

## Microinsurance in Brazil: Current Situation and Outlook

**Autoria:** Valentin Vidal, Lauro Gonzalez

Summary-Microfinance is defined as the supply of financial services and products to poor people, such as money transfers, loans, savings and insurance on a sustainable way, that is, by incorporating these services and products into the business. Innovation remains the main tool for achieving that. In this sense, much have been said about microcredit and its innovations, however there is a lack of formal studies related to microinsurance. This research attempts to fill this gap with an specific focus on the Brazilian case. The main objective of the research is to is evaluate the current situation and outlook of microinsurance in Brazil. From the theoretical point of view, there are many empirical factors that lead to market failures that constrain the access of the poor to financial services. The main source of these failures is related to the problem of incomplete markets. Poor people have limited access to credit and insurance markets due to asymmetric information and the lack of collateral. In order to deal with incomplete markets, low-income households attempt to mitigate their risk in two ways. First, they may prevent themselves *ex-ante* by investing in low risk activities and/or diversifying their investments. Second, to reduce the variability of income *ex-post* they can borrow from informal lenders or depleting their assets after a negative shock. Although these strategies help deprived households to alleviate the impacts of an adverse shock to a certain extent, they constitute clearly imperfect risk management instruments and consumption tends to be preserved at the expenses of cutting important investments, such as children education. Microinsurance is an attempt to offer a more efficient mechanism for dealing with risk, mainly based on innovative business models. The data collection has been realized during interviews and meetings with Bradesco and SUSEP staff members, whose positions within the company/institution are strategic and decisive as far as microinsurance operations are concerned. The reason for interviewing a small number of people is related to the fact that microinsurance is recent and so far a very limited number of people works directly in the area. The main findings of the empirical investigation point out the importance of market-driven solutions, which means adapted to client needs and expectations. In addition, the products have to cover basic needs and to be easily understandable and affordable. The payout application process has to be simple and quick, especially for households living in remote communities. Innovation must play a major role by building new approaches instead of replicating already existing business models. In this case, Brazil has a comparative advantage related the existent banking correspondents' network that could be use for microinsurance expansion throughout the country.

## Introduction

Financial inclusion has been the *leitmotiv* of microfinance throughout the world for over 30 years now (Isern and de Koker, 2009). Building inclusive financial systems was even part of the goals set up by the United Nations. Microfinance is defined as the supply of financial services to poor people, such as money transfers, loans, savings and insurance on a sustainable way. In this sense, it departs from the concept of charity or social transfers since the services should be part of the regular business models. The challenge is how to innovate in order to perform this services and preserve economic results. Worldwide microfinance figures represents US\$ 25 billion in credits, reaching 100 million people. Despite of that, supply lags behind potential demand which is currently estimated at 1 billion people (Cull R., Kunt A., Morduch J., 2009).

Much have been said about microcredit, however there is a lack of formal studies related to microinsurance. This research attempts to fill this gap by focusing the Brazilian case. More specifically the main objective of the research is to evaluate the current situation and outlook of microinsurance in Brazil. The main motivation for the article came from the potential contribution of microinsurance to the reduction of poverty in Brazil.

Microinsurance concept came out with a single purpose of reducing risks that poor people have to face on a daily basis. Risk is defined as “the chance of a loss or the loss itself.” According to Latortue (2008), there are over 2 billion people without any kind of formal and regulated social security protection. Yet, for many reasons, populations belonging to the bottom of the pyramid are the most likely to face a situation of emergency or any economic. Following Churchill (2006), in this paper microinsurance will be defined as the protection of low-income people against specific perils in exchange for regular monetary payments (premiums) proportionate to the likelihood and cost of the risk involved.

Worldwide, most microinsurance products are related to health, accidental death, accidental disability, life and property (Tomchinsky, 2009). Nowadays, over 78 million low-income people in the 100 poorest countries are accessing microinsurance in some way, whether it is institutionalized or totally informal (McCord J. Michael 2008). Even if this field is still at an experimental stage, the challenge of this product is very clear: to find the right balance between adequate protection and affordability.

