

FINANCE & ADMINISTRATIVE

HOW TO UNDERSTAND INSURANCE IN BRAZIL

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ACKNOWLEDGMENTS



The American Chamber of Commerce for Brazil is the largest Amcham outside of the United States, and it is constantly working to serve its members through building bridges for Brazilian companies worldwide. Our efforts to attract foreign investment have also been a key point for Amcham. The “How To” series is part of this initiative. With the support of some of our corporate members, we are compiling strategic information about a variety of aspects of doing business in Brazil. As one of the BRICS countries (Brazil, Russia, India, China and South Africa) and representing the 7th largest economy in the world, which is also the 5th biggest destination for foreign investment, Brazil has clearly demonstrated its importance in the global market. Furthermore, the middle and upper classes are growing, which creates a solid internal market and contributes to maintaining the economy’s positive results. Now more than ever, this is a strategic moment for business opportunities in Brazil. We welcome you and hope the information you are about to read serves you best.

A handwritten signature in black ink, appearing to read 'Gabriel Rico'.

Gabriel Rico - CEO, Amcham Brazil



No matter how an investor or interested foreigner sees the insurance market in Brazil, the conclusion is that the industry is currently experiencing the most prosperous moment in its history. This is why it is the perfect time to release the introductory guide to the insurance market written by GRUPO SEGURADOR BANCO DO BRASIL E MAPFRE in partnership with the American Chamber of Commerce for Brazil. The insurance market has been growing in the double digits since 2000, accompanied by a constant improvement of its practices, which are in line with the most developed markets in the world. Companies and clients are also sophisticating supply and demand. This shift has made the sector increasingly focus on innovation and technology, which has led to a specialized market that certainly deserves the attention of anyone in the world interested in investing in Brazil. To them, we offer this amazing point of access to the industry, our introductory guide to the insurance market.

A handwritten signature in black ink, appearing to read 'Marcos Ferreira'.

Marcos Ferreira - President, GRUPO SEGURADOR BANCO DO BRASIL E MAPFRE in the Automotive, General Assurance and Affinities departments.

American Chamber of Commerce for Brazil - AMCHAM
International Affairs Department
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*This guide is part of the project  **HOW TO DO BUSINESS AND INVEST IN BRAZIL**



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01.

INTRODUCTION TO THE BRAZILIAN NATIONAL PRIVATE INSURANCE SYSTEM

This is a basic guide on the Brazilian insurance market and the regulatory principles in this industry. For specific information, please, contact a specialist.



Source: Shutterstock

The National Private Insurance System in Brazil was created by Law-Decree No. 73/66, and is made up of:

- The National Private Insurance Council (CNSP), which reports to the Ministry of Finance;

- The Superintendent's Office for Private Insurance (SUSEP), which reports to the Ministry of Finance; and

- The reinsurers, insurance companies, insurance brokers, reinsurance brokers, wealth accumulation

companies and open entities for supplementary retirement plans.

The Brazilian insurance market is a regulated market that follows the norms and guidelines established by CNSP for performing insurance, reinsurance and wealth accumulation activities, providing open supplementary retirement plans, and insurance and reinsurance brokerage.

SUSEP is responsible for regulating the norms established by CNSP, monitoring the private insurance market and authorizing the operations of companies that work with insurance, reinsurance, wealth accumulation, open supplementary retirement plans, and brokerage. It is also responsible for applying sanctions to entities that do not follow the applicable insurance legislation and regulations.

