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GROWTH PROSPECTS FOR THE BRAZILIAN REINSURANCE MARKET

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ABSTRACT

In 2008, resolution 168 of the National Council of Private Insurance (CNSP) allowed international reinsurers to request authorization to operate in Brazil from the Superintendence of Private Insurance (SUSEP). This led to changes in the insurance and reinsurance markets.

There is a lack of in-depth studies to evaluate the growth of the reinsurance market since its effective opening, taking into account macroeconomic factors and market reserve. This study aims to evaluate the size of the reinsurance market by examining: the main sectors of business that yield reinsurance, market concentration, share of GDP, and expectations for future growth.

The main objective of this paper is to provide companies in the reinsurance segment with assistance in identifying the potential market, understanding its complexity: their main competitors, and possible operational niches. In addition, it provides new and existing reinsurers with an overview of difficulties in the market and the strategic positioning that the company must adopt in order to act more effectively within the industry.

To achieve these goals, it analyzes the reinsurance market in detail, proposes methods or steps to take to define strategic positioning in the market, and offers a graphic "Performance vs. Importance Matrix."

There is potential demand available to the insurance market which remains unmet. Despite the initial difficulties for companies operating in the sector, the market has demonstrated its potential for continued growth since its effective opening, which will ultimately attract reinsurers, making the market highly competitive.

Keywords: Reinsurance. Insurance. Growth Perspective.

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PERSPECTIVAS DE CRESCIMENTO DO MERCADO RESSEGURADOR BRASILEIRO

RESUMO

Em 2008, a resolução 168 do Conselho Nacional de Seguros Privados (CNSP) permitiu aos resseguradores internacionais solicitarem à Superintendência de Seguros Privados (SUSEP) autorização para operar no Brasil. Isso acarretou mudanças no setor de seguros e resseguros.

Pode-se observar uma carência de estudos que avaliem efetivamente o crescimento do mercado ressegurador, desde sua abertura efetiva, levando em consideração os fatores macroeconômicos e reserva de mercado. Este estudo tem como função avaliar o tamanho do mercado ressegurador, analisando: principais ramos de negócio que cedem resseguro, concentração do mercado, participação no PIB e expectativas de crescimento futuro.

O principal objetivo desse trabalho é fornecer subsídios para empresas atuantes no segmento de ressegurador à possibilidade de identificar as potencialidades do mercado, entender sua complexidade, seus principais competidores e possíveis nichos de atuação. Além de fornecer aos atuais e novos resseguradores um panorama das dificuldades existentes no mercado e de posicionamento estratégico que a empresa precisa adotar de forma atuar com mais eficiência no setor de resseguros.

Para atingir tais objetivos é analisado o mercado de resseguradores, com suas especificidades, além de propor métodos, como passos para definir o posicionamento estratégico do mercado e um gráfico "Matrizes Importância Vs. Desempenho".

Existe uma potencialidade de negócios disponível para o mercado securitário que ainda não é atendido pelo mercado. Apesar das dificuldades iniciais para as empresas que atuam no setor, o mercado vem demonstrando o seu potencial de crescimento futuro desde a abertura efetiva, o que acaba por atrair resseguradores, tornando o mercado altamente competitivo.

Palavras-chave: Resseguros. Seguros. Perspectiva de Crescimento.

1 INTRODUCTION

The reinsurance industry is one of the most important financial sectors in developed countries today, because it allows public and private companies to obtain, through insurance companies, capacity and/or insurance coverage for existing assets, as well as for building the infrastructure necessary for the growth and development of a country.

In Brazil, the reinsurance industry—insurance for the insurers—was for almost 70 years under a government monopoly, and was one of the last sectors of the Brazilian state to be privatized.

The National Congress passed Complementary Law 126 on January 17, 2007, and Resolution 168 of the National Council of Private Insurance (CNSP) finally came into force on April 17, 2008, allowing international reinsurers to petition the Superintendence of Private Insurance (SUSEP) for authorization to operate in Brazil.

This paper aims to present an overview of the reinsurance market, its barriers to entry, its growth potential, and especially its importance among the various financial instruments necessary to enable the country's economic growth.

1.1 RESEARCH PROBLEM

Although there are several analyses of the growth of the insurance and reinsurance market in Brazil, there are no detailed studies that assess the growth of the reinsurance market since its effective opening in April 2008, taking into account macroeconomic factors and the market reserve. This study has as its main function the evaluation of the effective size of the reinsurance market by addressing: main sectors of business that yield reinsurance, market concentration, share of the gross domestic product, and expectations for future growth.

2 OBJECTIVES

The main objective of this work is to provide companies in the reinsurance sector with assistance in identifying the potential market: understanding its complexity, their main competitors, and possible operational niches.

As a general objective, this study seeks to provide current and new reinsurers with an overview of the difficulties in the market and the strategic positioning that a company must adopt in order to act more effectively in the sector.

3 OPERATION OF THE REINSURANCE MARKET

3.1 INSURANCE AND REINSURANCE MARKET

3.1.1 Market History

The first known contract bearing the characteristics of reinsurance, **Goods Shipment Genoa-Sluys**, was made in 1370 in order to cover the transport of goods between Genoa, Italy, and Sluis in Flanders (Holland, 2008, p. 5).

Lloyd's began in 1688 as a modest coffee shop situated in Lombard Street, London, and from the beginning has been a pioneer in the insurance industry. Beginning its activities in marine insurance, it has over the years become a world leader in specialized markets and insurance (Lloyd's, 2010).

In 1842, a catastrophic fire in Hamburg cost the insurance enterprise Hamburger Feuerkasse about 18 million marks, far beyond the firm’s technical reserve of only five hundred thousand marks.

This fire highlighted the need to share the risks of entire policy portfolios among insurers (Swiss Reinsurance Company, 1999, p.5).

The event contributed to the founding, on December 22, 1842, of a reinsurer based in Cologne, Germany, which in 1846 became Koelnishe Rueck, or Cologne Re.

Insurance in Brazil traces its roots to the sixteenth century and Jesuit Father Jose de Anchieta, creator of forms of mutualism linked to aid.

Beginning in 1895, foreign firms began to be regulated, and in 1901 decree 4.270 (the Murtinho regulation) created the General Superintendence of Insurance (FENASEG, 2010).

Since the national insurance market was dominated by foreign companies, the Reinsurance Institute of Brasil (IRB: today known as IRB Brazil Re) was created in 1932 by then-president Getulio Vargas, with the goal of implementing the regulation of reinsurance and promoting insurance operations in the country by increasing the capacity of Brazilian insurers (IRB, 2010).

Since then, the Brazilian reinsurance market operated under state monopoly for more than 70 years, until its business model was exhausted and the market was officially opened for international reinsurers to operate in Brazil in April 2008.

3.1.2 Relation between insurer and reinsurer

The insured (Martins, John; Martins, Lidia, 2008, p. 35) can be an individual (or individuals) or a legal person, who upon paying a set premium yields his risk to an insurer or transferor.