## 2. THEORETICAL APPROACH OF MICROINSURANCE

According to the fundamental welfare theorems, under a set of assumptions there is a clear correspondence between efficiency and maximization of welfare (Varian, 1992). In fact, it can be shown that a competitive equilibrium warrants the maximization of welfare as long as the agents maximize utility taking the equilibrium price vector as given. The second welfare theorem goes further by showing that in this setting there is not a trade-off between equity and efficiency since prices are distributive neutrals.

Unfortunately, the real world presents some features that challenge the assumptions that support the welfare theorems. In other words, there are many empirical factors that lead to market failures. The main source of these failures is related to the problem of incomplete markets (or missing market). Poor people have limited access to credit and insurance markets due to asymmetric information and the lack of collateral. Stiglitz and Weiss (1981) show that the adverse selection problem can be a plausible explanation for the lack of credit markets. Udry (1990 and 1994), on the other hand, shows that under certain circumstances, households stress informal mechanisms of risk pooling.

In addition, it seems that incomplete markets help to explain the transitory poverty and, to some extent, the incidence of poverty. Morduch(1994, p.221) points out three factors that could explain the incidence of poverty in low developed countries: (1) weather and price variability; (2) lack of financial institutions; and (3) weakness of social insurance.

While price variability and weather are completely out of control for the households, the lack of credit and insurance markets can be imperfectly substituted by social arrangements and informal institutions (Morduch, 1995; Udry, 1990). In other words, the income variability is partially mitigated and not entirely translated into consumption variability. In fact, many times at particular situations vulnerable households succeed in adopting ways of risk pooling idiosyncratic shocks and smooth consumption over time (Udry, 1994 and Park, 2006).

In order to deal with incomplete markets, low-income households attempt to mitigate their risk in two ways. First, they may prevent themselves *ex-ante* by investing in low risk activities and/or diversifying their investments. Second, to reduce the variability of income *ex-post* they can borrow from informal lenders or depleting their assets after a negative shock. Although these strategies help deprived households to alleviate the impacts of an adverse shock to a certain extent, they constitute clearly imperfect risk management instruments and consumption tends to be preserved at the expenses of cutting important investments, such as children education (Rose, 1999).

The diversification of activities and the adoption of low-risk projects imply low return to the invested capital invested (Morduch, 1995). For this reason, there is a permanent trade-off faced by the poor since balancing risks reduces the expected profit. It could be also argued that it might increase the household's rate of time preference and partially explain why poor households hardly succeed to escape of poverty trap.

On the other hand, consumption smoothing could be interesting for the poor as long as there were credit markets available. The asymmetric information problems (screening, enforcement and monitoring) and the lack of collateral may lead the poor to the informal lenders, whose excessive interest rates may intensify vulnerability instead of reducing it. In addition, when credit market is not complete, the decisions of production and consumption cannot be disentangled from each other since the optimal level of consumption becomes a fraction of total production. It can be shown that the utility level of households is lower than it could be under perfect credit market (see Gravelle and Rees, 2004, ch.11; see Morduch, 2002 for an application) and the separate decisions do not hold anymore.

In order to circumvent the informational problems MFI's have innovated in many ways. The most famous one is the use of arrangements of individuals without collateral who get together and form groups with the aim of obtaining loans, the so-called group lending method which has become a synonymous with microfinance. Another relevant innovation is the use of credit agents, who play a similar role of relationship managers in the traditional banks, that is, prospecting, approving and monitoring clients etc. In addition, credit agents are characterized by a physical proximity and a close link with community where clients live. Therefore, microfinance has been seen as a way of breaking the poverty circle through a set of innovations that allows a market solution for low access and use of financial services by the poor (see Morduch, 1999 for a detailed description of these innovations).

