Solid performance and good investment opportunities

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The financial hurricane that hit the insurance industry in Europe and the United States fortunately has not arrived in Brazil. The model of the Brazilian insurance market, which long has been criticized for being extremely conservative, suddenly, because of the crisis, became an example for regulators worldwide. The former "ugly duckling," according to Armando Vergílio, director of the Superintendence of Private Insurance (SUSEP) — the government agency that supervises the insurance market — is now cited as a model by regulators in countries like England and the United States. He says,

> "If the SUSEP has to intervene in any company in the coming months due to problems of solvency, it will not be because of crisis contagion but simply because of poor management. The slowdown of the economy since the end of last year is the main side effect of the crisis. Here in Brazil, it would never happen what happened with AIG in the United States. Indeed, the Brazilian AIG branch was very solvent."

According to the Superintendence's report released in February, for 2009, insurance premiums are projected to grow by 4.8%. For 2010 and 2011, the expectation is 12.1% and 10.5%, which means 7.3% and 5.8% real growth for the next two years. These projections are well below performance in the past two years. In 2007, the industry grew 17% and in 2008, even with the retraction in the last quarter, growth reached 15%.

Private pension plans

Also according to the report, in December 2008 the contributions of traditional plans were lower by 5% than in the previous year. The individual retirement management account (PGBL) showed growth of 11% and the life retirement management account (VGBL), 17%.[1] Withdrawals from VGBL grew 58%, and from PGBL 19%. Withdrawals as a share of insurance company reserves for December 2007–December 2008 increased from 6.99% to 7.12% for PGBL, and from 13.64% to 17.53% for VGBL.

In December last year, total technical provisioning of the market reached R$100.7 billion (US$50 billion), com-

pared to R$81.8 billion (US$40 billion) in 2007. Technical provisioning in private pension plans grew less, from R$63 billion (US$30 billion) in 2007 to R$70.5 billion (US$35 billion) in 2008. In the same period, claims remained virtually stable — 53.87% in 2007, 53.36% in 2008 — after recording a fall of 2 percentage points in 2006.

Contrary to what many had predicted, instead of contracting some insurance products showed expansion similar to normal years. Car insurance grew 15% in the first half of this year, and the life segment should end 2009 with something close to 7% growth.

These outcomes are no miracle. The measures adopted by the government, such as reduction of the IPI tax on cars, and improved purchasing power of the population in recent years despite the recent increase in unemployment, explain the good performance. Also, the public works of the government's Growth Acceleration Program (PAC) will ensure expansion of insurance guarantees for business contracts, which had not been much considered in 2008.

"I believe the economy is already showing signs of recovery. Because the insurance industry is very much tied to the performance of the economy, I believe that in 2010, the sector will be in full recovery," the superintendent of SUSEP states. The cautious optimism of Vergílio finds support among the executives of major insurance companies in Brazil. According to the group director-president of Bradesco Seguros e Previdência, Marco Antonio Rossi, several segments have been showing good performance since the beginning of this year. He believes Brazil has become one of the countries to invest in at this time.

"In some sectors, the scenarios are quite positive," Rossi said. "We see life insurance with good growth, health insurance also has presented good results, and car insurance has not been bad, as we had expected. For now, it is the private pension plans that have felt the impact of the financial crisis most. I consider this normal, because investors shy away in times like this. I think Brazil is now a great opportunity for those who want to invest. The country has a different scenario from other countries."

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Allianz Insurance, according to its president, Max Thierman, expects to grow above the market average in 2009, repeating the performance of the last five years. He sees as promising sectors like engineering, especially policies for new power plants, whether hydroelectric, wind, or other.

"Agribusiness remains the focus of our work," he added. "Insurance for sugarcane farms, sugar and alcohol plants, various crops, forests, and cultivated land are part of our portfolio, and we are investing to expand marketing of these products. We are also exploring new niche markets, launching products for film and entertainment productions. We insured the box office of Madonna's show, and recently the

two presentations of Andrea Bocelli in Rio and Sao Paulo."

Swiss Re, according to Cañado George, commercial director for Brazil and the Southern Cone, intends to keep its good position in specialized insurance, such as agribusiness, the maritime industry, and engineering. The company, which belongs to one of the largest groups in the world, is also attentive to the life and health segments, aiming to provide modern and efficient products.

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Reinsurance

Opened up for new companies in April last year, the reinsurance segment was caught in the middle of the of the international financial storm. Despite the difficulties, the results of the opening are considered a success. Of the 20 largest reinsurers in the world, 15 are already operating in Brazil. While some companies have postponed plans to enter the Brazilian market, Vergílio foresees that soon they will resume their projects. Accounting for only 4% of technical provisioning of the insurance sector, the segment is seen as having great potential for growth in coming years.

Eduardo Nakao, chairman of IRB-Brazil Re, says the company will be cautious now that the market is being affected by global economic crisis, especially with companies in the financial sector. Nakao advises policyholders to be very careful as they renew their high-value insurance contracts to avoid unpleasant surprises in the future.

"I hope that, because of the difficulties that are affecting primarily financial companies worldwide, at the time of renewal of insurance contracts of high value, policyholders show concern for obtaining full coverage as well as knowing the reinsurers of their insurance companies. At the same time, if current liquidity conditions continue without economic conditions recovering, IRB-Brazil Re as a reinsurer will be observing a conservative underwriting policy, requiring that insurance companies become more dynamic and aggressive in monitoring their risks and include restrictive clauses in their coverage," Nakao says.

[1] The PGBL and VGBL are private pension plans that do not have a minimum yield. Their main difference is different income tax treatment.