The insurer or transferor (Elliott, et al., Vol. 1, 1995, p. 2) is the company that, if necessary, hires a reinsurer to yield or transfer part of their premiums received for such operation.

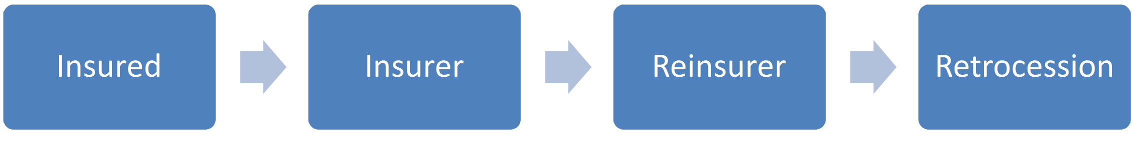


Figure 1 –Reinsurance Flow

Source: Created by the Author

Depending on the size of the risk, or because of acceptance criteria as occurs with insurers, reinsurers do not have sufficient capacity to fully absorb an assumed risk. Thus, the reinsurer devolves part of the assumed risk to another reinsurer through an operation called retrocession. The retrocessionaire and the reinsurer that accepts part of the assumed risk receives a premium for such an operation (Martins, John; Martins, Lidia, 2008, p. 35).

According to Riley (2009, p. 157), retrocession can be defined as "the reinsurance of reinsurance."

Considering the possibility of the occurrence of several claims, or one incident of major proportions that could affect the insurer's balance sheet, companies choose to mitigate the risk, looking for other reinsurers that may assume part of their risk by charging a premium for this.

This transaction made between these companies is called reinsurance, or can simply be regarded as the "insurance of an insurer" (Elliot, et al., Vol. 1, 1995, p. 1).

David F. Babbel and Donald A. McIsaac define reinsurance thusly:

> Reinsurance is a mechanism the insurance industry uses to spread the risks it assumes from policyholders. Through reinsurance, the industry's losses are absorbed and distributed among a group of companies so that no single company is overburdened with the financial responsibility of offering coverage to its policyholders. Catastrophes, unexpected liabilities, and a series of large losses that might be too great for an individual insurer to absorb can be handled through reinsurance. Without it, most insurers would be able to cover only the safest of ventures, leaving many risky but worthwhile ventures without coverage. (BABBLE; MCISAAC, 1995).

The main functions of a reinsurer are:

- To provide insurers with increased capacity so that they can accept large risks that can not be covered separately by the insurer;
- To stabilize the balance of earnings of insurers, through participation in risks in which the insurer has no expertise;
- To accept coverage of catastrophic risks such as earthquakes, floods, hurricanes, tornadoes, industrial explosions

(petrochemical), airplane crashes, etc. in order to reduce the exposure of insurers to those losses or events that may affect financial results;

- To avoid possible accumulation of risks arising from claims caused by a single event;
- Reinsurance stabilizes the result and eliminates fluctuations as it helps in the formation of more balanced portfolios;
- Allows the insurer to withdraw from a territory or line of business in an orderly fashion, without abrupt cancellation of the insurance policies (reassuring those businesses which may be affected);
- Provides the insurer with expertise in the underwriting of complex risks and allows it access to statistical resources much broader than can be produced by a single insurance company;
- When there are risks that offer a special danger or that are highly unstable, such as nuclear insurance, coverage of terrorism in countries like Spain and Ireland, airlines, and natural disasters, there may occur the formation of reinsurance pools (an association or union aimed at sharing such risks). In this system, the insurance consortium yields to the pool all the risks included in the contract, and the pool divides the proportional share of each risk according to the participation of each reinsurer. Haddad (2002, p. 11) describes very clearly the main function of reinsurance: "Reinsurance will invariably have, whatever its form, the objective of dispersing the risks at a global level."

3.1.3 Types of Reinsurance Contracts

The reinsurance transaction can occur in two ways, contract or optional, and each one of these can be divided into either proportional (pro rata) or excess damage forms.

3.1.4 Automatic Reinsurance Contract

When an insurance company and reinsurers wish to share all the claims of a business portfolio, this contract agreement is called automatic. In this operation, the reinsurance of various risks belonging to the same line of business takes place (Elliott, et al., Vol. 1, 1995, p.5).

In the automatic contract, the acceptance of risk by the insurer takes place automatically, provided that the conditions are in accordance with the terms and conditions included in the reinsurance contract.

In Quota Share reinsurance (Cass et al., Vol. 1, 1997, p. 1), the reinsurance assignment always respects a contractually pre-fixed percentage for all policies issued by the insurer in a particular line of business.

In Surplus Reinsurance (Rubin, 1995, p. 464), the assignment of reinsurance takes place according to a predetermined retention: the ratio is given for each risk individually.

Non-proportional reinsurance or Excess Loss Reinsurance is an agreement whereby the reinsurer agrees to indemnify the insurer for any loss that exceeds a priority pre-established by the insurance contract (CASS et al., Vol. 1, 1997, p. 3).

Excess Loss Reinsurance can have the following types of contractual coverage (CASS et al., Vol. 1, 1997, p. 4): risk, event or occurrence, catastrophe, or stop-loss reinsurance.

<u>The major advantages of an automatic contract are:</u>

- Simplicity in operation, because once the conditions of the contract are defined it requires little administration;

- Collection of high premiums, and better terms and conditions for insurers;
- The reinsurer takes a share of each risk assumed by the insurer during the term of the contract.

The major disadvantages of an automatic contract are:

- The insurer cannot change its write-off for a particular risk;
- The size of the retained risk is not homogeneous, since the insurer retains a fixed percentage of all risks, regardless of their size.

3.1.5 Facultative Contract

When the insurer and reinsurer share the claims relating to a single risk, the agreement is called facultative (Elliot, et al., Vol. 1, 1995, p. 4). Because facultative reinsurance is a direct business, the main information about the risk is known.

According to Riley (2009, p. 7) "facultative is a term that means 'optional,' and is generally used to describe the reinsurance of an individual risk. It is optional both for the insurer and the reinsurers."

The facultative reinsurance can be proportional or Excess Loss.

The major advantages of a facultative contract:

- To absorb of risks when the capacity of an automatic contract of an insurer is insufficient to absorb 100% of the risk;
- Due to an accumulation of the same type of risk within the contract, the insurer decides to not fully utilize the capacity of an automatic contract;
- For risks automatically excluded from the contract;
- For highly-exposed risks that can undermine the outcome of the contract.

The major disadvantages of a facultative contract:

- High administrative costs for insurers and reinsurers involved in the process, since details about the risk must be provided by the insurer and analyzed by the reinsurer;
- The time necessary to assign insurance coverage is longer, since the insurer must contact and discuss the conditions of each risk with different reinsurers;
- Facultative reinsurance has the disadvantage that the insurer cannot confirm coverage to the insured as long as the optional coverage offered by reinsurers is not confirmed for 100% of the risk.

3.1.6 Credit Risk

Insurers' use of mechanisms to disperse their risk in the international market has always been a key tool in managing their business.