### 3. Microinsurance in Brazil

It does not make sense to talk about microinsurance in Brazil without mentioning the work done by SUSEP, the Superintendence of Private Insurers, through the work done by the Microinsurance Commission formed in 2007. The scope of this group was to gather experts of various fields, all related to financial inclusion. There were policy makers, representatives of the insurance sector in Brazil, but also faculty researchers. Their first mission was to define the low-income market and microinsurance, as well as the potential limits to its development, even if apparently, according to them, the legal framework in Brazil was quite flexible and ready to embrace microinsurance, without any major legal reform (Qureshi and Reinard, 2009). However, to the date of writing, there is not a formal regulation specifically approved for microinsurance. In September 2008, SUSEP officially defined “microinsurance” and “low-income population” for microinsurance purposes in Brazil as following:

*“Microinsurance is the insurance protection provided by licensed entities within the country against specific risks which aims fundamentally to preserve the socio-economic and personal and family situation of the low-income population by means of premium payments which are proportional to the probability and cost of risks involved, in accordance with the legislation and globally accepted insurance principles.”*

Besides, in November 2008, SUSEP submitted its conclusions about the identification of regulatory barriers. They revealed that no special regulatory barriers were found and that the legislation was considered as flexible and ready to regulate microinsurance activities within the scope of SUSEP. On the contrary, Brazil is one of the only countries where an IMF or other entities can act as an insurance provider, which facilitates the promotion of microinsurance schemes. In the same extent, as an emerging country, Brazil has a relatively well-developed financial system but it needs to offer more services towards the poor households (Neri, 2009).

On top of that, there is need to differentiate the concept of popular insurance from microinsurance. Popular insurance refers to any products involving low premiums aimed at any customer, while microinsurance is specifically designed for low-income households (SUSEP October 2008/2 Relatório).

The following parameters were identified by SUSEP and revealed to stakeholders in August 2009: the terms of the insurance contract have to allow flexibility and promote the insurance culture. In the same way, reduced time limits or claim payments have to be introduced as well as specific licenses for insurers to sell microinsurance products and the creation of a microinsurance broker. The creation of a microinsurance correspondent was also highly recommended in order to regulate the relationships between insurers, insurance companies, customers and intermediaries.

According to Neri (2009), approximately 17% of the Brazilian population has access to private insurance, health insurance is at the top as the most used (12,9% of population), followed by life insurance (4,3%) and car insurance (2,9%). In 2008 an average Brazilian (above 15 years old) spent 23,96 BRL per month in insurance, 16,79 BRL being used for health insurance or the so-called “plano de saúde”, 3,22 BRL attributed to the car insurance and 2,17 BRL for the life insurance.

Those figures proved one important fact: more than 70% of insurance products are health oriented. As far as the classes C, D and E are concerned, they represent about 85% of the total population and only 10,78% of those households had access to insurance spending on average 8,56 BRL per month and per person. Those figures keep decreasing when examining the poorest households; as a matter of fact, 8,45% of

the households whose per capita income is equal or less than two minimum salaries have access to insurance and this number goes down to only 5,1% for the households having a per capita income equal or smaller than one minimum salary (Neri, 2009). Furthermore, Datafolha Instituto de Pesquisas conducted 428 interviews in the states of São Paulo and Rio de Janeiro and 53% of the total sample liked/approved the microinsurance concept. The most receptive being women living in São Paulo having between 18 and 34 years old with a monthly salary below 2 minimum wages, mainly interested in health schemes (Datafolha Instituto de Pesquisas, 2009). The least receptive are men from Rio de Janeiro, with over 55 years old and 2 minimum wages. Nevertheless, the perception of life or funeral insurance is very bad as people would rather think about life than death, which is why the challenge in this case is to convert potential demand into actual usage. On top of that, the individuals skeptical to this product use the following reasons: Those factors also apply to microinsurance: thus, 5, 24% of the individuals with less than 3 years of education have access to microinsurance products, while 34,87% of people having more than 3 years of education use that kind of schemes. In the same way, men (12, 63%) tend to have more access than women (8, 93%) to microinsurance.

One product that has been very popular within the lower income segment of the population during the last 20 years is called PASI (Plano de Amparo Social Imediato). Currently, it reaches around 2 million people. To benefitiate from this product, groups have to be formed in order to pay a monthly premium of US\$ 15. This scheme is very complete as it offers guarantees to workers' relatives and includes an alimentary help and funeral service.

