap occurs, they will cover the losses with their own resources, emptying their savings accounts, selling assets or resorting to emergency loans, frequently depending on the solidarity of their community.

On the other hand, the experience with microinsurance clients that have obtained micro-loans shows that they are reliable payers and honor their obligations³⁰, a fact that stresses the need for financial services to be tuned with the clients, adjusting itself to the requirements and potential of low-income families.

GT SUSEP, in its Interim Report I, tried to identify an initial profile of the potential microinsurance purchaser in Brazil.

To have a good idea about the peculiarities that make up such profile is fundamental to carry out an analysis that results in an adequate regulatory structure for microinsurance, clearly defining the limits between it and conventional insurance.

²⁹ Although this does not mean that the periods of validity in microinsurance could not be shorter.

³⁰ According to Microfinance Information Exchange (www.themix.org) many IMFs have loan loss rates of less than 2%, which is considerably lower than rates observed in higher-level income groups in some emerging markets.

3.4. Donors and International Development Agencies

Donors and International Development Agencies work in partnership with Interested Parties of each country (governments, civil societies, private sector) in order to coordinate and foster their involvement, which, of necessity, must follow the lines of international norms.

For this reason, they may help encourage the use of microinsurance and improve the practices and routines thereof through their interference at the different levels of the financial system, aiming at: i) at the Micro Level, to reach the insured, actual and potential, by means of financial education programs; the retail providers and the intermediaries; ii) at the Intermediate (meso) Level, the supporting institutions, such as associations and providers of technical services and training, among others; and iii) at the Macro Level, the regulators, supervisors and rule makers who write down the policy guidelines.

The intervention of these agents is exerted through various instruments, such as technical assistance and support to qualification in all levels of the financial system, or loans granted to governments for various activities.

In dealing with the fundamental vulnerabilities of the low-income population, and addressing many development priorities, it has been noticeable the increasing interest of donors and international development agencies on the subject of microinsurance.

The FOMIN-BID/A2II project on Microinsurance

This project, which is directed to the capacitation for microinsurance in Latin America and the Caribbean, which is presently in the making, is a good example on how donors and international development agencies may help fostering the microinsurance market.

The Access to Insurance Initiative – A2II is a joint venture to be established between the International Association of Insurance Supervisors – IAIS, the German Ministry for Economic Cooperation and Development, the World Bank/CGAP, the International Labor Organization – ILO and the FinMark Trust of South Africa. It will operate as a partnership between the signatory parties. Its object is to strengthen the capability and the skill of insurance supervisors in order to facilitate their role in helping low-income people to have access to the insurance market and also in supporting the creation of solid structures of regulation and supervision, consistent with international insurance standards.

In order to attain its objects, A2II has been working in partnership with the Multilateral Investment Fund (FOMIN) of the Inter-American Development Bank (IDB) to jointly work out a Project for Qualification on Microinsurance in Latin America and the Caribbean.

The general purpose of the project is to contribute for the development of the microinsurance industry in the region, and the specific object is to support insurance supervisors or the corresponding regulatory agencies in implementing qualification programs for the purpose of establishing an adequate reference for the private sector to provide efficient and effective microinsurance services to the low-income population.

The project includes diagnoses of the present situation in participating countries, prepared by international specialists, organization of workshops and seminaries to discuss the results among Interested Parties, training of supervisors and regulators, publicizing the results of the activities, regional and global, with interventions at all levels of the financial system. Funds to implement the project will be supplied almost totally by FOMIN/IDB and international donors.

Conclusions and Recommendations

Beyond the conclusions and recommendations shown in each of the items analyzed, the GT SUSEP think pertinent to stress the following conclusions, observations and recommendations of a general nature:

- i) The development of microinsurance depends, of necessity, on the actions of the several interested parties, acting in the different levels of the financial system (macro, meso and micro), which can achieve quick and positive results if carried out in a coordinate way.
- ii) Although the Executive branch exerts a paramount role at the Macro level, there is need to engage the Legislative and Judicial branches in order to build a strong and complete legal frame capable of sustaining the whole process.
- iii) The wide range of experience acquired by BACEN, in consequence of its efforts to enlarge the availability of financial services to the needy, notably through micro-credit and the bank correspondents, might contain relevant lessons to those responsible for the formulation of specific microinsurance policies, beside enabling it to collaborate in themes essential to turn such policies into viable ones.
- iv) As to the tributes that tax insurance operations, it is important that representatives from the Federal Secretary of Revenue (the Brazilian IRS) be well informed about the specific characteristics of microinsurance, stressing that no considerations about “tax waiver” should be made, since it is not yet an on-going activity and, on the other hand, its development will certainly generate an increase in tax collection by other means.
- v) As already mentioned in the II Interim Report, and according to what is written in the Civil Code, special attention must be given to the “ensured”, by establishing specific conditions for microinsurance, chiefly in the case of “open policies”.
- vi) The training of intermediaries recruited in the communities where the microinsurance is to be sold might have a very positive impact in the whole process, due to their capability for expressing themselves in simple language and the confidence they enjoy among their peers. The need to give some financial education to the community and to conduct the whole process in an adequate and transparent form should be stressed.
- vii) Differently from other countries, in Brazil there is no restriction for an IMF to operate as a distribution channel for microinsurance, what makes easier the commercialization of the product, since IMF clients are potential buyers of microinsurance, mainly in the credit life modality.
- viii) Bank correspondents, as they were created as popular channels for the distribution of financial services in general, are potentially able to also distribute microinsurance, if considered the need to adapt the distribution process in order to make it clear and transparent, in a language adequate to the target population.
- ix) in the same way, and with due carefulness with respect to disclosure and transparency, public utility companies may become efficient distribution channels due to the reach of their services among the low-income population.
- x) Capitalization bonds, for their ability to make tangible a product which in itself is intangible, such as insurance, may be used to stimulate the trading of microinsurance, provided some restrictions are established in order not to lose focus on the chief aspect of the product, that is to say, the protection afforded by insurance.

xi) It is fundamental that consumers' characteristics be well defined, so that insurance regulatory structure may be adequately adapted to microinsurance, clearly establishing the limits between conventional insurance and microinsurance.

Identification of Interested Parties in the process of implementing a favorable environment for the development of microinsurance in Brazil, as carried out by GT SUSEP in this report, does not exhaust the subject. It only reflects the point of view of the members of the group, and there may be other Interested Parties not yet identified, which may come in sight along the development of the process.

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