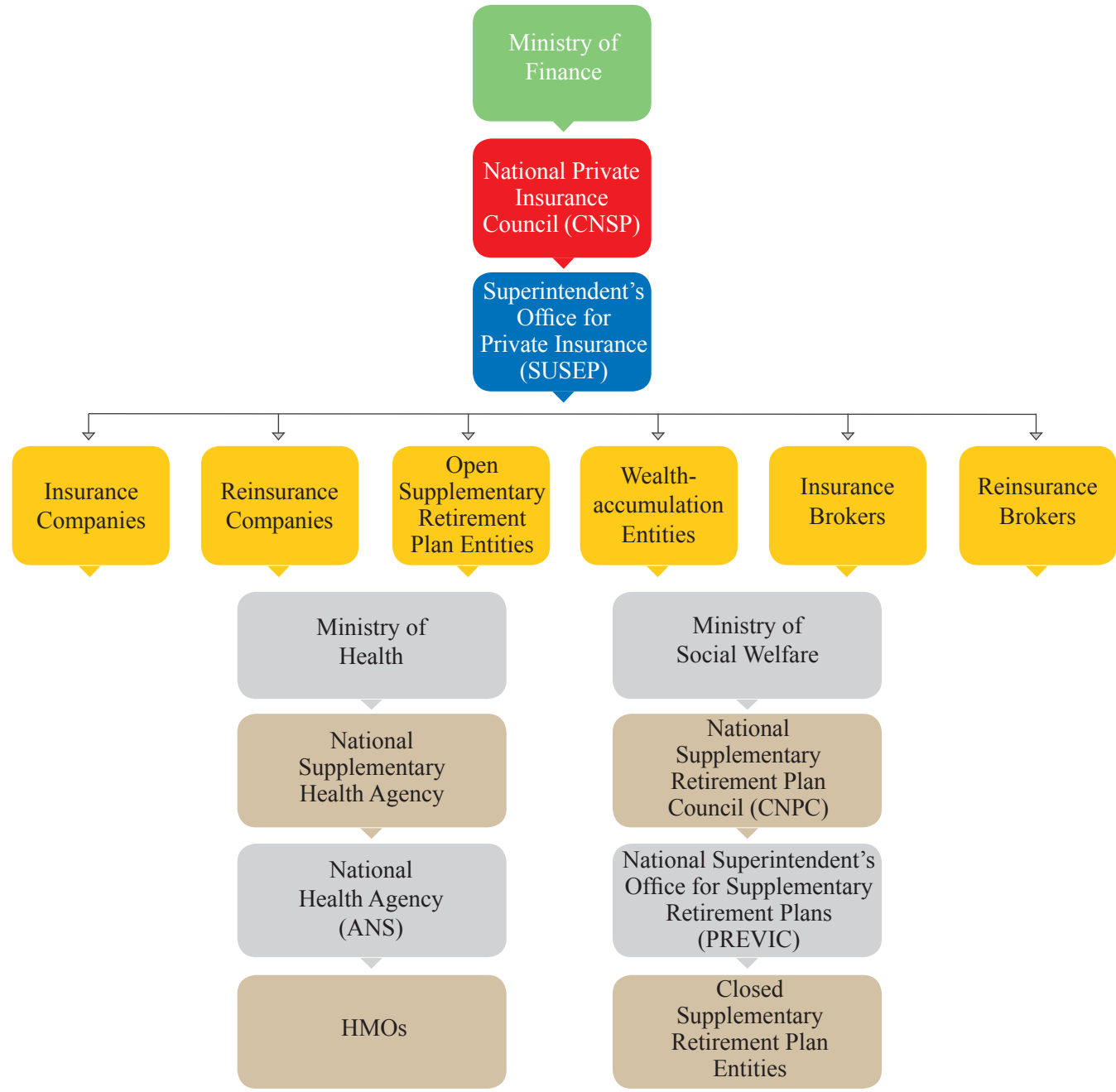
The private health system in Brazil, including specialized insurance companies, is regulated by the National

Supplementary Health Agency. It is separate from the National Private Insurance System.

