



BRAZILIAN INSURANCE MARKET'S CHALLENGES

Francisco Galiza, Professor at Escola Nacional de Seguros (Funenseg) and partner at Rating de Seguros Consultoria

For the past ten years, the Brazilian insurance market has had an incredible growth. On the below graph, we can see the weight of the country's non-life insurance market (motor, property, civil liability, etc.) value in the global market. During the exposed period, the number increased from 0,9% (2005) to 1,9% (2012). Since then, we have been witnessing a stability on the growth's trajectory, which means the biggest challenge for the sector nowadays is: how do we start growing again?

We believe that, to go back to that positive scenario, the basic factor is for the country's economy to start growing again. Nowadays, the outlook is for a decrease of 1,5% in Brazil's GDP for 2015, in 2016 the outlook is for a slight increase, no more than 1%. Given the circumstances, it is hard to have high expectations. The insurance sector itself recognises the difficulty through the ICSS (Insurance sector's reliability index) calculation, a monthly indica-

tor measuring the sector's reliability index in Brazil.

Despite the challenges mentioned previously, the market also has positive news allowing us to be optimistic. First, we have a healthy insurance sector when it comes to solvency, with good solid insurance companies. Secondly, we have good profit margins for insurers, a factor connected to the previous observation. Thirdly, the market's watchdog (SUSEP) is exceedingly credible, and has a high technical expertise. In fourth place comes the reinsurance market opening, celebrating 10 years this year with various companies present in the market, which shows how successful this opening was. In fifth place comes the high potential for growth in several insurance segments (such as motor, agricultural, etc.) For instance, in Brazil there are approximately 80 million vehicles in circulation, but only 20% are insured. In that segment, there is a predominance of the vehicle's insurance, instead of third party liability. When com-

paring this with the US market, the vehicle's insurance coverage profits in Brazil is 14%, and when we compare third party liability insurance coverage, that percentage falls to 6%. So we have room to improve.

There are two other factors that deserve special commentaries. Today, in Brazil and in the rest of the world, technology has a fundamental importance. Fortunately, Brazil is getting prepared for this. In a recent survey, Febraban (Brazilian Bank's association) concluded the online banking transactions where 41% of 2014's total, becoming the most significant channel for bank transactions. Mobile banking accounted for 12% of the transactions number (which was 6% in 2013 and 2% in 2012), becoming the fourth most relevant channel. The insurance sector will be following this trend.

Last consideration goes to the insurance products distribution, mainly done by independent brokers, micro companies with a dynamic attitude and a considerable net all over the country. We now have 27,000 insurance brokers, maintaining almost 150,000 jobs. All those professionals only have one goal: improve the population's safety, selling more insurance products.

In Brazil, we cannot close our eyes to the short-term challenges. Fiscal adjustment is needed; there is already a national consensus about this subject. This affects all sectors, the insurance segment being no exception. Meanwhile, we believe the necessary background is in place, to an economic growth. It is important to remember, in the current per capita situation, the insurance sector's income elasticity is higher than one, which means this segment's variations will always surpass the economy's growth, when it happens again. ■

BRAZIL'S NON-LIFE INSURANCE MARKET IN THE WORLD

(SOURCE: SWISS RE)