With the opening of the reinsurance market in January 2007, insurers began to consider credit risk an important factor in risk analysis. Because they now carry out reinsurance transactions directly with reinsurers, this risk is assumed by the insurer rather than IRB Brazil Re, the state reinsurer whose main shareholder is the national treasury.

The two major risk rating agencies used, according to CNSP Resolution 168 (2007, p. 3-9), by SUSEP and by the international reinsurance and insurance markets are:

S&P Credit Agency:

Financial risks consist of several components and can refer to credit, franchise, liquidity, market, operational, or political risk.

Most models used by S & P aim to analyze the credit risk or the probability that an event with a given magnitude may occur under different economic conditions.

It is important to emphasize that the risk committee bases its avaliation in quantitative and qualitative assessment of risk (S & P, 2009, p. 5, authors' translation).

A.M. Best Credit Rating Agency:

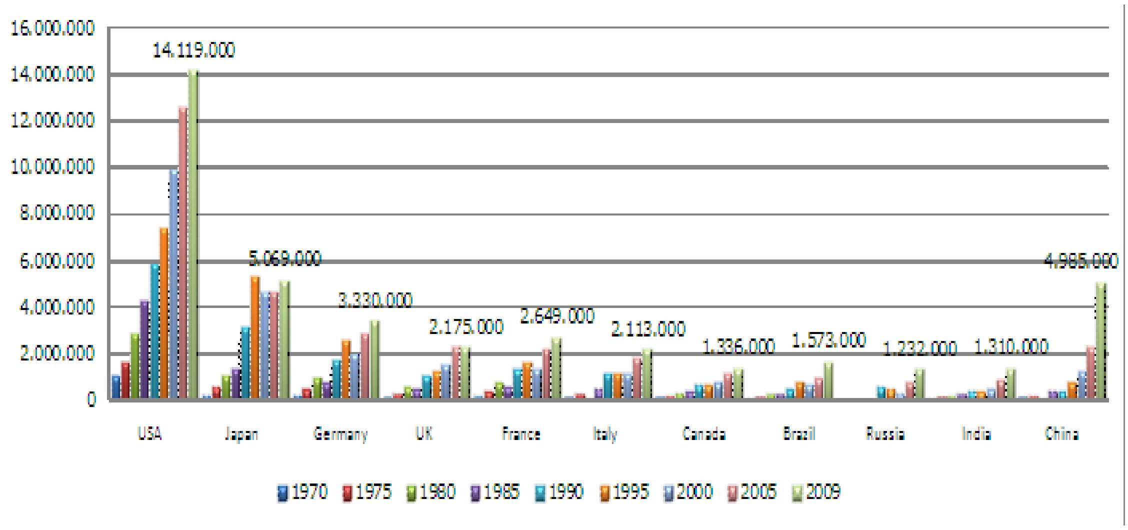
The credit rating provided by A.M. Best offers an independent opinion regarding the solvency of insurance entities. This includes comprehensive quantitative and qualitative assessment of the balance sheet of the company, its operating performance, business profile, and if necessary details about its stability.

Best's Financial rating (FSR) provides an independent opinion on the financial soundness of an insurer and its ability to meet its contractual obligations vis-à-vis existing insurance policies (A.M. Best, 2010, p.9).

3.2 INTENATIONAL MARKET FOR INSURANCE AND REINSURANCE

As can be seen in the table and graph below, despite the crises observed in recent years, the Gross Domestic Product (GDP) of the seven largest economies in the world have seen significant growth in their economies since the 1970's.

Adding the BRICs to the seven largest economies accounts for most of the world's GDP.



Graph 1: GDP, G7 and BRIC Countries (in US$ million)

Source: Created by the Author based on data from the World Bank.
Available at: www.worldbank.org

This item analyzes the impact of global economic growth on the major insurance markets of the world, mainly on the industrial and developing countries that concentrate most of the insurance premiums in the world.

In North America, the market share corresponding to the U.S. was 92.45% in 2007, 92.19% in 2008, and 92.02% in 2009.

In Europe, the largest insurance market remains in the United Kingdom, with a share of 27.59% in 2007, 25.68% in 2008, and 19.20% in 2009, a position due in large part to Lloyd's. In the second and third positions respectively appear France and Germany, with market shares of 16.00% and 13.26% in 2007, 15.57% and 13.87% in 2008, and 17.58% and 14.80% in 2009.

In Asia, Japan, Korea, and China dominate participation in the insurance market with shares of 50.54%, 13.92%, and 13.89% in 2007, 50.70%, 10.40%, and 17.67% in 2008, and 51.14%, 9.29%, and 18.82% in 2009, respectively. These three countries together account for more than 75% of the Asian market.

Brazil leads the Latin American region, followed by Mexico. The participation of these countries in the insurance market was respectively 44.38% and 19.98% in 2007, 45.26% and 18.13% in 2008, and 43.96% and 15.65% in 2009.

Mexico and Brazil represent approximately 60% of the Latin American market. (Staib, Bever, 2007, 2008, 2009).

Country /	Premium Volume (In US$ million)

Year	2007	2008	2009
North America	1.330.066	1.344.105	1.238.586
Latin America	87.397	106.302	110.910
Europe	1.680.693	1.703.713	1.610.620
Asia	840.601	934.577	989.451
Africa	53.294	52.829	49.287
Oceania	68.818	78.543	67.241
World	4.060.870	4.220.070	4.066.095

Table 1: World Insured Market
Source: Created by the Author. Available at www.swissre.com/sigma/
Note: data extracted from Sigma Reports 2007-2009

The table below clearly shows the development of the insurance market in real terms, adjusted for inflation, in developed and emerging countries.

World Growth of Insurance (In %)			
Countries	Life	Non-life	Total
2007			
Industrialized	4.70%	-0.30%	2.50%
Emerginig	13.10%	10.20%	11.80%
World	5.40%	0.70%	3.30%
2008			
Industrialized	-5.30%	-1.90%	-3.40%
Emerging	14.60%	7.10%	11.10%
World	-3.50%	-0.80%	-2.00%
2009			
Industrialized	-2.80%	-0.60%	-1.80%
Emerging	4.20%	2.90%	3.50%
World	-2.00%	-0.10%	-1.10%

Table 2 - Growth of the world Insurance Market
Source: Created by the author. Available at www.swissre.com/sigma/
Note: Data extracted from SIGMA Reports 2007-2009

By analyzing the penetration of insurance in the world against GDP and comparing it with the industrialized countries, it can be observed that the percentage is very low in developing countries and remains low in emerging countries, especially in the so-called BRIC. In Brazil this figure is around 3%.

The table below clearly shows the development of the insurance market in real terms, adjusted for inflation, in developed and emerging countries.

