

Partial Report IV

Objectives:

Identifying the Major Parameters for the Microinsurance Products

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established by SUSEP Ordinance 2.960, dated June 12th, 2008]**

Table of Contents

1. Preliminary Insights	3
2. The Conclusions in the scope of the CCM-CNSP Products and Target Audience Subgroup	3
2.1 Regarding the “low-income population concept”	4
2.2 Regarding microinsurance products and their parameters	6
2.2.1 Regarding Products	6
2.2.2 Regarding Parameters	7
3. Comments from SUSEP WG	9
3.1 Regarding Parameters	9
3.2 Regarding the Operation Criteria	10
3.3 Regarding Tax Issues	10
SUSEP Working Group on Microinsurance Members	12
Bibliography	12

Partial Report IV

Identifying the Major Parameters for the Microinsurance Products

1. Preliminary Insights

According to the approved schedule, the SUSEP Working Group on Microinsurance (SUSEP WG), established by SUSEP Ordinance no. 2.960, dated June 12th, 2008, in its fourth and last Partial Report should present to the Superintendent a study where are identified the major parameters for the microinsurance products, as well the eventual products.

As starting point for such study the SUSEP WG understood as appropriate to adopt the following strategies:

- i) To take into account the discussions occurred in the scope of the Products and Target Audience Subgroup of the CNSP (CCM-CNSP) Microinsurance Consultative Committee.
- ii) To consider the result of the studies performed in the scope of the National School of Insurance Survey Program, approved by CCM-CNSP in November 2008.
- iii) Due to the active participation of this Autarchy in *the IAIS-CGAP Joint Working Group on Microinsurance (JWG-MI)* and in the IAIS Subgroup on Microinsurance, both chaired by the SUSEP Superintendent, to adopt as main references the IAIS paper *“Issues on Microinsurance Regulation and Supervision”* and works performed by members of these working groups, renowned experts in the financial and insurance sectors.

2. The Conclusions in the scope of the CCM-CNSP Products and Target Audience Subgroup

The creation of a Products and Target Audience Subgroup has been proposed during the CCM-CNSP meeting of May 26th, 2009 and its primary objectives were the following: i) to define the microinsurance consumer audience in Brazil, that is, to establish a more appropriate concept for “low-income population” with the specific purposes of microinsurance, since the limit specified previously by CCM-CNSP (three minimum wages) revealed too much high considering the results of the studies performed in the scope of the Survey Program carried out by FUNENSEG, what could distort the microinsurance purposes; and ii) to identify a range of the major microinsurance products and their minimum parameters.

Working Group on Microinsurance – SUSEP Ordinance 2.960, dated June 12th, 2008

This Subgroup has been formed by representatives from the Brazilian Central Bank, National School of Insurance, CNSeg, FENACOR, and also specialized advisors, actuaries and the totality of the SUSEP WG members.

2.1 Regarding the “low-income population concept”

Regarding the definition of the microinsurance consumer audience, that is, the “low-income population” concept, the members of the Subgroup arrived at important conclusions, of which we may highlight the following:

- The Brazilian contrasts and regional differences influence significantly the minimum wage purchasing power, what would difficult its use as parameter to define the microinsurance target audience. Furthermore, it was noted that in the recent years the minimum wage has been increasing quite above the variation of the inflation, being this a trend of the policies adopted for the Country, what would difficult even more its adoption as reference for a definition of this type, without relevant distortions were noted along the time.
- The establishment of a definition of microinsurance consumer target audience would have as major purpose to measure and to estimate the potential of the market, what has been fully achieved by research performed, as much in the scope of the SUSEP WG as in the scope of the CCM-CNSP, without needing to establish an accurate superior cutoff. Moreover, the Subgroup understood that it would not be possible to limit the microinsurance consumer, favoring one and prejudicing another one.
- The eventual tax benefits perhaps obtained shall be applied to the microinsurance products and not to the microinsurance consumers, benefiting ultimately the target audience, but in general and indirect way.
- The products designed especially to the needs and the profile of the low-income population whose intention is to achieve – and that may vary too much from region to region – shall define the target audience, and not the contrary. For this reason, the microinsurance products should be designed and provide proper protection and services to their target audience, using the proper logistics and delivery channels for each specific segment.
- Within this context, although there are product design aspects that need to be rethought, the main focus of the legislation should be the definition of objective parameters for the microinsurance products, which should protect the microinsurance consumer, but without preventing the innovation.

