

Products of Private Initiative **Correlated with Microinsurance**

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I) Introduction

The objective of this study was to analyze a number of products offered by the private sector that have some similarities with, or that have strong influence in the insurance market (more specifically, with the microinsurance market).

Accordingly, four products were chosen for evaluation. The first one was the PASI - *Plano de Amparo Social Imediato* (Immediate Plan of Social Support). This product, which was created 20 years ago, operates as a group life product used by many companies to protect their employees, following agreements established in collective labor conventions.

Next, there are the funeral assistance products. This service, offered by independent entities not supervised by Susep, presents difficulties for evaluation since there is not a model of regulation yet, nor government statistics about it. Anyway, its potential is very high, having high penetration in the industry.

A third topic is the analysis of the microcredit program. This segment has clear influence in the microinsurance market for at least two reasons. First, there is the fact that they have a similar low-income target-public. Second, is the possibility for microcredit to influence the demand for some microinsurance products (for instance, such as Credit Life Insurance).

A final topic corresponds to products derived from the SLC market. In many cases, these products, which are negotiated with low values and sold in a combined way, may have the same target public of microinsurance.

In the analysis of each product, we will have the following basic outline: firstly, its main characteristics (what it is, for whom it is useful, etc.), then a specific topic involving financial indicators (volumes, output, etc). In this case, however, only if the information is available, because some data has more limited disclosure.

Finally, an assessment of the perspectives for the segment and its influence in the insurance market will be made. Possibly, this topic is one of the most important ones because, in this study, since many products are still at an early stage, the objective is to assess the future perspectives of the segments more than the present one.

II) Existing Programs

II.1) PASI

The *Plano de Amparo Social Imediato* - PASI (Immediate Plan of Social Support) was established in 1989. Currently, it is the best known and most recommended group life insurance in its segment of activity, with 2 million policyholders. Its main goal is to protect legalized active workers, workers under temporary employment and outsourced individuals. Although it reaches companies of all sectors, it is specialized in attending the demands of existing insurances in Collective Labor Conventions (CLC).

Table II.1 presents some basic characteristics of the product.

Table II.1 – Characteristics – PASI

Types	Description
Capital and Basic Coverage	<ul style="list-style-type: none">• The capital varies according to the needs of the client and the requirements of collective agreements.• Basic Coverage: Natural and Accidental Death of policyholder.
Additional Covers	<ul style="list-style-type: none">• Total or Partial Disability of Policyholder.• Death of spouse or children.• Birth of children with congenital disease.• Special Indemnity in case of accident.• Prepay for work-related illness.
Complementary Benefits	<ul style="list-style-type: none">• Examples: Reimbursement to the company of expenses related to the termination of a labor contract, food-allowance, funeral assistance (in case of accident at work, etc.).

According to the management of the company that negotiates this product, the PASI has the following competitive differentials in the market:

- Indemnity settlement within 24 hours.
- No age limit and no waiting time at all.
- Plan designed according to the customer's needs.
- The product aims at providing a high transfer of claims, depending on the volume of collected premiums.

Table II.2 shows the current status of the product.

Table II.2 – Current Data– PASI

Characteristics
<ul style="list-style-type: none">• Nationwide presence• 2 million policyholders, spread across more than 13 thousand agreements.• 3 thousand registered insurance agents.• 300 participant union entities.

In general, the maximum indemnity amount has been an insured capital of R\$ 30 thousand, with a premium close to R\$ 15 per month. The most common cases, however, are of lower premiums in the range of R\$ 5 per month.

The potential of this segment in Brazil is high. There are currently, 8 thousand entities within the group of the 5 central labor unions. In total, there are 30 million union members, who are legally registered workers, so we have approximately 90 million potential policyholders (including families, etc).

These numbers result in a potential market of at least R\$ 5 billion per year. That is, R\$ 5 x 12 x 90 million. From this total, we estimate that, following assessments and surveys with professionals in the industry, only about 30% (i.e. about 25 to 30 million insureds) would have some degree of efficient coverage (either through union insurance or some other type).

Therefore, there would be a target public of 60 million insured persons, which in current value would represent an increase of R\$ 3 to 4 billion a year in revenue for the segment.

Table II.3 presents some particular factors that may influence the size of the segment in the medium and long term, providing a good product for the insured.

Table II.3 – Development Factors

Factors
<ul style="list-style-type: none"> • As far as possible, a greater return for the insured, depending on the collected volume of premiums. • A tighter supervision from the Ministry of Labor concerning the fulfillment of labor agreements. • A development of awareness programs in companies to offer benefits to its employees. • High quality of services offered to employees. • The government could stimulate somehow, the inclusion of life insurance in collective company conventions, and at least study the possibility of creating tax incentives for companies that offer life insurance to employees.

11.2) Funeral Assistance

Through market research, it is possible to verify that, nowadays, many companies offer the Funeral Assistance product. Many of them have more than 20 years of operation.

With monthly payments, the coverage helps with various aspects of the bereavement period, such as full-time assistance, various types of urn, cremation possibility, transfer of the deceased's body, etc.

The potential of this segment is quite big, considering, for example, a consumer market of 30 million people, with a total of 6 million family groups, and an average monthly cost of R\$ 25 per group. This can result in a market of nearly R\$ 2 billion per year.

Despite the volume, Susep does not supervise this market because, under current legislation, there is no commitment of reimbursement in cash, but only the fulfillment of the funeral assistance service. By the existing legislation, the reimbursement in cash is a necessary condition for the actual supervision of the insurance supervisory body.

However, this is an important discussion, especially because of the values involved.

II.3) Microcredit

a) Definitions

Initially, it is important to note that the concept of microcredit is within a more comprehensive approach of microfinance, as shown in table II.4.