Country / Year	2007	2008	2009
North America	8.70	8.50	7.90
Latin America	**2.50**	**2.50**	**2.80**
Europe	8.00	7.50	7.60
Asia	6.20	6.00	6.10
Africa	4.30	3.60	3.30
Oceania	6.60	7.00	6.20
World	7.50	7.10	7.00

Table 3 - Penetration of Insurance in the World
Source: Created by the author. Available at www.swissre.com/sigma/
Note: Data extracted from SIGMA Reports 2007-2009

3.3 BRAZILIAN INSURANCE AND REINSURANCE MARKET

a) Brazilian Market

Before the launch of Brazil's "Plano Real" economic stabilization program in February 1994, by then-finance minister and later two-term president of Brazil Fernando Henrique Cardoso, Brazil underwent inflationary chaos which for several years inhibited the growth of the Brazilian economy and the enrichment of its population. The first years of the successful plan were spent restructuring the Brazilian state, especially regarding the privatization of key sectors of the economy,; the reorganization of the banking sector through the liquidation, sale, and privatization of banks; the adaptation of companies to the new economic situation of low inflation, and so on.

In late 2002, Luis Inácio Lula da Silva was elected president of Brazil. After the uncertainties of his first year in office, when the economy was virtually stagnant, this economic policy was maintained, and when various measures were adopted to boost domestic consumption, especially for classes C and D, Brazil began a period of stability and sustained growth.

Companies began to restructure their assets, thus recovering their market value. With greater resources and more credit available in the market, consumption grew, and as a result investment in production and infrastructure was initiated by both the private and public sector. Brazil's GDP, according to a new measurement method adopted by the Brazilian Census Bureau (IBGE), has been effectively growing since 2001 (IBGE, 2010), reaching R$3.65 billion.

Insurance/Reinsurance Investments	
Year	Direct (US$ Million)
2001	628
2002	216
2003	128

Table 4 illustrates the growth of the insurance market. The effective opening of the reinsurance market in 2008 meant that new companies entered the Brazilian market.

2004	128
2005	861
2006	252
2007	369
2008	474
2009	1315

Table 4 – Foreign Investment in Insurance and Reinsurance
Source: Data from Brazil's Central Bank. Available at: www.bcb.gov.br/
Created by the author based on data from Brazil's Central Bank

b) Size of insurance market

Between 2001 and 2010, insurance industry sales regulated by SUSEP, which include insurance for open private pensions and capitalization, but exclude reinsurance, increased by 210.509%, while growth in GDP was up only 0.498%.

Thus, in practical terms, in addition to having grown in volume, the insurance industry grew in real terms by 18.109%.

Supervised Market			
Year	Gross Premium (R$ thousand)	Growth %	GDP Share %
2001	35,813,278,000	-	2.750%
2002	35,236,321,000	-1.611%	2.384%
2003	44,521,626,000	26.352%	2.619%
2004	52,308,026,000,	17.489%	2.694%

2005	56,926,532,000	8.829%	2.651%
2006	64,450,847,000	13.218%	2.720%
2007	74,336,811,000	15.339%	2.793%
2008	85,100,267,000	14.479%	2.807%
2009	95,347,050,000	12.041%	2.994%
2010	111,203,604,041	16.630%	3.248%

Table 5 - Supervised Market
Source: SUSEP Management Report 2001-2008. Adapted by the Author.
Note: The entire market under SUSEP supervision

Between 2001 and 2010, despite undergoing a 47.824% increase, the private pension market's share of GDP decreased by 43.711%, which translates to low penetration of this type of insurance among the Brazilian population.

Private Pension			
Year	Gross Premium (R$ thousand)	Growth %	GDP Share %
2001	6,320,784,000	-	0.485%
2002	6,365,187,000	0.702%	0.431%
2003	7,784,518,000	22.298%	0.458%
2004	8,128,739,000	4.422%	0.419%
2005	7,483,137,000	-7.942%	0.349%
2006	7,165,684,000	-4.242%	0.302%
2007	7,914,730,000	10.453%	0.297%
2008	8,293,990,000	4.792%	0.274%
2009	8,554,134,000	3.137%	0.269%
2010	9,343,624,273	9.229%	0.273%

Table 6 - Private Pension
Source: SUSEP Management Report 2001-2008. Adapted by the Author.
Note: The entire market under SUSEP supervision

Between 2001 and 2010, insurance capitalization grew by 125.794%. However, its share of GDP declined by 14.214%.

Capitalization			
Year	Gross Premium (R$ thousand)	Growth %	GDP Share %
2001	5,217,563,000	-	0.401%
2002	4,789,563,000	-8.203%	0.324%
2003	6,019,687,000	25.683%	0.354%
2004	6,632,942,000	10.187%	0.342%
2005	6,681,617,000	3.749%	0.320%
2006	7,111,434,000	3.340%	0.300%
2007	7,828,951,000	10.090%	0.294%
2008	8,992,509,000	14.862%	0.297%
2009	10,104,142,000	12.362%	0.317%
2010	11,780,946,768	16.595%	0.344%

Table 7 - Capitalization
Source: SUSEP Management Report 2001-2008. Adapted by the Author.
Note: The entire market under SUSEP supervision

The insurance market, excluding pension insurance and capitalization companies, but including life and health insurance, showed a growth of 271.08% between 2001 and 2010, which was accompanied by an increase of 41.148% of GDP share.

Insurance Market			
Year	Gross Premium (R$ thousand)	Growth %	GDP Share %
2001	24,274,932,000	-	1.864%
2002	24,081,571,000	0.797%	1.630%
2003	30,717,421,000	27.556%	1.807%
2004	37,546,345,000	22.231%	1.934%
2005	42,561,778,000	12.358%	1.982%
2006	50,173,729,000	17.884%	2.117%
2007	58,593,130,000	16.780%	2.202%
2008	67,813,768,000	15.737%	2.237%
2009	76,688,774,000	13.087%	2.408%
2010	90,079,031,000	17.461%	2.631%

Table 8 - Insurance Market
Source: SUSEP Management Report 2001-2008. Adapted by the Author.
Note: The entire market under SUSEP supervision

As occurred in developed countries over the past decade, life insurance recorded the highest growth in the Brazilian market. Between 2001 and 2010 this type of policy grew by 757.01%, an actual increase in GDP share of 225.836%.

Life Insurance			
Year	Gross Premium (R$ thousand)	Growth %	GDP Share %
2001	4,282,827,000	-	0.329 %
2002	7,162,000,000	67.226%	0.455%
2003	7,042,620,000	-1.667%	0.414%
2004	10,560,415,000	49.950%	0.544%
2005	11,701,944,000	10.810%	0.545%
2006	15,333,905,000	31.037%	0.647%
2007	20,209,452,000	31.796%	0.759%
2008	23,527,887,000	16.420%	0.776%
2009	30,132,802,000	28.073%	0.946%
2010	36,704,258,575	21.808%	1.072%

Table 9 - Life Insurance
Source: SUSEP Management Report 2001-2008. Adapted by the Author.
Note: The entire market under SUSEP supervision

Excluding the life insurance category, which to some extent requires little reinsurance capacity due to its size and the insurers' ability to absorb risks, we arrive at the non-life insurance market, that which includes the main branches of insurance that effectively yield reinsurance premiums (excluding the automotive sector).

As shown below, between 2001 and 2010 the premium volume figures grew nominally at 166.979%. However, their share of GDP remained broadly stable, with growth of only 1.564%.