- The Subgroup recommended CCM-CNSP the pre-approval of microinsurance products by SUSEP, at least for a pre-determined period (e.g. 5 years), and considered suitable the creation of a microinsurance branches group and their sub-branches, similar to the branches groups currently provided for in the law, what would allow the segregation of the statistical data sent to SUSEP and the creation of microinsurance database.
- To perform more deep studies and research regarding the potential of the target audience, the Subgroup understood that would be more adequate to consider groups by types of family (e.g. couple with two children, mother with two children, family with only one member, etc.), reaching results by product range and not by income level.

Based on the studies carried out in the scope of the FUNENSEG Research Program¹, the Subgroup also evaluated the interconnection of the social programs and insurance existing in Brazil with insurance products existing in the market, considering criteria such as: i) the risk transfer and the possibility to manage them; ii) the existence of a limited target audience within a pre-defined scope; and iii) the programs financing through premiums or specific taxes.

- The result reinforced that already concluded previously, admonishing the use of the minimum wage as index for definitions, due to its annual variation above the inflation rate.
- In general, excluding some exceptions (e.g. the workers' compensation insurance, to be regulated, and microcredit programs, as the PRONAF), the target audience of the Government social programs, excluding eventual programs that will include governmental subsidies, is different from that of the microinsurance, since the target audience of the Government social programs would be intended for segments of the population at the threshold of the indigence.

For all these reasons, the Subgroup concluded that an eventual definition of "target audience" or of "low-income population" should not use objective indexes, as the minimum wage that may be changed along the time, but it should be conceptual, like the microinsurance definition adopted by CCM-CNSP². In this case, the Subgroup recommendation would be the adoption of concepts and expressions such as: "social

¹ Galiza, Francisco. "Social Programs and Insurance in Brazil: Major Features" - the work describes about 20 programs, seven of them complementary to the Bolsa-Família program.

and financial inclusion”, “population more vulnerable to the risks arising from the poverty” (which is understood as a more comprehensive concept that unites factors as income, literacy and dwelling conditions), etc...

2.2 Regarding microinsurance products and their parameters

2.2.1 Regarding Products

Having as base the research partial results³ carried out within the context of the FUNENSEG Research Program, the Subgroup identified three potential microinsurance products, from existing programs: i) the credit life insurance (microcredit programs⁴); ii) Group Life + PA (PASI⁵); and iii) Burial Care (existence of informal programs).

But the identification of these products should not be the restrictor, since the objective of the existence of a legal outline enabler to the microinsurance is not the regulation of programs already existing; on the contrary, it should stimulate the creation of a new market, with new products adjusted to the needs and to the reality of the low-income population.

Within this context, the Subgroup firstly concluded that more than to define products, the microinsurance legislation should establish, carefully, objective parameters, including, but not limited to: period; maximum insurance amount; maximum term to settle the claims, including procedures; way of contracting (tickets and/or policies); maximum documents required by branch in case of loss. These objective parameters for microinsurance products should be defined and specified by branch.

The legislation should also establish marketing conditions and necessary requirements, such as: maximum cost of policy; need of previous approval for products; delivery channels allowed; governance, transparency and compliance criteria and requirements, solvency and capital requirement, and market conduct (with special attention to the microinsurance consumer defense and clarifying), preventing the regulatory arbitrage.

² “Microinsurance is the insurance protection provided by entities authorized to work in the country, whose major purpose is to preserve the socioeconomic, personal or family status of the low-income population, against specific risks, upon payments of premiums proportional to the probabilities and to the risks involved, in consonance with the legislation and the principles of insurance generally accepted.”

³ Galiza, Francisco. “Products of the private initiative interconnected with the Microinsurance”.

⁴ An important data to be recorded is relative to the value of the microcredit average lending, about R\$1,500.00.