Table II.4 – Definitions of Microfinance Products

Criterion	Definition
<ul style="list-style-type: none">• Microfinance (popular credit)	<ul style="list-style-type: none">• All services for the low-income population, including consumption.
<ul style="list-style-type: none">• Productive Microcredit	<ul style="list-style-type: none">• All financial services for microentrepreneurs. It does not finance consumption.
<ul style="list-style-type: none">• Oriented Productive Microcredit	<ul style="list-style-type: none">• Just for credit for microentrepreneurs. It does not finance consumption.

The specific concept of microcredit emerged in India in the 70's through the economist Muhammad Yunus, who decided to lend US\$ 27 from his own pocket to 42 women of his region to enable them to acquire raw materials to make handcrafted products, thus helping them become independent from moneylenders. Because they could not offer guarantees, banks refused to lend them small sums that would permit them to buy materials to work with and sell.

Surprisingly for Professor Yunus, all loans were paid in a timely manner. Furthermore, women who had borrowed the money were able to develop their businesses, pay off the loans and, eventually, make profit. This case nourished the idea that perhaps this process

could be multiplied indefinitely. In practice, the models of microcredit could offer solutions that dealt with three chronic problems of a traditional loan: high risk, high transaction cost and lack of collaterals.

In simplified terms, the following points, according to table II.5, have characterized microcredit:

Table II.5 – Some Characteristics - Microcredit

Characteristics	Description
<ul style="list-style-type: none"> • Group Loans 	<ul style="list-style-type: none"> • By offering loans to groups, there are mutual guarantees between loans, with risk reduction.
<ul style="list-style-type: none"> • Credit Agent 	<ul style="list-style-type: none"> • The credit agent is responsible for collecting data of borrowers, having a lot of familiarity with the region in which he operates.
<ul style="list-style-type: none"> • Progressive Loans 	<ul style="list-style-type: none"> • The values will increase as the borrower meets his goals.
<ul style="list-style-type: none"> • Frequency of Payments 	<ul style="list-style-type: none"> • The frequency of payments is often low. In addition, there is an attempt to be in tune with the cash flow of the borrowers' operations.
<ul style="list-style-type: none"> • Focus on Women 	<ul style="list-style-type: none"> • Due to their place in the family, this has been the central point of many social programs.

b) Evolution

In Brazil, we had the following historical experiences with microcredit:

- In 1973, the UNO program (Northeastern Union for the Assistance of Small Organizations) was created. This project had as its target-public the informal urban sector of the economy, working with credit and the training of small entrepreneurs. One of the challenges of the UNO was to prove the feasibility of granting loans (microcredit) to people who developed some activity on their own. The UNO program was a civil, nonprofit association, which had the collaboration of the international organization "Accion International", known as AITEC.
- Especially in the 80's, experiences of the *Centros de Apoio ao Pequeno Empreendedor - CEAPE* (Support Centers to the Small Entrepreneur) emerged, with some institutions still present today. In addition, there were initiatives in which the public administration, through government programs, sought to stimulate the credit supply for the low-income population. The main feature of this period was that all these experiments concentrated their activity on credit operations, directed, almost exclusively, towards the financing of microenterprises.

- The second half of the 90's marks a period of expansion. Governments favored the development of local policies, and there were several cases of cities, where community institutions of credit (CICs) were created aiming at providing microcredit. Also, the Federal Government implemented the Crediamigo program (through the Banco do Nordeste do Brasil - Brazilian Bank of the Northeast), seeking to stimulate the development of microfinance, through credit supply for micro-entrepreneurs, institutional support, provision of resources for the creation of portfolios, and adequacy of the legal framework. Besides, many organizations started acting with the coverage of the legislation, in the case of nonprofit organizations, provided they were adapted to the Law 9790 of 1999 having obtained the OSCIPs - Organizações da Sociedade Civil de Interesse Público (Civil Society Organizations of Public Interest) qualification..
- Finally, the SCM (Sociedades de Crédito ao Microempreendedor – Credit Entities for Microentrepreneurs) were created through the Law 10194, of 2001, with the intention of attracting private investors interested in financing productive activities from low-income entrepreneurs.
- In 2001, a network of 50 civil society organizations founded ABCRED, with a proposal to organize a National System of Financial Support of Popular Economy. The organizations

presented the project to the candidates for Presidency in the 2002 elections. Gradually, the financial services to the low-income population started to be broadened, thanks also to the advantages arising from information technologies. That is the reason, for example, for the proliferation of bank correspondent networks, which have increasingly been offering new products for their customers.

- Since 2003, some innovations in the legislation and infra-legal standards have been put underway to secure additional sources to finance microcredit operations and to encourage the entry of new contingents of people in the banking system. Consequently, all these changes have brought about the increase, in terms of diversity, of legal models and methodologies with which low-income populations are reached by microcredit programs. Fundamentally, microcredit started to be designated in two different ways, being called "free use", which may or may not fund activities or economic enterprises, and "oriented productive microcredit", which comprises the most widely used modality, traditionally practiced in the country.
- Such features and characteristics of this type of activity prompted the Federal Government to propose a new legislation to Congress through (*Medida Provisória*) Provisional Measure

(MP 226/2004), instituting the PNMPO - National Program of Oriented Productive Microcredit. The approval of the Law by Congress a few months later coincided with the International Year of Microcredit, in 2005.

c) Current situation

The National Program of Oriented Productive Microcredit (PNMPO) was established by the Law 11.110 of April 25, 2005, and has the following general objectives, as shown in table II.6:

Table II.6 – Some Characteristics - PNMPO

Characteristics
<ul style="list-style-type: none">• To encourage employment and income generation among popular microentrepreneurs.• To provide resources for oriented productive microcredit.• To provide technical support for oriented productive microcredit institutions, aiming at strengthening these institutions with the provision of services to popular entrepreneurs.• Under PNMPO, natural persons and legal entities with small entrepreneurial productive activities and with an annual gross income of up to R\$ 120 thousand are considered popular microentrepreneurs. <p>Resources: Worker Support Fund (<i>Fundo Amparo ao Trabalhador - FAT</i>) and targeted resources of cash deposits installments (2% of total), according to Law 10.735, of 2003.</p>

The following are some important points of the current situation:

- Since 2005, 3.7 million transactions were made with a credit of R\$ 4.3 billion reais. On average, over the period, we had an average loan of R\$ 1,162 thousand.
- In 2008, R\$ 1.8 billion were transferred through 1.274 million transactions. On average, it amounts to approximately R\$ 1.5 thousand per transaction.