In Brazil, there are about 30 million union workers and within this segment, (full and part time) there could have 90 million insured people if we extend this to workers relatives, subscribing to the PASI scheme (Galiza, 2009). This would amount to an annual revenue of BRL 5 billion. reais, if we use a 5 BRL monthly premium. Considering that most of the workers using the PASI product pay a 15 BRL monthly premium, this figure could be tripled.

As far as distribution channels are concerned, there is potential synergy between microcredit and microinsurance. For instance, microcredit agents could be used to distribute insurance, taking advantage of the social networks in order to reduce transaction costs (Gonzalez, Piza e Garcia 2009).. , thanks to close and long-term relationships that make the customer feel secure and willing to keep using MFIs services.of in promoting those schemes by using the concept of proximity finance The objective of this concept is to use

Another potential synergy is related to the banking correspondents' network. Banking correspondents are non-bank institutions that are allowed to supply financial services for specific banks. Lotteries, drugstores, groceries are concrete examples. Brazil has more than 150 000 correspondents (Diniz and Jayo, 2009) meaning that the network is more than 5 times as big as the traditional bank branches. In addition, correspondents are the main channel used by poor households, especially those in rural areas and the outskirts of big urban cities. Therefore, there is room for expanding the use of correspondents for distributing insurance products specially designed for the poor.

#### **4. Methodology and Data Collection**

Two methods are traditiionally used when one wants to lead a research: the qualitative one and the quantitative one. While the quantitative approach is based on *“observations that are converted into discrete units that can be compared to other*

*units by using statistical analysis”, qualitative approach “generally examines people’s words and actions in narrative or descriptive ways more closely representing the situation as experienced by the participants” (Welch. and Piekkari. 2005). Thus, the main difference between the two approaches is that the quantitative one is based on numbers and figures, while the qualitative way deals with non-numeric data, that-is-to-say words (Schwandt, 2007).*

That is the reason why some challenge the reliability of qualitative data even if it has been proved that the interpretivist paradigm offers various methods in order to assess the truthworthiness of such data, like triangulation or structural corroboration for instance (Daniel and Onwuegbuzie, 2002). According to Onwuegbuzie, there are 24 techniques to assess the dependability or reliability of qualitative data extracted. However, some experts even assert that the term “reliability” should not be used when it comes to discuss the qualitative method.

In this study, the qualitative method seemed more appropriate as the goal is to better understand the way microinsurance has been adapted to the Brazilian insurance and banking environment. The overall purpose was to discover the perception, the point of view of a significant player on microinsurance products in Brazil. In this fashion, the general questions addressed were how to adapt this new type of services to the existant market? What are the limits, the difficulties encountered in the implementation of microinsurance? And what are the perspectives for the future?

Furthermore, qualitative method offers a number of advantages when one wants to lead a study in an international business environment (Welch. and Piekkari. 2005) :

- It enables a more accurate cross-cultural understanding of the topic and the researcher is less likely to follow cultural and ethnocentric assumptions.
- Besides, a qualitative approach is more suitable to developing countries as some relevant data may lack.
- In the same extent, that kind of method is particularly suited to Latin-American cultures, where personal relationships and face-to-face contacts are common features.
- Finally, it is a great way to identify complex issues, related to cultural traits and customs, that would not appear in numerical data.

According to Robert Stake, a case study “is expected to catch the complexity of a single case. One studies a case when itself is of very special interest. We look for the detail of interaction within its contexts”(Stake Robert E. 1995). This last sentence is quite representative of the objective of this work; as a matter of fact, the case study methodology was used to clarify the application of microinsurance within particular circumstances: the Brazilian environment.