Non - Life Insurance Market			
Year	Gross Premium (R$ thousand)	Growth %	GDP Share %

2001	19,992,104,000	-	1.535%
2002	16,919,571,000	15.369%	1.1145%
2003	23,674,801,000	39.926%	1.393%
2004	26,985,930,000	13.986%	1.390%
2005	30,859,834,000	14.355%	1.437%
2006	34,839,824,000	12.897%	1.470%
2007	38,383,678,000	10.172%	1.442%
2008	44,285,881,000	15.377%	1.461%
2009	46,555,972,000	5.126%	1.462%
2010	53,374,772,425	14.646%	1.559%

Table 10 - Non-Life Insurance
Source: SUSEP Management Report 2001-2008. Adapted by the Author.
Note: The entire market under SUSEP supervision

c) Size of the reinsurance market

As can be observed in Table 11 between 2001 and 2010 the volume of reinsurance premiums grew by 177.341%, but their nominal growth percentage in relation to GDP was only 5.426%.

Reinsurance Market				
Year	Gross Premium (R$ thousand)	Growth %	Insurance Share	GDP Share %
2001	1,674,800,000	-	6.90%	0.129 %
2002	2,454,100,000	46.531%	10.19%	0.166%
2003	2,876,800,000	17.224%	9.37%	0.169%
2004	2,853,300,000	-0.817%	7.60%	0.147%
2005	2,898,200,000	1.574%	6.81%	0.135%
2006	3,400,300,000	17.325%	6.78%	0.144%
2007	3,268,200,000	-3.885%	5.58%	0.123%
2008	3,802,081,00	16.336%	5.61%	0.125%
2009	4,302,475,000	13.161%	5.61%	0.135%
2010	4,644,908,532	7.959%	5.16%	0.136%

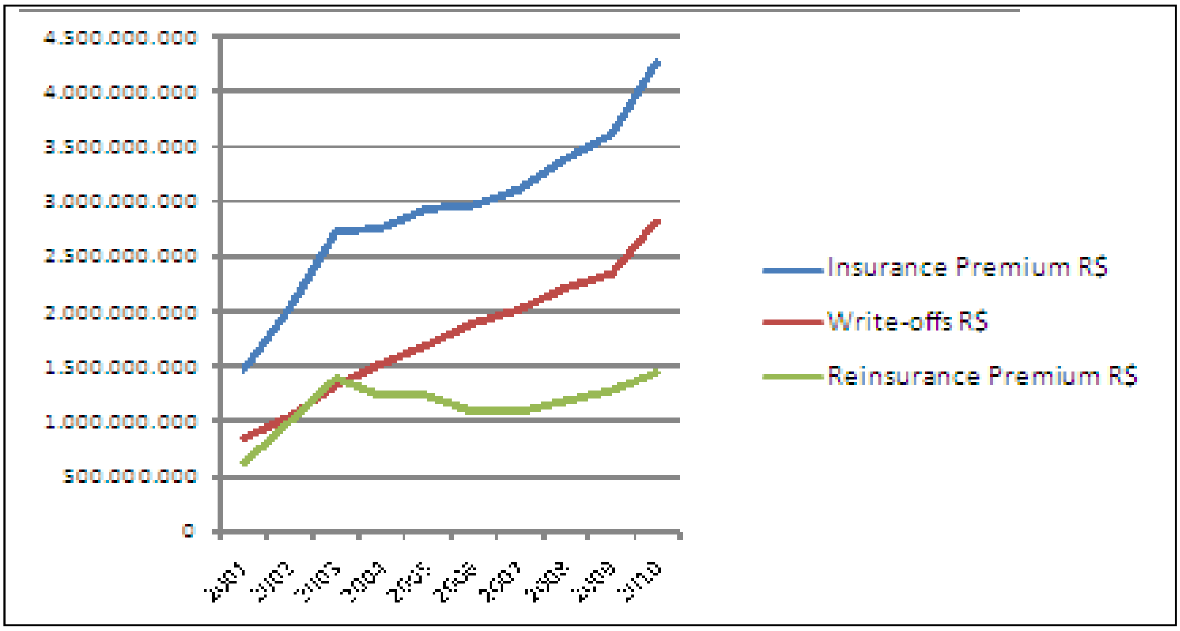
Table 11 - Reinsurance Market
Source: 2001-2007 IRB Brasil Resseguros S.A. Balance Sheet, December 31st. Adapted by the Author.

3.4 MAIN INSURANCE SECTORS RESPONSIBLE FOR YIELDING REINSURANCE

In order to gauge the size of the reinsurance market, we chose the main sectors of insurance that effectively yield a significant amount of premiums to reinsurers.

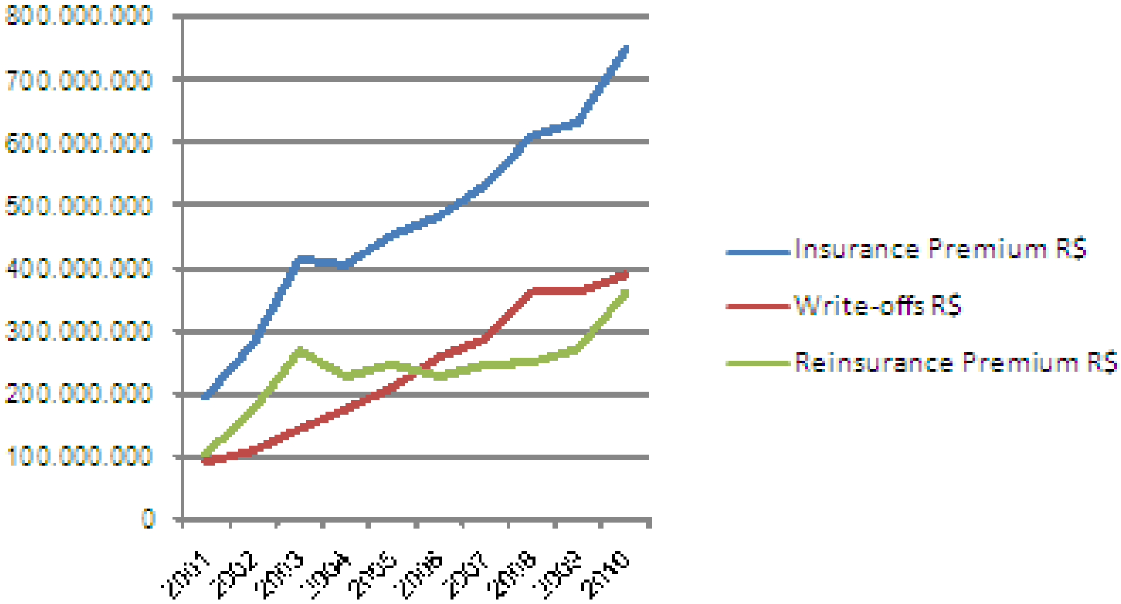
Although property risk (fire) remains one of the main sectors of insurance in terms of volume of premiums yielded to reinsurers by the market, it may be noted that since 2000 the premiums yielded in this area have been falling every year.