- The main redistributors of resources are cooperatives; Targeted Resources (transfer of 2% of cash deposits); and the Crediamigo program of Banco do Nordeste.
- In 2008, there were 278 specialized institutions with microcredit operations.
- The balance of the investment portfolio in 2009 was approximately R\$ 600 million. This means that a provider borrows more than once per year.

In the analysis of microcredit numbers, we note that although they have grown in recent years, the figures are still relatively small, especially considering the potential of the sector.

The following are some numbers for reference:

- Today, the personal credit in the country exceeds the amount of R\$1 trillion. In the same period, the payroll of retirees, the direct credit to consumers and the financing for housing and car purchase grew. With regard to microcredit, the differences are still big.
- The national program of microcredit is now restricted to a figure between 500 to 600 thousand people (more than one loan per year per client). It is a small value when compared to the 34 million active customers of the largest investment

institutions - the Losango (10 million), the Finasa (5 million) and Fininvest (with nearly 4 million) - and more than 15 million active payment cards in Casas Bahia. As a reference, Bradesco, the largest private financial institution in the country, has nearly 20 million bank accounts.

- In practice, banks still do not use the full potential of microcredit. In recent years, financial institutions preferred to “hold on to” about half of the value, which corresponds to 2% of cash deposits, instead of lending it as microcredit. Although there is still interest, the high default rates somewhat discouraged the industry.

Despite this scenario, which is still below the possibilities, there is optimism in the microcredit sector.

- First, one important point is that a good part of the Brazilian society does not have a bank account yet. The trend, however, is favorable. The increasing competition among banks and the decrease in the costs of electronic attendance resulted in an increase in the opening process of current accounts.
- A second point is that the mass credit, granted by banks across lines of direct credit to consumers (CDC) and personal loans, is one of the most profitable segments of the financial system, although it still registers high default rates, offset by gains from the interest rate.

- A third point is the concern of the poor with debts. Studies show that the lower the income, the more punctual the payment is. People, who have a name to care for notify the store and ask not to send the billing notice, if they sense there is going to be a delay. They really care about the situation.

Table II.7 presents some characteristics of two official banks, in relation to the conditions for loans in microfinance.

Table II.7 – Characteristics – Banks - Microcredit

Banks	Description
<ul style="list-style-type: none"> • Caixa Econômica Federal 	<ul style="list-style-type: none"> • Objective: Equipment, raw-material, working capital and improvement to the business infrastructure. • Limits: Minimum of R\$ 250 and maximum of R\$ 10 thousand. • Term: up to 24 months to pay. • Monthly payments. • Interest rate of up to 3,9% per month. • Credit Opening Rate (Taxa de Abertura de Crédito - TAC) of 3% on the amount of the contract, with a minimum of R\$ 15 charged at the moment the loan is taken.
<ul style="list-style-type: none"> • Banco do Brasil 	<ul style="list-style-type: none"> • To have a bank account. • Register approval. • To have a signed contract of adhesion. • To have a simplified bank account. • Depending on the type of loan, to have a monthly income of up to R\$ 1 thousand. • Depending on the type of loan, to have an average of investments and deposits of less than R\$ 3 thousand. • Depending on the type of loan, to receive Social Security benefits of up to two minimum wages.

In recent years, some elements have been favorable. To cite just two:

- The opening of bank correspondents (kind of agencies that can operate inside the premises of retail outlets or services) has helped to reconcile profitability and reduce costs. With this, the bank can reach a much larger public.
- One of the main lessons of the Crediamigo program of the Banco do Nordeste, is having a decentralized system for monitoring loan portfolios by which it can reach an operational scale. This model is discussed below.

d) Crediamigo Program

Banco do Nordeste (BNB) develops a series of products for the low-income consumer. One of the main products is Crediamigo.

A 2006 study showed that this product accounted for 60% of microcredit in the country, and was the 2nd largest in Latin America. During this period, 61% of clients were below the poverty line.

These small businesses, mostly informal, which are users of that product, have high rates of growth across the country, particularly in the Northeastern region and especially in large urban centers. Considering that the access to the banking system, for this portion of the population, is difficult due to the low operational level, the size of business and the quality or lack of guarantees, the product fills a gap of this specific deficiency. Statistic-based surveys show that, for those who operate with this product, the rate of life improvement is quite high.

In 2008, there were 1.009 million different loans, with an outlay of R\$ 1.087 million. Since 2001, the amount disbursed has reached almost \$ 5 billion.

Table II.8, presents more details of this segment. In the case of solidarity loans, the guarantee is collective.