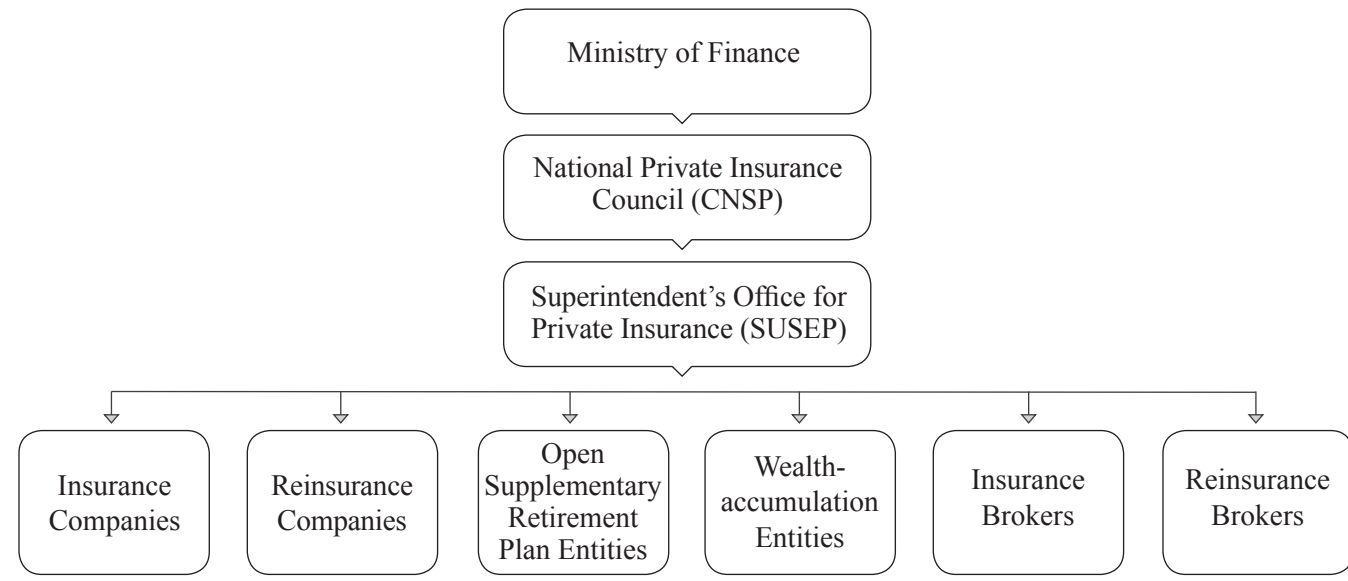
In Brazil, there is a public healthcare system and a private healthcare system. Through the SUS (Unified Healthcare System), the public healthcare system ensures that all citizens have the right to free healthcare (including individuals who can afford the private system), because the public healthcare system in Brazil is based on the principles of universality.

Closed supplementary retirement plan entities are regulated by the National Supplementary Retirement Plan Council (CNPC) and the National Superintendent's Office for Supplementary Retirement Plans (PREVIC). PREVIC is tasked with regulating the norms established by CNPC, monitoring the closed supplementary insurance market, authorizing the creation of closed supplementary retirement plan entities and their plans, and enforcing the applicable sanctions, whenever necessary.

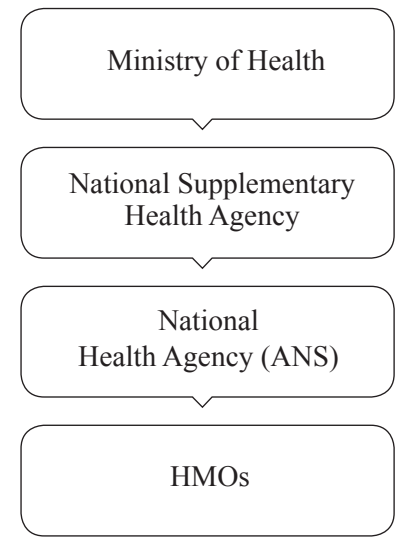
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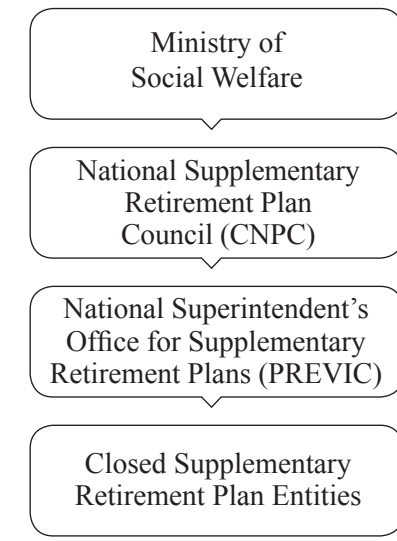
ORGANIZATIONAL CHART OF THE NATIONAL SYSTEM OF PRIVATE INSURANCE



ORGANIZATIONAL CHART FOR THE PRIVATE HEALTHCARE SYSTEM IN BRAZIL



ORGANIZATIONAL CHART FOR THE PRIVATE RETIREMENT PLAN



02.

TYPES OF INSURANCE



The Brazilian Civil Code classifies insurance into two categories: non-life (damages) and life (individuals), which is in line with what is found in most classifications in other insurance markets. It is important to note that personal accident insurance, unlike the classifications found in some countries, is classified as personal insurance.

In addition to the classification found in the Brazilian Civil Code, SUSEP regulations establish a detailed

classification of insurance groups based on the type of risk being insured. For example: for assets, automotive, transportation, etc. Furthermore, there are subdivisions in each group, depending on the coverage offered for each type of risk. Examples include:

- Assets – compensation for damages caused to assets that belong to the insured party and/or third parties, according to the insurable interest. Some examples are: insurance for theft,

comprehensive business insurance, engineering risks, and real estate.