When using a case study, one always looks for both the uniqueness and the commonality of the case chosen (Stake Robert E. 1995 p.16). Moreover, this method also aims at learning, understanding but also putting aside any pre-assumptions we might have. On top of that, the use of the case study seems relevant as it is particularly well-suited to any new areas of research, which is the case here, since microinsurance is fairly new in the academic research world. Furthermore, this research led on microinsurance deals with a contemporary phenomenon which justifies even more the use of this methodology since the data extracted does not belong to a “dead past”.

The data collection has been realized during interviews and meetings with Bradesco and SUSEP staff members, whose positions within the company/institution, are strategic and decisive as far as microinsurance operations are concerned. Three individuals were interviewed, two from Bradesco and one from the SUSEP. The

reason for interviewing a small number of people is related to the fact that microinsurance is quite recent and so far a very limited number of persons works directly in the area, being able to contribute for the discussion.

The interviews realized have been an opportunity to access a broader perspective from inside players. Various types of interviews are at our disposal: very structured interviews or open-ended interviews, where the questions enable to start the discussion and to support it. As for this paper, it was used a mixed strategy. There was a structured questionnaire but it has been a tool to open the discussion on other issues, depending on the on-going of the interviews.

Bradesco is the second biggest bank in Brazil. The insurance services are performed by two divisions, namely Bradesco Seguro e Previdencias and Bradesco Auto/RE, reaching over 36 million individuals. Since there was no relevant acquisition to be made, Bradesco decided to enlarge their customer base to clients receiving lower incomes. On top of that, it was an opportunity to use their geographical coverage to develop synergies, by using its bank agencies to market insurance products, and thus to enjoy economies of scale. In 2009, the bank led a study to launch a popular insurance and realized that many potential customers from the C and D social classes already used that kind of schemes, through cooperatives for instance, or being included into family plans, mainly based in the North East region.

By reaching individuals belonging to the D and E social classes, Bradesco is hoping part of those clients will reach the C social class and will be able to buy more profitable insurance products. Attending those clients now is a way to obtain their future loyalty when their purchasing power will be higher.

Currently, the main insurance scheme that can be assimilated to microinsurance is named Primeira Proteção Bradesco, was launched in January 2010 and has now over 560 000 clients. It offers a 20 000 BRL protection with a 3,50 BRL monthly premium and has a termination rate 25% lower than traditional schemes; this can be explained by the fact that when low-income individuals acquire a new service, to stop using it tends to be perceived as a failure, a regression in their social status. It covers accidental death, which is more adapted to poor communities since urban violence is more present in the “favelas” than in wealthy neighborhoods. Nowadays, Bradesco’s objective is to insure at least one family in every municipality of the country.

## 5. Analysis and interpretation

The analysis and interpretation of the data followed the multi level framework elaborated by Pozzebon, Diniz, Jayo (2009). The first level is comprised by the interpretive frames, meaning the interests, expectations and assumptions that individuals might have as far as the implementation of a methodology is concerned. In this respect, the following question was asked: *what are microinsurance key-success-factors in Brazil?*

For Bradesco, the 3 Key Success Factors (KSF) are:

- **Communication** in order to give a better understanding to their clients or potential consumers. As a matter of fact, in 2009, when Bradesco decided to launch its first insurance product aimed at C and D social classes, they made a study to target them in a more efficient way. One of the main results was that low-income populations had a very negative image of insurance companies and did not like the word “insurance” at all. This is why they decided to call this product

“protection” instead of “insurance”.

- **Financial education** in order to make those populations understand the product and its advantages. Indeed, one of the biggest challenges when dealing with low-income communities is to succeed in penetrating these communities in order to let them know about microinsurance products and most importantly, make them understand the product.
- **Distribution**: this is the most important KSF according to our interviewed. Indeed, this is a key element as microinsurance can only be popular if we manage to reach the clients, to pay him when needed and above all to collect the payouts, from a bank/insurer point of view. This can only be done with an efficient distribution channel.