Table II.8 – Crediamigo Products - Banco BNB - Characteristics

Description	Details
<ul style="list-style-type: none"> • Solidary Popular Turnover 	<ul style="list-style-type: none"> • Represents 28% of the loans. • Resources for the purchase of raw materials and / or goods. • Loans from R\$ 100 to R\$ 1 thousand. • Group loans of 3 to 10 people. • Interest rate of 1.32% per month + TAC (Credit opening Fee)). • Term of up to 12 months.
<ul style="list-style-type: none"> • Solidary Turnover 	<ul style="list-style-type: none"> • Represents 46% of the loans. • Resources for the purchase of raw materials and / or goods. • Loans for amounts over R\$ 1 thousand, which can be renewed and extended to R\$ 10 thousand. • Group loans of 3 to 10 people. • Interest rate that ranges from 2% to 3% per month + TAC (Credit opening Fee) • Term of up to 9 months.
<ul style="list-style-type: none"> • Individual Turnover 	<ul style="list-style-type: none"> • Represents 7% of the loans. • Resources for the purchase of raw materials and / or goods. • Loans for amounts from R\$ 300 up to R\$ 10 thousand. • Interest rate that ranges from 2% to 3% per month + TAC (Credit opening Fee) • Term of up to 9 months.
<ul style="list-style-type: none"> • Fix Investment 	<ul style="list-style-type: none"> • Represents 15% of the loans. • Resources for purchase of machinery / equipment and / or infrastructure improvement of the business. • Loans for amounts from R\$ 300 up to R\$ 5 thousand. • Effective interest rate of 2.95% per month + TAC (Credit opening Fee) • Term of up to 36 months (no waiting period).
<ul style="list-style-type: none"> • Community 	<ul style="list-style-type: none"> • Represents 4% of the loans. • Resources for the purchase of raw materials and / or goods. • Loans from R\$ 100 to R\$ 1 thousand. • Group loans of 15 to 30 people. • Interest rate of 1.32% per month + TAC (Opening Fee Credit). • Term of up to 12 months.

e) Potential for Microcredit

The market for productive microcredit is still a challenge for the government. Theoretically, it could reach 21 million Brazilians who work informally, but, according to the goal of the Ministry of Labor and Employment, by 2011, this number of beneficiaries should have reached approximately 1 million of small entrepreneurs across the country.

Another challenge, however, is the interest of the financial sector. In practical terms, for many banks, "it is impossible to lend R\$ 1.2 billion, with interest not exceeding 4% per month, and still offer free technical advise to the client."

A recent Central Bank study indicated that the classes E to H are the potential clients for microfinance products. That is, people who receive up to 3 minimum wages per capita (over 10 years). This would represent 80.6% of 87 million people with income in the country. The estimation of many researchers is that half these people could ask for credit. That is, 35 million people (40.3% x 87 million).

By official statistics, the microfinance market has already reached 21 million people. That is, 14 million people could still be reached. From the total of 21 million, only 1 million refers to microcredit. Most part of the 21 million corresponds to loan payments deducted from the payroll.

In a study cited by the Central Bank in our reference, it was observed that the outcome of an analysis of formal and informal

economies showed that there could be approximately 7 million potential microfinance clients in Brazil.

If it was considered that a loan averages R\$ 1.5 thousand, there would be a demand for loans of approximately R\$ 12 billion, according to 2008 data.

This number, despite being high, still represents only 0.4% of GDP (2008 data).

f) Potential for Microinsurance

The Mexican bank "Compartamos", specializes in microcredit. At the end of 2006, there were 187 branches, with 615 thousand active customers, with an average loan of US\$ 444 (portfolio of US\$ 274 million).

In its history, the bank has developed a life insurance program (Credit Life type).

Nowadays, there is a rate of P\$57 for each P\$15,000 loan. That is, a rate of 0.38% per transaction. In Brazil, Credit Life insurance charges, on average, a fee of 0.035% per month.

According to the bank, this was one of the most important factors in maintaining the program. If the Brazilian microcredit market could produce a loan turnover of, for example, R\$ 10 billion per year, this would generate a potential insurance annual revenue of R\$ 38 million per year (if the turnover was annual and taking the data from Mexico as a reference).

In Brazil, this market could be expanded in two ways: first, by speeding the turnover of the loans; second, by selling more insurance products, taking advantage of the channel created by the loan.

In essence, these accounts allow speculating that the microcredit market, if fully developed, could lead to an increase of R\$ 100 to 150 million per year in the microinsurance market.

II.4) Saving and Lottery Certificates (SLC)

a) History

In 1850, the SLC was created in France with the intention to provide financial assistance to members, using their own savings. During the application, there was also the possibility of prizes in draws.

In 1929, the SLC market started in Brazil, with great dynamism in the 30's and 40's. In the 50's, the inflationary process made the product become unattractive, but with the development of monetary adjustment in the 60's, basic premises were created for its revival. That is, we are talking about a traditional sector in the country, with nearly 80 years of life, which, despite not having developed as expected in recent years, still has great potential for growth.

At the end of 2008, we registered 12 companies in this market, which offered an average of 60 types of different papers. In general, companies are profitable, which is an important guarantee for the consumer.

Recently¹, some measures were taken with the intention to increase the transparency of the certificates through standardization according to their type. In practice, this aspect will be of great help for the consumer to understand what he is buying.

Table II.9 presents some existing characteristics.

¹ Circular 365 of Susep.

Table II.9 – Types of Products – SLC

Types	Description
Traditional	<ul style="list-style-type: none"> • It includes the basic characteristics of the product, and the payment can be monthly or yearly made. In this case, full inflation adjustment of the purchase is returned.
Scheduled purchase	<ul style="list-style-type: none"> • It provides the customer with capital formation for the purchase of goods, services or travel. In other words, the certificate has a specific objective.
Popular	<ul style="list-style-type: none"> • It is intended for customers with lower purchasing power, with emphasis on its game-based aspect. Greater volume of sales. The main feature is the fact that the customer is not required to receive the full value with inflation adjustment.
Incentive	<ul style="list-style-type: none"> • These products are linked to a promotional event in the commercial area set up by an underwriter. General conditions include the free cession of the right to participate in draws to third parties.

b) Related Insurance Products

The SLC, somehow, may influence the microinsurance market, as it is able to develop products related to other low-income ones.