- Special risks – risks which, due to certain specific characteristics, require special coverage outside of what is covered in other groups. This group includes insurance for oil risks, nuclear risks, and satellites.

- Liabilities – this group includes risks arising from civil liability. The subdivisions in this group vary according to the nature of the civil liability, which are classified as: directors' and officers' civil liability – D&O, civil liability due to environmental risk, general civil liability, and professional civil liability.

- Automotive – this type of insurance offers coverage against risks related to motor vehicle accidents, such as damages to structures, optional motor vehicle civil liability (RCFV), the mandatory DPVAT (Insurance for Personal Injury Caused by Ground Motor Vehicles) insurance, car accidents in other Mercosur countries (known as “green card” insurance), etc.

- Transportation – related to the carrier's civil liability, which varies according to the transportation method being used, such as: civil liability for air cargo carriers (RCTA-C), civil liability for rail cargo carriers (RCTF-C) and civil liability for ground cargo carriers (RCTR-C).

- Financial risk – the insurance in this group aims to protect policyholders in the case of breach of contract for a variety of documents, such as leasing contracts, loans, etc. Some branches in

this group are: rent guarantee insurance, export credits, internal credit, stop loss, completion bond – public and private sector.

- Group insurance – aims to safeguard a group of policyholders that are exposed to a common risk. This group includes: group life insurance, funeral assistance, personal accidents, and critical or terminal illnesses.

- Individual personal insurance – meant to safeguard one individual. This group includes: funeral assistance, personal accidents, and critical or terminal illnesses.

- Homeowner's insurance – aims to protect policyholders in the case of a circumstance that does not allow them to perform mortgage payments, such as death or permanent disability. This group includes: homeowner's insurance in market policies (moneylender) and homeowner's insurance in market policies for other coverage in the housing finance system.

- Rural – insurance for risks related to agriculture, livestock and other farming activities, such as, animal insurance, agricultural insurance, insurance for machines and improvements, livestock insurance, and rural lien, among others.

- Marine – includes insurance related to naval activities, such as civil liability for vessels and hulls, and comprehensive insurance for port operators.

- Aviation – includes insurance related to aeronautical activities, such as optional civil

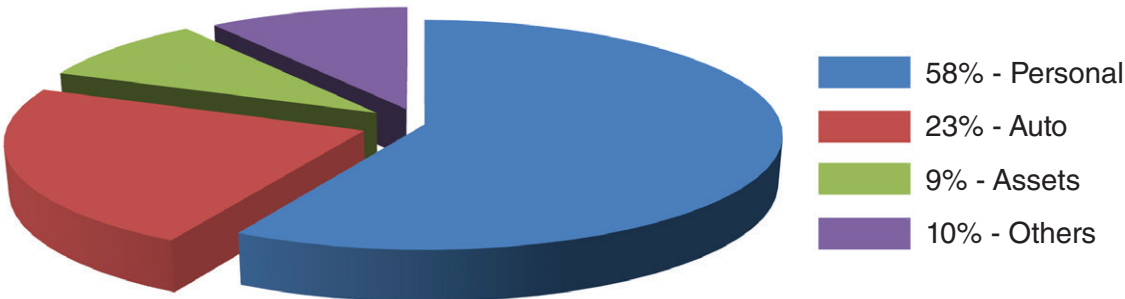
liability for aircrafts (RCF), operator's or air carrier's liability (RETA), and hangar civil liability.

- Microinsurance – microinsurance for individuals, damages, and retirement plans.

- Others – includes all other insurance that was not mentioned, such as overseas insurance.

In terms of premium collection, the largest group is personal insurance:

MAIN GROUPS – DIRECT PREMIUM/COMPARISON



Information from 2012 - Source: <http://www.susep.gov.br/menu/estatisticas-do-mercado/boletins-estatisticos>.
The data varies according to the year/period which the information was collected.

STANDARD AND NON-STANDARD INSURANCE

Insurance companies may opt to use the standard contractual conditions created by SUSEP or create their own contractual conditions. However, they must always observe the minimum requirements defined in the regulations, in which certain aspects vary according to the type of insurance.

In terms of mandatory insurance, companies are required to use the standard conditions defined in the regulations; only occasional alterations that expand policyholders' rights are allowed.

Regardless of whether or not the insurance company chooses to follow the standard conditions, before a new product may be sold, the contractual conditions and

technical notes must be filed with SUSEP. Furthermore, any amendments or adaptations to the contractual conditions must also be filed with SUSEP before the product be marketed.