On the SUSEP side, the 3 Key Success Factors are:

- **Financial education**, which will act as an accelerator to microinsurance implementation and development. On top of that, educate potential clients is a way to adapt the microinsurance products to their expectations and needs; indeed, this formation process is interactive since it involves the two sides and would enable to adapt the risks to short-term visions, that suits better low-income individuals. Furthermore, this process seems to be the best way to understand the low-income communities and to get closer to them.
- **Adapted regulation to microinsurance products**. The objective here is to build a flexible legislation, which will facilitate citizens' lives but at the same time will protect them from any insurers abuse.
- **Distribution** was also mentioned as a key-element to microinsurance success: “*distribuição da o tom do microseguro no país.*”

The second level for data interpretation (Pozzebon, Diniz, Jayo, 2009) is the “negotiation process”, meaning the way groups may have influence the implementation of microinsurance. The questions and their respective analyses are right below:

- Are there any limits to the expansion/development of the concept of microinsurance in Brazil?

According to Bradesco executives there is no real limit to the development of microinsurance in Brazil. On the contrary, every effort should be made to explore the whole potential market and a special attention should be given to the concept of “favela”. As a matter of fact, it would be useless to offer a unique product for favelas residents as every community is different and depending on the region of Brazil, each community might have a different source of revenue. In the same extent, we have to remind those communities such product is accessible and affordable and that it is much better to use microinsurance services than to sell belongings in order to cover any damage, for instance.

To democratize microinsurance, companies can use a specific tool to the Brazilian market, that-is-to-say lottery. Indeed, in Brazil, it is very frequent to receive a lottery ticket when subscribing to an insurance product. That is the case for the Bradesco popular insurance product whose premium is 3,50 reais per month with a 20 000 reais maximum cover. Nevertheless, a few limits have been mentioned during interviews: fraud. Even if the impact of fraud is so far very limited, it can not be ignored and has to be restrained as much as possible.



On top of that, Bradesco mentioned the fact that the prerequisites to apply to a microinsurance product should be more flexible and not as demanding as it is the case for traditional insurance. For example, Bradesco insurance divisions always monitor clients to make sure they are not using insurance schemes for money laundering purposes. That kind of monitoring should not be applied to microinsurance schemes.

Furthermore, legislation costs have been quoted as potential limits to the development of microinsurance; since the administrative costs for that kind of schemes are almost as high as traditional insurance schemes. Thus the margin is lower, which limits brokers interest in those products and consequently limit its expansion, since brokers are currently the main distribution channels. In order to bypass those difficulties, Bradesco is using cheaper material, as far as paper and impression are concerned; in the same way, there is no marketing investment and the promotion is being done thanks to mouth-to-mouth within the bank agencies and their brokers, press release, spontaneous media, churches, community centers, schools...

As mentioned earlier, distribution also turns out to be a difficulty since the only channel authorized is the broker, who earns a lower commission with a microinsurance scheme since the value of the product is lower. The regulatory institution should develop other distribution channels and aims at individuals who could use microinsurance sale as a secondary source of revenue and not primary, as it is the case with brokers.

As far as the regulative institution is concerned, when they started defining rules, their primary objective was to implement a soft legal framework that could be as flexible as possible to benefit consumers. Even if the current legislation is not totally suited to the Brazilian market, it has progressed a lot during the past few years and does not present any potential limit to the expansion of microinsurance in Brazil. For instance, it is allowed by the Brazilian law to create partnerships between bank/insurers and various types retailers (“varejistas”), including utilities distributors. Informal insurance has also been mentioned as a potential limit. Currently, approximately 20 million low-income individuals use microinsurance services on an informal basis (Cenfri,2009). That kind of formal insurance is mainly concentrated on funeral assistance. Cultural drivers have also to be taken into consideration. Insurance suffers a bad perception, especially life and funeral products because “Brazilians are passionate about life, not death”.

- Did you adapt your promotional campaigns to the public targeted (easily understandable; use of comics, pictures...)?

So far, there is no special material available for low-income consumers but Bradesco Banco is working on a few different projects in this respect. They have led a three-month pilot-project in a “favela” in the city of Rio de Janeiro in order to promote microinsurance. In this respect, they have used communitarian radios, short soap-operas (“novelas”) and theatre plays to explain the concept to this community and to study the way they were reacting to this new product.