There are at least two important examples: SLC + personal accident or SLC + peculium.

In general, these products have some similar characteristics, which are commented below:

- Mass products in the range of R\$ 5.
- The amount paid is divided into: lottery, insurance, saving, commissions and other costs (marketing, distribution, etc.).
- Insurance is a yearly contract, but billed monthly through new certificates. In many cases, the certificates cannot keep the same number of the first, due to cost and operational impossibility.
- This sale is made by means of issued tickets, using basic information such as name, address, CPF (similar to a National Security number) and telephone number.
- The draws are public.
- The Insured amount is small (around R\$ 2 thousand), there is also an indemnity limit per insured (e.g., R\$ 10 thousand).

On average, the proportion of capital allocated to insurance has been about 4% of the purchased amount (i.e. R\$ 0.20 for every R\$

5). Nowadays, due to contacts with professionals in this sector, this market has a profit of around R\$ 4 million per month (or about R\$ 50 million per year). It is believed that, if it maintains the current trends, it could triple in the medium term.

In other words, the insurance revenue derived from the SLC market is as high as R\$ 6 million per year (or R\$ 150 million x 4%). More important than the relatively low value of the revenue is that this product allows the development of a trend in a population not accustomed to buying insurance. For example, considering 5 to 10 million people, already with superposition of one person buying more than one certificate, this would result in almost 5% of the Brazilian population, approximately.

c) Tax Issues

In our opinion, a problem that still needs to be resolved in the SLC market is its tax aspects, which need to be worked out at least in the medium term.

Table II.10 shows the main existing aspects in a SLC plan.

Table II.10 – Aspects – SLC

Characteristics	Amounts
IOF (type of a tax)	<ul style="list-style-type: none">• None, at the moment of final redemption.
Income tax, when the redemption occurs	<ul style="list-style-type: none">• 20% on the operation profits, collected directly from the source (plan).• In the Income Tax Statement, financial profits are allocated in "Income Subjected to Exclusive Taxation".
Income tax, in the case of a prize	<ul style="list-style-type: none">• When the certificates are canceled in the draw, 25% of the money received remains with the SLC company.• When the certificates are still active, 30% of the money received remains with the SLC company.• In the Income Tax Statement, financial profits are allocated in "Income Subjected to Exclusive Taxation".

In the analysis of this information, we observe that, generally, fiscal regulations can still be improved. There are no differences in tax rates based on the term of the certificate, its type (Monthly Payments or Single Payment) or even the consumer's income. The only difference is the prize taxation depending on the certificate continuity.

Next, there are some suggestions.

Suggestion 1: Redefinition of the tax criteria on the certificate prizes

In the case of a prize, there are two possibilities for taxation. If there is cancellation of the certificate, the income tax rate is 25%. But, if the certificates remain active, the rate is 30%.

With the objective to simplify and unify the criteria, as well as encourage the purchase of this type of product, the following comments are presented:

- In our opinion, the rates should be unified in both situations. The question of whether the certificate is terminated or not when a participant wins a prize should not be a reason for this distinction.
- The fact that the rate is higher if the certificate remains active (30%) compared to when the certificate is canceled (25%) can be a disincentive to the segment.

Considering this, we suggest a rate of 25% for all cases.

Suggestion 2: Import of fiscal rule from pension products (tax tables)

The income tax rate of the SLC market is a fixed value of 20%. This number is independent of the certificate term period and the investor's degree of wealth, characteristics that influence the VGBL and PGBL tax calculation.

With these new tax rules (the use of tax tables) in the SLC market, there shall be some important consequences:

- Possibility of long-term certificates through which the consumer, besides investing into his savings account, would also benefit from the game-based aspect of the plan. That is, the launch, for example, of a product line called "pension fund with draws." In this case, the consumer's choice should fall on the tax rule called "regressive table", which stimulates more directly long-term purchases with lower rates. In other words, if a consumer bought a certificate over 10 years there would be a possibility to reduce his rate to 10%.
- For consumers with low income, often the typical buyer of SLC, there would also be gains, even if the certificate had a shorter term. If this new rule were in practice, and the consumer chose the traditional taxation table (flat tax rate of 15%, with annual adjustment in the Income Tax statement), perhaps they would recover the tax paid with

the annual adjustment, provided that its total gross income was less than the value of R\$ 16 thousand per year. In brief, at the end, there would be no taxes to be billed related to SLC, which would not be unfair. We might ask: why those who sell up to R\$ 20 thousand in shares per month have such an exemption, while those who receive 2 minimum wages and redeem an SLC of R\$ 100 each month do not?

In our view, the import of the tax rules from the VGBL and PGBL plans (application of tables) would be fairer in terms of tax isonomy. After all, we would be encouraging the practice of long-term savings. However, even when compared with other assets, the tax burden of the SLC is still quite heavy.

For instance, for a fixed income fund invested over a period of a little over 2 years, the tax rate is 15%. In this scenario, in economic terms, it is quite difficult to understand why an SLC with a 5 years term has to pay 20%!

Suggestion 3: Deduction of part of the fixed income

(PGBL model)

In the new horizon for the SLC segment, it is important to encourage long-term purchases. Thus, the existence of a tax benefit that allows the deduction of part of the fixed income in the tax calculation (as in PGBL) can be quite attractive.

Due to the peculiarities of the SLC, the following additional conditions could be available:

- In the process of purchasing the certificate, only the fraction used for SLC would be deducted. In other words, values allocated to the draws and purchase rate² would be left out.
- There could be a decrease in deduction limits, instead of the current 12%. For example, 12% would be kept for the pension fund, and another 2% or 3% would be added to the SLC.
- If the previous option meets up with resistance, an alternative would be to maintain the existing limit, but also to open the possibility of including SLC in this group in addition to pension products, as a way to approach tax deduction. I.e., 12% overall, for pension and annuity.