The insurance with standard definitions set forth in the regulations are: completion bonds, general civil liability insurance, optional civil liability for the disappearance of ground transportation cargo (RCF-DC), civil liability insurance for multimodal load carriers (RCOTM-C), transportation insurance, rent guarantee insurance, agricultural insurance for general and special conditions, comprehensive insurance, rural lien, used-car insurance, port operator insurance, and forest insurance.

A common practice used by insurance companies is to create insurance products for certain common risks, such as auto insurance. The contractual conditions are basically the same for all policyholders of that type of insurance.

03.

MANDATORY INSURANCE IN BRAZIL



Source: Shutterstock

The current Brazilian legislation, through Law-Decree No. 73/66 and Decree No. 61.867/67, without affecting what is included in other laws, establishes mandatory types of insurance coverage for certain sectors and

situations. Although these decrees are out of date, they are still in effect. Below is a list of the mandatory insurance included in these norms:

TYPES OF INSURANCE	WHO MUST OBTAIN THE POLICY
Personal injury to passengers on commercial aircrafts	Airline companies
Civil liability of aircraft owners and air carriers	Airline companies
Civil liability of general contractors in urban zones for personal injury or property damage	General contractors
Assets pledged as collateral for loans or financing from public financial institutions	Public financial institutions
Guarantee of compliance with the obligations of the real estate developer and general contractor	Real estate developers and general contractors
Guarantee of payment to construction borrower, including real estate obligations	Real estate buyers
Physical damage to shared buildings in individual units	Real estate owners
Fire damage to assets belonging to legal entities	Asset owners
Transportation of assets belonging to legal entities located in the country or transported within	Transportation companies
Export credits	Export companies
Personal injury caused by vehicles, ships or their loads, to anyone who is (or is not) being transported	Vehicle or vessel owners
Civil liability of ground, maritime, waterway and lake transporters for damages to transported cargo	Transportation companies
Rural insurance	Agricultural Producers (rural cooperatives and individuals or legal entities that perform agricultural or livestock activities)

Source: SUSEP

In addition to the insurance required by federal law, there is insurance mandated by special legislations, such as mandatory insurance that mortgage holders must generally obtain in the Real Estate Financial System for coverage against risks of death or permanent disability. Furthermore, in the Housing Financial System, in addition to mandatory insurance against risks of death or permanent disability, the borrower must obtain mandatory insurance against physical damages to the real estate property.

Some municipal and state laws require insurance. Depending on where the individual or legal entity is located and what activity they perform in Brazil, they

will be subject to other types of mandatory insurance, in addition to those mentioned above.

PENALTIES FOR NOT OBTAINING MANDATORY INSURANCE

The legislation includes penalties for individuals and/or companies that do not obtain the mandatory insurance.

Such individuals and/or companies will not be allowed to perform active credit operations with public financial institutions and may be fined a specific amount for not obtaining it.

04.

OBTAINING INSURANCE IN BRAZIL



Source: Shutterstock

According to the current Brazilian legislation, as a rule, the types of insurance that must be obtained in Brazilian territory by individuals or legal entities domiciled in the country for risks located in Brazil are:

- Mandatory insurance; and
- Optional insurance.

However, there are some exceptions. There are some cases in which individuals or legal entities domiciled in Brazil are allowed to contract overseas insurance, which are:

- For risk coverage that is not offered in Brazil, as long as such does not breach the country's applicable legislation;

- For risk coverage abroad when the policyholder is Brazilian and a resident, when the applicability of the insurance is exclusively restricted to the period in which the policyholder is abroad;
- Insurance in international agreements countersigned by the National Congress; and
- Insurance overseas obtained, in accordance with the current national legislation, before the publication of Complementary Law No. 126/07.

In addition, legal entities may obtain overseas insurance for risk coverage outside of the country, as long as they follow the SUSEP norms issued on the subject.

Insurance in Brazil is normally obtained indirectly through an insurance broker. However, such may also be done directly.

When obtaining insurance directly, a policyholder is in contact with the insurance company. When such is done indirectly, the policyholder obtains insurance through a broker, individual, legal entity or agent, who will help the policyholder choose the coverage and conditions of the insurance, ensuring that they are obtaining the best insurance for their needs.

Even if insurance is obtained directly, without the assistance of a broker, the amount equivalent to a brokerage fee will

be collected by the Insurance Educational Development Fund, run by the National Insurance School Foundation (FUNENSEG).