⁵ Immediate Plan of Social Support (*Plano de Amparo Social Imediato – PASI*), intended mainly for the segments of low-income population, that has been established in 1989 from a request of the Employees Union from the UMG. During its beginning, the program already counted on 17 conventions and 9.250 assureds, and worked in partnership with Vera Cruz Seguradora, currently Mapfre Seguros.

It is worth also highlighting other conclusions of the Subgroup interconnected:

- Upon the establishment of criteria, as much for the minimum parameters of products as for other necessary requirements, it is recommended caution in order to prevent future constraints, whether in the products design and/or in its operationalization, so that it is possible to allow the innovation, at the same time that proper conditions are created for protecting the low-income consumer, naturally hyposufficient.
- On account of the established in the Civil Code, special attention should be given to the figure of the “policyholder”, with determination of specific conditions for the microinsurance, mainly in the case of “open policies”.
- The establishment of proper programs of finance education that allow the development of a conscious consumer market is essential for the process.
- In respect of the delivery channels, the Subgroup recommended that the legislation, when defining them, can make explicit also the possibility of linear combinations amongst different channels (for a same product), what would prevent future questionings.

2.2.2 Regarding Parameters

As described in item 2.1 of the SUSEP WG Partial Report II, that considers the IAIS paper “*Issues in Regulation and Supervision of Microinsurance*”⁶, the “Product Regulation aims at ensuring the consumer stability and protection through the regulation of the nature and the structure of the insurance products and may include, but not limited to, for example: the products record and previous approval; the fulfillment of the templates with regard to simplification, standardization, documentation, coverage period, exclusions, etc.; the establishment of maximum and minimum premiums by products category; the services provision by certain legal ways of providers and the obligation to offer specific mandatory products.

On the other hand, the purpose to establish parameters for microinsurance products that may be mostly applicable is to differentiate them from the traditional insurance products.

Within this context, although the Subgroup members have disagreed a lot in respect of the limits to be determined for the different parameters for the microinsurance products, there has been consensus regarding the need to establish them.

⁶ [http://iaisweb.org/_temp/Questões de Regulação e Supervisão do Microseguero Junho de 2007.pdf](http://iaisweb.org/_temp/Questões_de_Regulação_e_Supervisão_do_Microseguero_Junho_de_2007.pdf)

The summary of the opinions about every parameter discussed is presented below:

Maximum Insurance Amount for Personal Insurance:

The majority of the Subgroup members considers that the values of maximum insurance amount for microinsurance products is determined based on a monthly income of 2 minimum wages received in periods from 12 to 24 months, considering the double payment for Accidental Death.

Maximum Insurance Amount for Damages Insurance:

There has been consensus that in the case of damage insurance the maximum insurance amount shall be analyzed individually, since the values may vary a lot according to the branch.

Maximum Period:

The suggestion to establish a minimum period took into account the fact that a microinsurance product would have educative feature, when forming and becoming conscious the low-income consumer about the importance of the protection provided for the insurance. But, it is necessary to consider the confirmation that there are, frequently, irregularities in the income flows of the poorest populations. Thus, the Subgroup members were separated into two proposals: i) monthly minimum period, by facility of operational management and easy understanding of the product by the consumer (when failing to pay the premium the consumer loses the coverage), at the same time the rehabilitation flexibility is permitted; and ii) annual minimum period, with rehabilitation flexibility due to failure to pay, what would permit, in addition to the flexibility, to create the insurance culture.

Maximum Term for Indemnity Payment:

There has been consensus amongst the Subgroup member that the maximum term for indemnity payment of microinsurance products should be lower than the traditional products, due to the expected economic hyposufficiency of the consumers and the dependence of the protection provided for the insurance against the poverty. Almost the totality of the members understood that three (3) working days after delivering the documents would be a reasonable term for indemnity payment. On the other hand, the list of required papers by the insurers should also be defined by branch, concisely and objectively.

Marketing Way:

The majority of the Subgroup members considers that the marketing of microinsurance products may occur by ticket and other possible ways (policy and proposal) with the definition of the essential information to be contained in the tickets.