In the same way, the CNSEG (Confederação Nacional de Seguros) is currently working on a partnership with some community member in order to elaborate a simple and short comic book explaining the advantages of the families living within this type of communities. This could be a powerful promotional tool, especially for those who are illiterate or encounter difficulties when trying to understand elaborated marketing material.

Bradesco has also mentioned another form of adaptation, which depends on the region differences, whether they are cultural or only geographical. As a matter of fact, if Bradesco wants to market its product in the Amazon region, it will have to

operate a few changes due to climate differences: this region is subject to more floods and fires, meaning that protection conditions have to be adapted.

In addition, due to cultural differences, it might be interesting to study the possibility of modifying the name “insurance” with some other word that would be closer to the Amazonian population vocabulary. This can be justified by the fact that the Portuguese is quite different in this area and also because of the bad reputation of the word “insurance”. But such initiative could only be realized with the authorization of SUSEP.

- What about the banking correspondent’s network?

As far as Bradesco Banco is concerned, the banking correspondent’s network is a key-element to the development of microinsurance. It is considered as a potential huge accelerator that could highly contribute to the increase of the geographical coverage of such services in Brazil. The bank is already using this network to market insurance products all over the country and is currently expanding this use to one of their residential insurance product aimed at low-income populations.

On top of that, Bradesco has a competitive advantage compared to other private banks as it has over 25 000 partners’ agents in the whole country. Thus, the use of this channel is fundamental to the bank, in order to realize economies of scale and to incentive those correspondents to be loyal to the bank, thanks to a wider services portfolio. From SUSEP’s point of view, this channel can absolutely not be ignored, mainly because of its impressive capillarity throughout the country. According to the latest figures, there are more than 150 000 banking correspondents in Brazil and they are represented in each of the 5 565 Brazilian municipalities.

So far, they are not legally authorized to distribute microinsurance schemes, neither by SUSEP not by the Central Bank. However, SUSEP is preparing a legal text to enable banking correspondents to distribute microinsurance schemes. Allowing this channel to distribute those schemes is considered as a major step in microinsurance democratization in Brazil. This is the only way to reach poor remote communities in places where it is not profitable to open an insurance/bank agency.

In the same extent, SUSEP is studying a few other legislative measures to keep expanding the concept throughout the country, such as specific licenses to be attributed to traditional insurers and to insurers operating solely with microinsurance. There is also the possibility of granting a differentiated treatment to microinsurers, with pre-requisites more flexible concerning financial reserves for instance, respecting the proportionality principle. Besides, a special law aimed at microinsurance brokers could be issued, with a training suited to the concept that should be easier too, in order to facilitate its accession to less-educated individuals.

In fact, since microinsurance aims low-income individuals, it would be easier if those products were sold by individuals from the same environment. As mentioned earlier in the microcredit part, credit agents are always more efficient when belonging to the community where they are operating. This is mainly due to their proximity with the inhabitants of the communities. There is no need to remember that low-income individuals tend to trust more easily people coming from the same background and/or environment.

A preferential tax treatment has also been mentioned as a potential tool to expand microinsurance as well as the creation of microinsurance correspondents, based on the banking correspondents model.

- What about alternative distribution channels (food stores, cell phones kiosks, clothes shops, Wal Mart, Leroy Merlin, electricity bills to collect premiums)?  
Concerning Bradesco, the insurance division Bradesco Seguros already uses a

company called BSP Affinity, since 2008 which sold over one million of insurance schemes during its first year of operations. This services was created to reach differentiated targets and to explore new market opportunities. To do so, it has access to the internal customer base. This alternative distribution channel has proved to be very successful and has signed other partnerships with canals such as energy providers, furniture distributors such as Casas Bahia or other types of retailers (“rede de varejo”), who are responsible for invoicing their clients the premium payout on behalf of Bradesco, on top of their own monthly invoice.