Purchasing insurance directly also gives the policyholder the option of obtaining insurance through an insurance company representative. This must be a legal entity that has the power to offer and market insurance plans, receive proposals, notifications of incidents, and pay indemnities, among other things, as defined in their representation contract with the insurance company.

INSURANCE BROKERS

The insurance broker is one of the participants in the National Private Insurance System, which is subject to the regulation applicable to the sector. This means that CNSP and SUSEP are responsible for regulating the insurance sector in general, establishing norms that must be followed and observed by all participants in the National Private Insurance System, including brokers.

An insurance broker may be either an individual or a legal entity. They are the intermediaries who are legally authorized to promote insurance contacts between insurance companies and legal entities or individuals. The insurance brokerage profession requires previous training and registration.



Source: Shutterstock

Another common figure in selling insurance plans is the third-party representative, who may also act as an insurance broker. In third-party beneficiary insurance contracts, an individual or legal entity obtains a collective insurance policy for a group they are somehow linked to. They must have the option of joining the policy, and must follow a series of obligations and prohibitions defined in the regulations, with the purpose of ensuring the policyholders' rights, such as the prohibition of terminating the third-party beneficiary contract without prior and express consent from at least three fourths of the insured group.

Acting as a third-party representative or sub-representative of insurance brokers is restricted to partners, directors, managers, employees, agents or representatives of insurance brokerage companies; and directors, managers, employees, agents or representatives of insurance companies, except in the case of employers who provide third-party insurance to their employees.

Insurance plans obtained by third-party representatives may be contributory, when policyholders pay for all or part of the premium; or non-contributory, when the third-party representative pays for 100% of the premium.

05.

REINSURANCE



Source: Shutterstock

Until 2007, reinsurance in Brazil had been exclusively performed by IRB Brasil Resseguros S.A. With Complementary Law No. 126/07, the aforementioned monopoly was ended, and the reinsurance market was opened to all interested national and foreign companies.

The current legislation allows the performance of reinsurers domiciled in Brazil or abroad, as long as their operations have been previously authorized by the regulatory agency. Reinsurers located in Brazil are established as local reinsurers, while foreign entities may obtain authorization to operate as admitted or occasional reinsurers.

A local reinsurer is a company incorporated according to the Brazilian laws, based in the country, which exclusively focuses on performing reinsurance and retrocession

activities. The rules for insurance companies are also applicable to local reinsurers, including intervention and liquidation (except those that do not apply due to specific technical, contractual, operational and risk characteristics of the reinsurance activity).

An admitted reinsurer is a foreign reinsurer that meets the requirements of the Brazilian regulator, has an office in Brazil, and is authorized by SUSEP to perform reinsurance and retrocession operations in the country.

An occasional reinsurer is a foreign reinsurer that meets the requirements of the Brazilian regulator, does not have an office in Brazil, and is authorized by SUSEP to perform reinsurance and retrocession operations in the country. Occasional reinsurers cannot be based in the countries considered tax havens.

06.

ABOUT OUR SPONSOR

In order to better serve each of our clients, Banco do Brasil and MAPFRE formed a strategic alliance that preserves the strength of the two brands and brings together the best qualities of each company to generate more intelligent benefits and products. Together, GRUPO SEGURADOR BANCO DO BRASIL and MAPFRE mean a larger scope, higher service capacity, and more choices of products.

As the largest insurance group in the sector in which it operates, BB E MAPFRE has gained prominence for its ample and diversified service network, with the largest scope in the country. It has 127 branches, the best network of providers in Brazil, and over 160,000 points of sale, including banking agencies, brokers, and affinity channels.

The network has over 6,000 employees and exclusive customer service centers, which are constantly working to maintain good relationships with clients, third parties and brokers.

GRUPO BB E MAPFRE holds first place in the premiums market, with a 17% market share. It ranks first in Life and Rural Insurance.

Working with efficient management and positive operational performance, the company cares for and protects its 36 million clients, who have access to the largest insurance portfolio.

In addition to fulfilling its role protecting people and companies in their daily routines, GRUPO BB E MAPFRE also makes sure to participate in building a better future. Constant investments in reviewing processes, developing initiatives, and communicating with a variety of stakeholders, is the best way to ensure the development of a socio-environmental culture that protects the environment, the Brazilian society and businesses, while also creating value. By investing in innovation, it plays a part in building a future in which social, cultural and environmental development is available to all.

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