² Thus, government would not run the gauntlet of critics accusing it of promoting fiscal incentive for draws.

As noted, there are several options, which will depend, of course, on the negotiation ability and fiscal conditions of the country, as well as a certain level of government interest in encouraging the purchase of that asset profile.

Suggestion 4: New Products with Tax Benefits

Another suggestion should not be seen as a measure that can only benefit the SLC sector since it can also benefit all other sectors that aim at promoting long term saving, such as pension funds.

Here, the idea is to encourage the government (and the private sector) to develop new saving products, as is done in other countries.

There are some possible examples, but as an illustration, the product "Coverdell Education Savings Account" (formerly known as the "Education IRA"), found in the United States, was selected.

In essence, this product aims at creating tax incentives for families that have savings for the higher education of their young offspring. This is an extra tax benefit, besides other benefits already existing in other traditional pension plans in the U.S. market (e.g., 401K, IRA, etc.).

This educational product allows the taxpayer to allocate a certain amount of money per year in the specific account of a student. This value is not deductible from income tax, but the profits are exempt.

Many of the proposed changes aim at reducing the tax burden on SLC, as a matter of fiscal isonomy with other products. Thus, at an initial stage, it is natural that tax revenues should decrease. However, it is possible to obtain a compensation on its effects due to the increase in sales.

This can be shown by the following example, as presented in table II.11.

Table II.11 – Model Hypothesis

Variables	Amounts
Annual Revenue	R\$ 8 billion/year
Certificate Average Term	2 years
Estimated TR Range	3,5% in two years
Tax Rate	20%

We have the following hypotheses: first, an annual profit of R\$ 8 billion, with an average term of 2 years for SLC. The tax rate is 20%, and the TR range was estimated at 3.5%³ every 2 years.

In this situation, we believe that, currently, the average income tax, at the time of the redemption of those certificates would be approximately R\$ 56 million per year (8,000 x 3.5% x 20%).

Assuming now that the new tax rate rises to 15% (the same tax rate used in a long-term fund for a period of 2 years): In this case, the new tax revenues will depend on the segment revenues variation, which will surely grow in this new scenario.

For example, if there is a change in revenue from 70% to 80%, the figures indicate that the situation is fully compensated (tax revenue between R\$ 50 and R\$ 60 million). Given the variation seen in other sectors (when similar measures are adopted), this forecast is reasonably likely to happen.

³ This percentage was the value in the period 2006-2007. To make things easier, we have considered that all SLC certificates are paid using this fee.

III) Conclusions

Microinsurance is part of the government microfinance policy.

Table III.1 shows the objectives of microfinance in the country.

Table III.1 – Microfinance - Objectives

Objectives
To facilitate and to expand access to credit among formal and informal microentrepreneurs, aiming at generating income and employment.
To facilitate and to expand access to financial services (bank accounts, savings, insurance, credit) for the low-income population, promoting greater citizenship.
To expand the number and participation of credit cooperatives in the financial system.
To reduce informality and interest rates of financing.

Bearing this in mind, Susep developed (and has been developing) several initiatives designed to encourage the creation of insurance products for the lower income public, thus bringing about the term "popular insurance".

Table III.2 presents some of these initiatives.

Table III.2 – Official Initiatives - Microinsurance

Initiatives	Some Characteristics
Circular 267/2004, Susep	<ul style="list-style-type: none"> • The first norm about popular group life insurance establishing General Conditions and their parameters. <ul style="list-style-type: none"> • Coverages: basic (all-cause death) and additional ones (funeral assistance and basic basket). • Maximum Insured Amount: R\$ 10 mil.
Circular 306/2005, Susep	<ul style="list-style-type: none"> • Focus on RC Material Damages and on any type of car used • Maximum cost of insurance policy: R\$ 20.
CNSP Act 10/2008	<ul style="list-style-type: none"> • Creation of the Advisory Committee on Microinsurance. • The Commission aims at promoting studies on Microinsurance and advising the CNSP with regard to its technical and operational aspects.
Participation in International Bodies	<ul style="list-style-type: none"> • Susep takes part in the formation of the "IAIS-CGAP Joint Working Group on Microinsurance (JWG-MI)", coordinated by the IAIS (International Association of Insurance Supervisors)

The objective of this study, however, was not to directly analyze insurance products linked to microinsurance, but to analyze those products offered by the private sector that have some resemblance (or would have a strong influence over) with the insurance market (more specifically, the microinsurance market).

In this sense, four products were analyzed: the PASI, Funeral Assistance, Microcredit and SLC.

Table III.3 presents the main conclusions obtained.

Table III.3 – Analysis of Products

Products	Conclusions
PASI	<ul style="list-style-type: none"> • Group Life Insurance, specialized in the Labor Collective Convention. • It has 2 million customers, with an average premium of R\$ 15/month. • Segment with a potential market of R\$ 3 to 4 billion per year.
Funeral Assistance	<ul style="list-style-type: none"> • The market size is difficult to measure due to lack of official statistics. • It is estimated that it has a potential revenue of R\$ 2 billion per year.
Microcredit	<ul style="list-style-type: none"> • It has not reached its full potential yet. • This market is strongly correlated with the microinsurance sector. • When it becomes more effective, it could generate, only in Credit Life insurance, from R\$ 100 to R\$ 150 million in revenue per year.
SLC	<ul style="list-style-type: none"> • Low cost product sold together with a peculium or personal accident insurances. • Under current conditions, the generation of revenue (in terms of potential) for insurance may not be high (R\$ 10 million per year at the most). • However, its greatest merit is the power to reach many people, thus having an educational function (approximately 10 million people). • The tax aspect of this product still needs to be improved, when compared to the average conditions of the market.