That kind of services is quite frequent in Brazil. They are well appreciated by the company since it is a way to reach a bigger scale, to save operational costs by outsourcing the premium collection in a more secure way. For instance, utilities companies already have their own payout collection structure; moreover, clients are already used to pay their energy bills, which means that their insurance premium payout is less perceptible.

As far as SUSEP is concerned, it seems to be in favour of the use of those alternative channels, as long as it does not abuse the consumers’ rights. As a matter of fact, in those cases the risk is that a customer paying his insurance together with his gas bill without realizing she is actually paying for two services. In this fashion, the extra payout could jeopardize the financial situation of the poor. Nevertheless, for SUSEP it seems clear that alternative distribution channels are the best way to democratize microinsurance in Brazil.

The third level for data interpretation (Pozzebon, Diniz, Jayo,2009) is the “methodology in practice” and concerns the potential consequences, either direct or indirect, of the implementation of microinsurance services, as well as the potential tools that could be part of its development. The questions and their respective analysis are right below.

- What is the role of technology (premium collection thanks to cell phone or banking software, claims processing)? Any perspectives of development such as mobile banking applications?

Technology is considered as an accelerator of the microinsurance expansion in Brazil and Bradesco has a few projects in this respect .The institution uses a well-known concept in Brazil, considered as a Brazilian specificity by microinsurance experts: lottery. Indeed, most of the Brazilian insurance companies offer this service: when one customer subscribes an insurance product, he receives a lottery number and automatically participates to the monthly game. This lottery is segmented by insurance division, which means that if you applied to different insurance schemes within the Bradesco, you will participate to many lotteries.

According to the interviews, this is a powerful tool of promotion and incentive that cannot be ignored since it is very popular among Bradesco clients. Moreover, Bradesco schemes can be bought through internet, ATMs (Automatic Teller Machine), PDAs (a pilote test is being led in 15 agencies of Sao Paulo), mobile phones. Furthermore, Bradesco is developing an automated system for their residential insurance (“seguro residencial”); as a matter of fact, in case of a natural disaster in a particular region, the control system is used to identify the potential victims in order to start the payouts as soon as possible or to use any services that could help them such as funeral services or companies distributing first necessity kits (“cesta basica”), such as Sinaf in the state of Rio de Janeiro.

In the same extent, Bradesco is planning to offer differentiated services to their low-income customers, that would be faster for example, as low-income individuals cannot rely on any other external help from friends or families, that are in the same

complicated situation most of the times.

As far as SUSEP is concerned, technology plays a fundamental role and has to be emphasized. However, technology evolves much faster than legislation and this constitutes a real challenge for the institution. The objective here is to implement a flexible regulation that will be able to follow technological innovations, responsible for improving microinsurance consumers' conditions. Furthermore, the penetration of credit card into the lower-income market has constituted a big step towards financial inclusion and has a strategic role to play along with mobile phones.

### **Conclusion**

The primary objective of this research was to investigate the current situation of microinsurance in Brazil and the perspectives for the near future. It can be regarded a preliminary study inasmuch the subject is recent not only in Brazil but in the world. In addition, microinsurance is a relevant tool in order to face poverty since the poor are the most exposed to adverse shocks that may jeopardize the welfare level. Microinsurance is one of the components of microfinance. As such, it is not a substitute to microcredit but a necessary complement in order to promote to financial and social inclusion.

The main findings of the empirical investigation point out the importance of market-driven solutions, which means adapted to client needs and expectations. In addition, the products have to cover basic needs and to be easily understandable and affordable. The payout application process has to be simple and quick, especially for households living in remote communities. Innovation must play a major role by building new approaches instead of replicating already existing business models. In this case, Brazil has a comparative advantage related the existent banking correspondents' network that could be use for microinsurance expansion throughout the country. As for Microfinance Institutions that decide to implement microinsurance schemes, it has to come together with proper training for agents. Last but not least, Qualitative and performance indicators should be implemented to measure the impact of microinsurance on households and to optimize renewal rates.

As for a future research agenda, financial education is a relevant topic to be explored. Another important subject is the related to the use of mobile for distributing financial services, which is being implemented all around the world, especially in Africa.

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