Graph 3: Property Risks



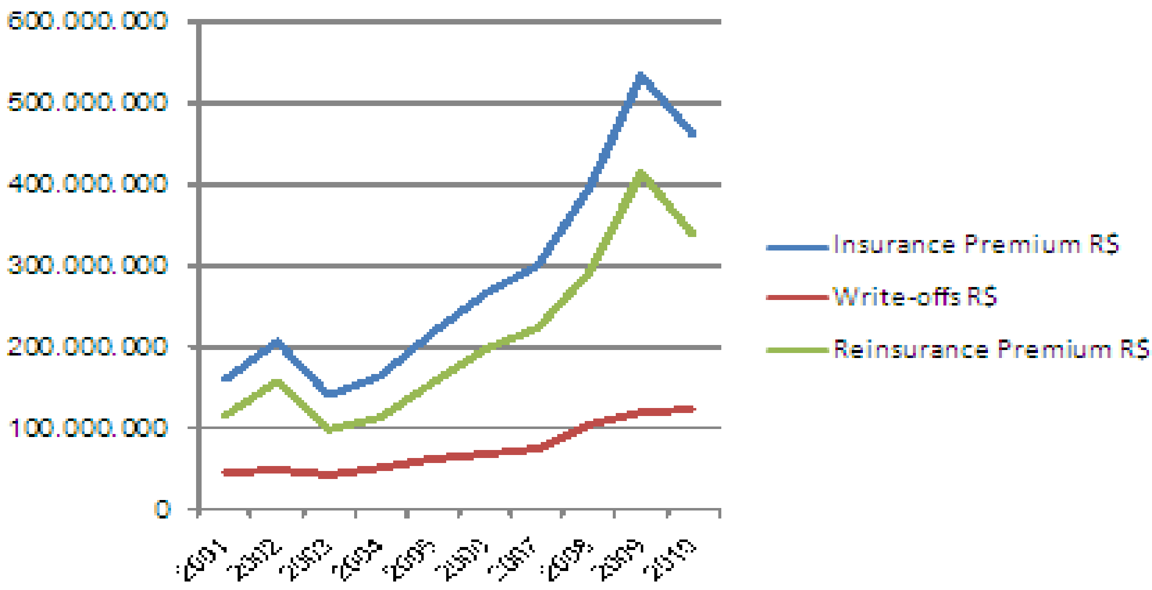
Graph 3 - Property Risks
Source: Adapted by the author based on the SUSEP-SES database.
Available at: www.susep.gov.br/menuestatistica/ses/principal.aspx

As with property insurance (fire), premiums yielded to reinsurers for liability risk has been dropping over the last decade, mainly due to the increased ability of insurers to retain more risk. However, this percentage remains high, above 40%.



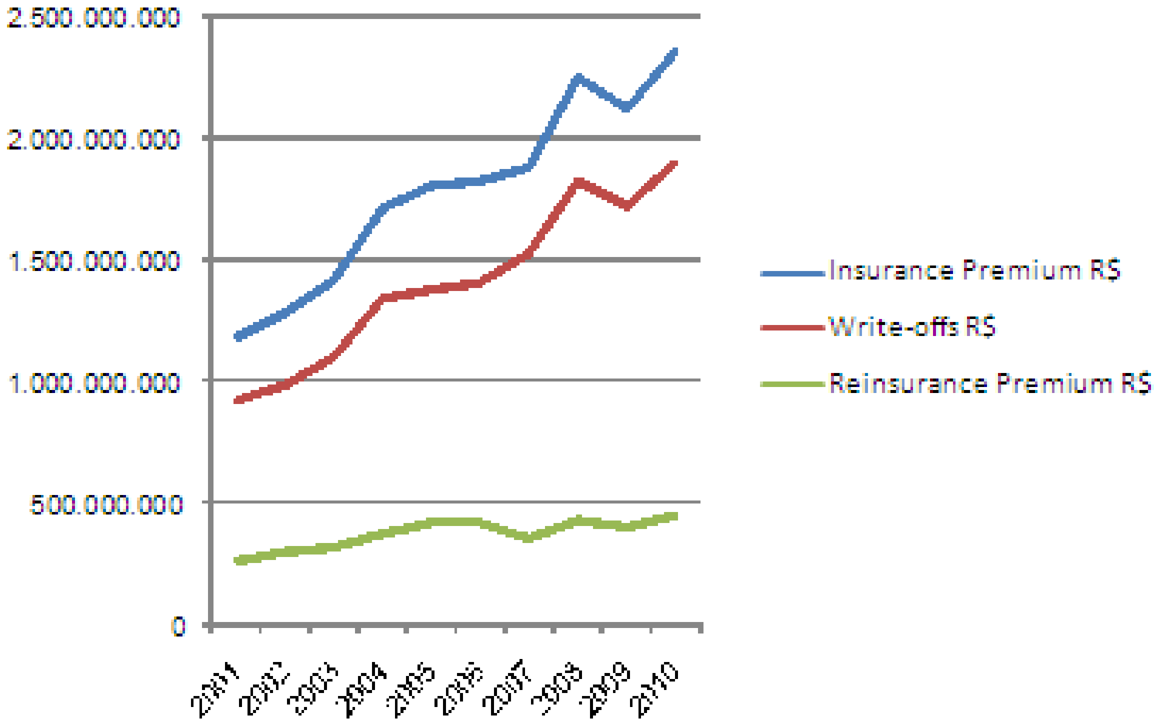
Graph 4 - Liability Risks
Source: Adapted by the author based on the SUSEP-SES database.
Available at: www.susep.gov.br/menuestatistica/ses/principal.aspx
Note 1: Sectors 310. 351. and 378.

Engineering risks remain one of the main sectors yielding reinsurance, primarily due to the implementation of major infrastructure and industrial works that require a large insured capacity.



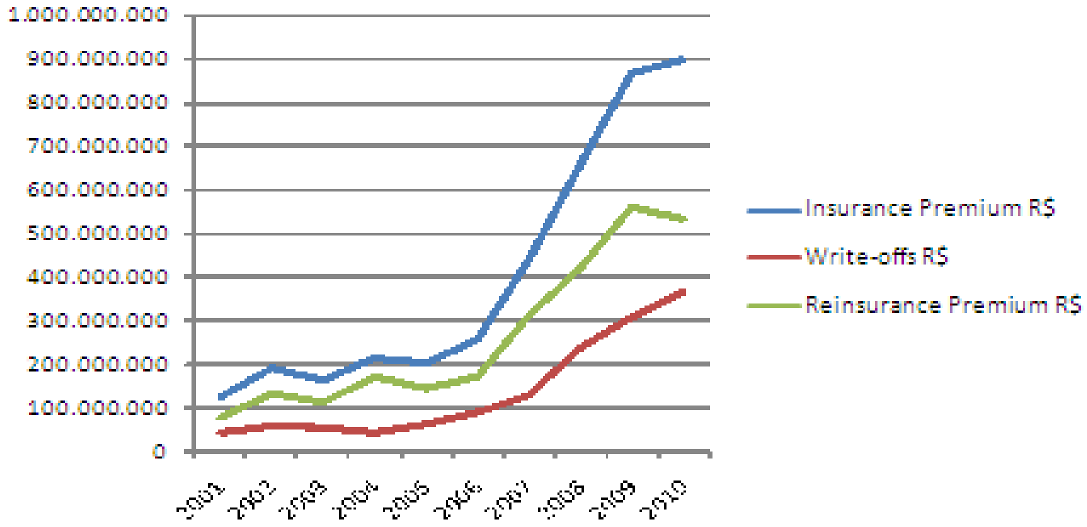
Graph 5 - Engineering Risks
Source: Adapted by the author based on the SUSEP-SES database.
Available at: www.susep.gov.br/menuestatistica/ses/principal.aspx
Note 1: Sector 167

As the transportation sector is one of the main sectors of insurance used by insurers to write off premiums, this branch has a low rate of yielded reinsurance.