In our opinion, the search for specific microinsurance products should be the main priority of the Brazilian market. However, it is

important to evaluate those markets with a similar experience or with a high correlation with the segment.

Therefore, this was the approach of this study.

IV) Annex

IV.1) Circular 267/2004, Susep (without Annexes with the General Conditions)

SUSEP CIRCULAR No_267, of September 21, 2004.

It refers to the operating norms and criteria for popular group life insurance operations and makes their general conditions and parameters available in the SUSEP's site.

THE SUPERINTENDENT OF THE SUSEP (SUPERINTENDÊNCIA DE SEGUROS PRIVADOS, exercises the powers conferred upon him by art. 36, items "b" and "c", of Decree-Law No 73, of November 21, 1966, in view of the provisions of art. 10 of the Circular Letter No 265, of August 16, 2004, and considers the contents of the process SUSEP No. 15414.000828/2004-13,

D E C I D E S:

Art. 1 To set operational norms and criteria for popular group life insurance operations and makes their general conditions and parameters available in the SUSEP's site as set out in Annexes I and II of this Circular.

Art. 2 It is prohibited for insurance companies to accept, as insured, in the plan mentioned in this Circular, young people under 18 (eighteen) years of age.

Art. 3 Control mechanisms should be used to identify the insured by the National Insurance Number (CPF) or, failing this, RG (Identification Card), Working Register, Birth Certificate, Marriage Certificate or other official identification documents that have validity throughout the national territory.

Art. 4 Insurance companies, which wish to operate the insurance plan addressed in this Circular should use the standard general conditions and forward the technical actuarial note and parameters of the general conditions to SUSEP, prior to commercialization, for analysis and filing.

Art. 5 The insured amount of the basic guarantee cannot exceed R\$ 10,000.00 (ten thousand reais).

Art. 6 The technical actuarial note should contain at least the following elements:

- I - insurance covers foreseen in the plan;
- II - specification of rates or pure premiums;
- III - statistics used for setting the rates, specifying the period and source used and their calculation statement or biometric tables, if applicable;
- IV - criteria for the review of rates, including formulation and periods;

- V - loadings;
- VI - technical provisions, and
- VII – Actuary signature, with the professional identification number, before the competent body.

§ 1 The rates specified in the form of section II of this article may be reviewed at intervals of no less than 1 (one) year, when the variation in the loss ratio of the product is more than 100% (a hundred percent), which is calculated based on the pure premium, and should be determined in advance, pursuant to item IV of this article, its respective technical methodology.

§ 2 In case of revision of rates pursuant to paragraph 1 of this Article, the insurance company must send to SUSEP an additive to the Actuarial Note, showing the calculation of the new rates indicating the administrative process number corresponding to the plan.

§ 3 Subject to the provisions of paragraphs 1 and 2 of this article, the actual change in the rates adopted may only be made to the plan after the prior expressed consent of at least $\frac{3}{4}$ (three quarters) of the insured group.

Art. 7 The amount charged for the loading, with the objective of covering administrative costs, the brokerage fees and the profit margin of the plan, must not exceed the pure premium.

Art. 8 The insurance mentioned in this Circular should be purchased in a collective way, by means of a contract signed with the contractor, subjected to the stipulations of the specific regulations in force.

Art. 9 For each applicant admitted to the insurance an individual certificate must be issued, which states his/her acceptance in the plan, stating the insured capital specified in what concerns the guarantees offered, premium, date of commencement and termination of the insurance validity and the identification of the insured as established in Article 3 of this Circular.

§ 1 A new individual certificate should be sent to the insured, when the values referred to at the top of this article change due to inflation adjustment or review of the rates referred to in paragraphs 1, 2 and 3 of Article 6 of this Circular .

§ 2 By means of the individual certificate, key information about the insurance contract may be provided, and it must be clear that the complete general conditions will be made available by the contractor and by the insurance company at any given moment at the insured request

Art. 10. The insured shall indicate on the proposal form, his/her beneficiary(ies).

Sole Paragraph. At any given moment, the insured may change the indicated beneficiary through a formal request, which has to be dated, signed and registered at the insurance company.

Art. 11. The insurance plan may provide for the recovery of premiums directly from the insurance company or through utility bills such as electricity, gas, telephone or other feasible means, provided that the value for the insurance is fully identified, as well as the date of the corresponding payment.

Sole Paragraph. The individual certificate, together with the identification of the premium payment referred to at the top of this article shall be the evidence, at any given moment, of the signing of the contract.

Art. 12. The commercialization of popular group life insurance which violate the provisions of this Circular shall subject the violator to legal measures and sanctions foreseen in the regulations in force.

Art. 13. For cases not provided for in this Circular, legal provisions and regulations shall apply.

Art. 14. This Circular shall enter into force on the date of its publication.

RENÉ GARCIA Jr.
Superintendent

IV.2) Circular 306/2005, Susep (without Annexes with the General Conditions)

CIRCULAR SUSEP No 306, of November 17, 2005.

It regulates the operating rules and criteria for popular insurance operation for used cars and establishes the standard contractual conditions.

THE SUPERINTENDENT OF THE SUPERINTENDÊNCIA DE SEGUROS PRIVADOS – SUSEP, exercising the powers conferred upon him by art. 36, items "b" and "c", of the Decree-Law No 73 of November 21, 1966, and considering the contents of the SUSEP Process N°. 15414.004359/2004-01,

D E C I D E S:

Art. 1 To regulate the operating rules and criteria for popular insurance operation for cars, as established in this Circular.

Art. 2 To set, in the annex to this Circular, the contractual terms of the standardized plan for popular insurance of used cars.

Art. 3 For the purpose of this Circular, it is defined as popular insurance that insurance intended exclusively to cover used vehicles.