Waiting Period:

The waiting period matter was discussed under the explanation that, if used improperly, may cause severe reputational risks for the market. On the other side however, considering its eventual inexistence, the fraud risk is created with the consequent increase of the risks and premiums. An eventual term for maximum waiting period was not discussed and there has not been any consensus regarding the theme that should be evaluated carefully soon.

Previous approval:

Although it is not a parameter, there has been consensus regarding the need that the products should be previously approved to marketing, at least for a pre-determined period (e.g. 5 years). Therefore, it was highlighted the importance of proper qualification, as much by the SUSEP servants in charge for the analysis as by the industry about the matter, so that do not occur products distortions.

3. Conclusions and Comments from SUSEP WG

Although the SUSEP WG members have composed the CCM-CNSP Products and Target Audience Subgroup, there are some questions that should be commented and emphasized under the specific view of those that represent the Supervisory/Regulatory Agency, mainly in respect of the cautions when determining the parameters for microinsurance products.

The Subgroup decision, leaving for background an eventual definition of “low-income population”, has been very correct, since the focus should be in the products adjusted to the specific needs of the segment.

The definition of objective parameters that regulate in a proper way to the microinsurance products, at a first moment, shall work as effective protection to the hyposufficient consumer and to the new marketing under formation.

3.1 Regarding Parameters

Regarding parameters discussed it is indeed necessary to highlight some issues raised by the WG representative at the Subgroup meetings:

- It should be determined minimum periods for products that bind microinsurance to capitalization. The capitalization bond, due to its capacity to give tangibility to a product like the insurance, may be used to encourage the microinsurance marketing; but it is essential that restrictions are established in order to prevent the focus loss in the main product that, in this case, is the protection provided for

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the insurance. Thus, the matter of the insurance period is essential and of special relevance, since the products of monthly period would stimulate more the lottery component of the capitalization bond than the permanence at an insurance plan.

- The maximum insurance amount for Damage Insurance should be evaluated in more details individually. Thus, other studies could be performed to be the base for the eventual determination of values. A good example for fire insurance could be the use of average values of real estate financing for the low-income population by region.
- In the case of maximum term for indemnity payment, specific criteria should be specified for insurance like funeral, because of the big reliance on this kind of service, mainly by the less fortunate classes.
- Although all the stakeholders are listened, the regulatory agency of private insurance is liable for determining the parameters and criteria for the microinsurance products. In addition to the already mentioned parameters, the Regulatory/Supervisory Agency of private insurance should establish the simplified ways of marketing and contracting, through policies, tickets, individual certificates and, if authorized, by electronic means.

3.2 Regarding the Operation Criteria

In addition to establish parameters for microinsurance products, the Regulatory/Supervisory Agency should determine the operation criteria of the microinsurance and also the specific conditions for the authorization and the operation of the providers that work solely with microinsurance, and also for the property and accounting segregation of the microinsurance operation of the providers that do not work solely with microinsurance.

3.3 Regarding Tax Issues

Due to the concluded in the CCM-CNSP Products and Target Audience Subgroup sphere and the results of the studies carried out in the scope of the FUNENSEG Research Program, SUSEP WG considers convenient to comment possibilities of incidence of tax benefits on microinsurance operations that could influence:

- The microinsurance products themselves;
- The microinsurance providers, as specialized insurance companies (microinsurance companies) or, proportionally, as not specialized insurance companies, but with accounting and property segregated with this purpose; and

- The employers, individual and legal entities, that contract microinsurance for their employees.

The main reason for the possibilities of incidence suggested is in the fact that the microinsurance market does not still exist, not implying in any reduction or waiver of public income. On the contrary, there would be an income increase indirectly. Obviously, everything shall depend on the favorable opinion of the authoritative sector from the Federal Internal Revenue.

As far as the possibility of incidence of the tax benefits also on the employers, a first evaluation allows to conclude that the measure would operate as stimulus to the formalization of employees promoting also a large collection of social security contributions, since the benefit would be conditioned to the regularity of the employee before the general regimen of the social security.

In general, it is correct that the lower tax impact shall provide the reduction of the final cost of the microinsurance products for the assureds. Furthermore, it is unarguable that this benefit shall operate as a stimulus for the entry of new insurance companies in the market, attracting new investments for the Country.

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