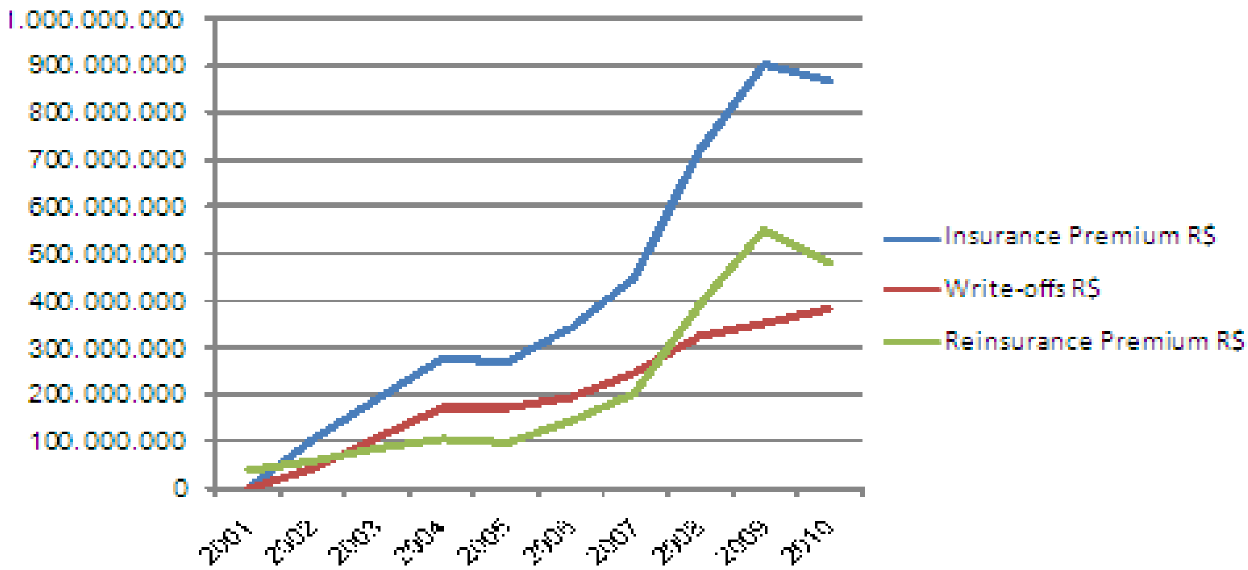
Graph 6 - Transport/Shipping Risks
Source: Adapted by the author based on the SUSEP-SES database.
Available at: www.susep.gov.br/menuestatistica/ses/principal.aspx
Note 1: Sectors 234. 433. 544. 621. 627. 632. 638. 652. 654. 655. 656. and 658

The implementation of large infrastructure projects; the feasibility of providing roads, railways, power plants etc. for the private sector; financing the construction of industrial parks, etc., all require contracting financial services insurance to ensure fulfillment of the contract and the implementation of the business.



Graph 7 - Financial Risks
Source: Adapted by the author based on the SUSEP-SES database.
Note 1: Sectors 739. 740. 745. 746. 747. 750. and 775
Available at: www.susep.gov.br/menuestatistica/ses/principal.aspx

The rural sector has always been one of the insurance sectors that yields most to the reinsurance market. With the growth of the Brazilian economy, especially agro-business, the volume of premiums yielded in reinsurance has increased year by year in Brazil.



Graph 8 - Rural Risk
Source: Adapted by the author based on the SUSEP-SES database.
Note 1: Sectors 1101. 1102. 1103. 1104. 1105. 1106. 1107. 1108. 1109. 1128. 1129. 1130. 1161.1162. 1163. 1164. and 1165
Available at: www.susep.gov.br/menuestatistica/ses/principal.aspx

Aircraft hazards is the insurance sector most dependent on reinsurance capacity. This is a result of the size of the risk involved, which renders insurers unable to retain most of the risk in their portfolios. Thus, the average percentage of reinsurance yielded is stable at a level above 80%.

The 16 largest insurance companies operating in the property risk (fire) sector account for almost all of the reinsurance premiums yielded to the reinsurance market: 92.51% in 2007, 90.93% in 2008, 91.30% in 2009, and 81.32% in 2010.

In the area of liability risks, the 13 largest insurers in this segment have been responsible for more than 90% of yielded reinsurance in the last 4 years. Reinsurance yielded in 2007 amounted to 92.81%, in 2008 and 2009 it was approximately 96.04%, and in 2010 92.84% .

Despite the increased risk retention by insurers upon underwriting of engineering risk, the 13 largest insurance companies continue to claim the largest share of the volume of premiums yielded in the reinsurance market.

These companies together accounted for: 96.31%, 97.06%, 95.60%, and 85.81% of the premiums yielded in reinsurance for the years 2007, 2008, 2009, and 2010, respectively.

The majority of insurers operating in the corporate sector use transportation insurance to retain the maximum possible premiums in their portfolios. The 13 insurance companies active in this sector together yielded reinsurance at 96.31% in 2007, 97.06% in 2008, 95.60% in 2009, and 85.81% in 2010.

Due primarily to increased amounts of funding for major infrastructure projects, the percentage of reinsurance yielded by insurers for this class of insurance is much higher in comparison with other lines of business. Market concentration is very strong, and the 11 leading insurers in 2007 were responsible for 93.08% of premiums yielded in reinsurance, 92.24% in 2008, 93.21% in 2009, and 83.17% in 2010.

Among insurers that operate in the agricultural insurance sector in Brazil, nine companies currently account for more than 90% of the premiums yielded for this type of insurance in the country. These companies together in 2007 accounted for 96.14% of premiums; in 2008, 97.05%; in 2009, 97.74%; and in 2010, 97.27%.

4 POTENTIAL OF THE REINSURANCE MARKET

In order to evaluate the potential market for reinsurance in Brazil it is necessary to analyze the legislation that defines the sphere of action permitted to reinsurers authorized to operate in Brazil, as well as the functioning of the reinsurance market.