Art. 4 The insurance companies who will commercialize the insurance plan provided for in this Circular should use the standard General Conditions in the Annex of this Circular, forwarding the technical actuarial and any specific changes to SUSEP, prior to its commercialization, for analysis and filing.

Art. 5 The insurance proposal referred to in this Circular should contain at least the following information:

I - description of the basic covers included in the plans offered, as well as the additional covers, if any;

II - identification of the insured vehicle;

III - maximum indemnity limits and premiums broken detailed in each coverage;

IV - bonus information, if any;

V - deductibles, if applicable;

VI - Information about the possibility for the insured to choose to use the accredited network, as provided in § 6 and 7 of art. 9 of this Circular;

VII - information about the insured's right to choose the form of premium payment as provided for in art. 10 of this Circular; and

VIII - responses from the risk assessment questionnaire, if any.

Art. 6 The purchase of the popular insurance for used cars may be made by simplified standard policy, which will contain at least the following elements:

I - on the front page of the policy, besides the information provided for in specific legislation, the following information shall also be provided:

a) the basic covers of the chosen plan, and the additional ones, if purchased, with their maximum loss limit and premiums,

b) percentage set to characterize the full compensation, as defined in § 7 of the art. 9th of this Circular, and

c) bonuses and deductibles, if any, and

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

Sole Paragraph. The full contractual terms of this insurance should be available to the applicant prior to signing the respective proposal form, and his/her representative or his/her insurance agent, shall sign a statement, which may be part of this proposal, asserting that he/she was informed of those contractual conditions.

Art. 7 The insurance policy cost, when charged, will be limited to R\$ 20.00.

Art. 8 The popular insurance of used vehicles will be purchased exclusively in a "determined value" modality.

Sole Paragraph. For the purposes of this Circular, it is established that the cover of a "determined value" is the modality that, in the case of full indemnity, guarantees the payment of a lump sum in national currency to the insured, as stipulated by the parties at the time of contracting the insurance.

Art. 9 The insurance companies, which commercialize the insurance plan addressed in this Circular should offer, exclusively, one or more of the following basic covers:

a) BASIC I - Comprehensive Guarantee "A" (full indemnity due to fire, lightning, explosion, collision, theft or robbery) and property damage liability - PD (*RC-DM*);

b) BASIC II - Comprehensive Guarantee "B" (full indemnity due to fire, lightning, explosion, theft or robbery) and property damage liability - PD (*RC-DM*);

c) BASIC III - liability property damage - PD (*RC-DM*);

§ 1 The insurance companies may also offer other additional coverages, besides liability covers - bodily injury liability - BI (*RC-DC*) or personal accident for passengers (*APP*), already contained in the annex of this Circular, if previously submitted to SUSEP for analysis.

§ 2 The purchasing of covers contained in the preceding paragraph may optionally be put into effect by the insured when he/she purchases one of the basic covers provided in this article.

§ 3 The Maximum Loss Limit (*LM*) under this coverage shall be R\$ 10,000.00, or greater, as an additional insured cover for property damage liability.

§ 4 In the basic covers, the guarantees in cases of fire, lightning, explosion, collision, theft and robbery, will not offer coverage for partial losses, but only for full indemnity.

§ 5 In the event that insurance companies choose to offer additional covers for partial losses, the insured will be entitled to have a free choice of auto body shops to repair the damaged vehicles.

§ 6 If the insurance company makes available its accredited network of auto body shops to repair damaged vehicles, the insured will have the right to opt or not for this network at the time of completing the insurance proposal.

§ 7 The accredited network offer, as set forth in the preceding paragraph, may only be made if the insurance company previously submits the "Additional Coverage for Partial Losses" to SUSEP, and also submits the "Additional Coverage for Partial Losses with the use of Accredited Network of auto body shops" specifying, in this case, the benefits for the insured if he/her chooses to use it.

§ 8 It is prohibited to apply deductibles in cases of full indemnity or damages caused by fire, lightning or explosion.

§ 9 The full indemnity is characterized whenever the losses resulting

from a single claim, reach or exceed 75% of the contracted amount established in the policy.

§ 10. It is forbidden to deduct amounts related to damage previously found in the insured vehicle.

Art. 10. The premium can only be paid after acceptance of the insurance proposal by the insurance company.

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

§ 2 In addition, other ways of fractioning the premium may be offered by the insurance companies in the insurance proposal, provided they are foreseen in a specific clause of premium fractioning which has previously been submitted to SUSEP for analysis, respecting the right of the insured to elect the form of payment.

Art. 11. Information relating to the purchased popular insurance policies for used vehicles will be accounted in the branch insurance # 26 - Popular Insurance for Used Cars.

Art. 12. The actuarial note shall maintain a perfect relationship with the contractual conditions and contain, in addition, an indication that the insurance purchase is the first absolute risk.

Art. 13. The insurance companies are exempted from submitting rates specification or statistical and pure premiums related to comprehensive guarantees A and B.

Art. 14. In cases of using differentiated premiums, the calculation criteria shall be specified.

Art. 15. It shall be established in a specific provision previously submitted to SUSEP, the way that full indemnity payments of vehicles subjected to liens, leasing, trust or other kinds of liens will be made.

Art. 16. Legal dispositions and regulations concerning property and car insurance shall apply to popular insurance for used vehicles supporting the provisions of this Circular.

Art. 17. The commercialization of popular insurance for used vehicles in violation of the provisions of this Circular shall subject the violator to legal measures and sanctions provided for in the regulations and norms in force.

Art. 18. The denomination "Popular Insurance" in the

commercialization of insurance for used vehicles that do not meet the provisions of this Circular is expressly forbidden.

Art. 19. This Circular shall enter into force on the date of its publication.

RENÉ GARCIA Jr.
Superintendent

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