4.1 LEGISLATION AND THE STRUCTURE OF THE REINSURANCE MARKET

The Brazilian reinsurance market opened on January 15, 2007, with approval by the National Congress of Complementary Law 126/07. On December 17, 2007 this law was accepted as a regulation by the National

Council of Private Insurance (CNSP) by resolution 168/07, and formally entered into force on April 17, 2008.

Resolution 168/2007 established the activity of reinsurance and retrocession, including the means by which reinsurers can be established in Brazil and the mode of operation of the market (CNSP 168, 2007, p. 1-13).

Local Reinsurers

Companies established in Brazil in the form of a corporation whose restricted objective is the activity of reinsurance and retrocession.

National or international reinsurers wishing to operate in Brazil in this category must abide by Brazilian insurance legislation, noting the technical and contractual peculiarities of the activity of reinsurance.

To this end the reinsurer must have a minimum capital of R$60,000,000 (sixty million reals), and follow a minimum solvency/capital margin.

The cession (retrocession) which a local reinsurer may cede to other reinsurers is limited to up to 50% of the total premiums issued, considering the totality of their operations in each calendar year.

Admitted Reinsurers

These are international reinsurers with headquarters located abroad, but with a representative office in Brazil, which must comply with Brazilian insurance legislation.

These companies must be duly registered with SUSEP and be licensed according to the legislation of their country of origin, and have been operating in reinsurance domestically and internationally for a period of at least five years.

To this end, the reinsurer must have a minimum capital abroad of at least US$100,000,000 (one hundred million dollars), have a representative (proxy) living in Brazil with powers of representation in administrative and judicial suits, and shall act solely and exclusively in the operation of reinsurance and retrocession.

Additionally, the reinsurer must maintain an account with a value of US$5,000,000 (five million dollars) linked to the regulatory body (SUSEP), pay fees for monitoring, and submit quarterly financial statements to the regulatory body.

Occasional Reinsurers

These are international reinsurers whose head office is abroad, but which do not have a representative office in Brazil.

These companies must be duly registered with SUSEP, being subject to the same requirements as authorized reinsurers.

To this end the reinsurer must have a minimum capital of US$150,000,000 (one hundred fifty million dollars) and cannot be based in a tax haven.

Insurers are limited in how much they may yield to occasional reinsurers: up to 10% of the total premiums yielded to reinsurance in the whole of their operations during the calendar year.

4.2 MODE OF OPERATION OF THE REINSURANCE MARKET

The model for opening Brazil's reinsurance market was based on the system of market reserve, or Safeguards.

In order to protect the Brazilian reinsurance market, the new legislation ensured that local reinsurers were offered at least 60% of each business for a period of three years, or until January 16, 2010. As of this date the market reserve for local reinsurers decreased to 40%. On December 6, 2010, the articles of Resolution 168 of December 7, 2007 were modified by Resolution 225, Article 15: "The insurance company will contract with local reinsurers at least 40% of each sale of reinsurance in automatic or optional contracts. "

In accordance with resolution 224 of December 6, 2010, Article 14 of Resolution 168/07 was expanded to include Paragraph §4: "The responsibilities assumed by insurance, reinsurance and retrocession in the country cannot be transferred to related companies or within the same financial conglomerate based abroad" (SUSEP).

5 OVERVIEW OF THE COMPETITIVENESS OF THE REINSURANCE MARKET

Total revenue for the non-life insurance market—that is, excluding the sectors of life, pension, and capitalization—was R$44,285 million in 2009, R$46,555 million in 2009, and R$53,374 million in 2010.This market was primarily responsible for yielding reinsurance in the Brazilian market.

Currently operating in Brazil are: 7 local reinsurers (Austral is in the process of being licensed); 25 admitted reinsurers, of which Lloyd's represents approximately 50 unions ; and 50 occasional reinsurers.

Year	2008	2009	2010
Company	Reinsurance Premium (R$)	Reinsurance Premium (R$)	Reinsurance Premium (R$)
ACE Resseguradora S/A	0	0	57.098.147
IRB Brasil Resseguros S/A	3.219.114.282	2.914.698.652	1.180.571.424
Jmalucelli Resseguradora S.A.	129.314.153	173.839.674	178.144.163
Mapfre Re do Brasil Cia de Resseguros	0	158.610.397	202.972.609
Munich Re do Brasil resseguradores S.A.	199.262.959	364.542.943	395.189.882
XL Resseguros Brasil S.A.	0	109.217.297	136.213.636

Table 12: Local Reinsurers
Source: SUSEP Management Report 2001-2008. Adapted by the Author.
Note: The entire market under SUSEP supervision

Table 12 shows that local reinsurers were responsible for approximately 93% of premiums in 2008, and admitted/occasional reinsurers accounted for 7%. In 2009, local reinsurers were responsible for 86% of premiums and admitted/occasional reinsurers for 14% (SUSEP, 2010).

Based on the performances of local reinsurers, one can deduce that in 2010 there was a sharp downturn in local reinsurance premiums, which means that admitted/occasional reinsurers could significantly increase their premium amounts.

Even considering an increase in the volume of reinsurance premiums, the reinsurance market can be considered highly competitive due primarily to the number of reinsurers currently operating in the market (excess of available capacity), the existence of a market reserve restricted to local reinsurers, increased write-offs by insurers, and finally the high concentration of the insurance market.

5.1 STRATEGIC POSITIONING OF REINSURERS

With the growth of the insurance market, especially in volume, and the increased number of reinsurers willing to offer capacity, there is now excess reinsurance capacity available, and the market has become so tight that the strategic management of production and operation has become of extreme importance for the executives of the companies.

According to Correa, "this means that it is necessary to give a strategic direction to the decisions (and therefore check their impact), whatever size they be" (Correa, AC; Correa, LC, 2009, p.59).

Over the past three decades it has been apparent that there is no better way to manage operations. It is of utmost importance that executives correctly establish the main objectives being pursued and be prepared to forego superior levels of performance on some criteria to encourage others (Correa, AC; Correa, LC, 2009, p.60).

In order to competitively position the company in the reinsurance market post-opening, and compare its main qualities vis-à-vis major customers and competitors, some important steps should be considered so that it can define its strategic positioning in the market.

a) The company (reinsurer) should select for analysis its most important production unit in terms of product (optional or automatic contracts), financial results, etc.;
b) Through the matrix “Market Segment x Family of Products,” analyze current market segments and the family of products made available by the company to meet the needs of its clients, for example crop insurance, casualty (fire, engineering, liability, etc.), guarantee, etc.;
c) According to the external conditions of the market and the importance of the business portfolio, choose two pairs of “Sector / Product” for analysis (for example fire and guarantee);
d) Define the main competitive criteria, such as Rating, Status (Local / Admitted), Capacity, Prices, Return (Feedback), Expertise, Added Services, and Cost;
e) Within the context in which the reinsurer operates, compare the company using a 9-point scale and evaluate its performance vis-à-vis its main competitors so as to position it in the best possible way and thus face future challenges.

After the above analysis, build a "Performance vs. Importance Matrix" for each Segment / Product pair.

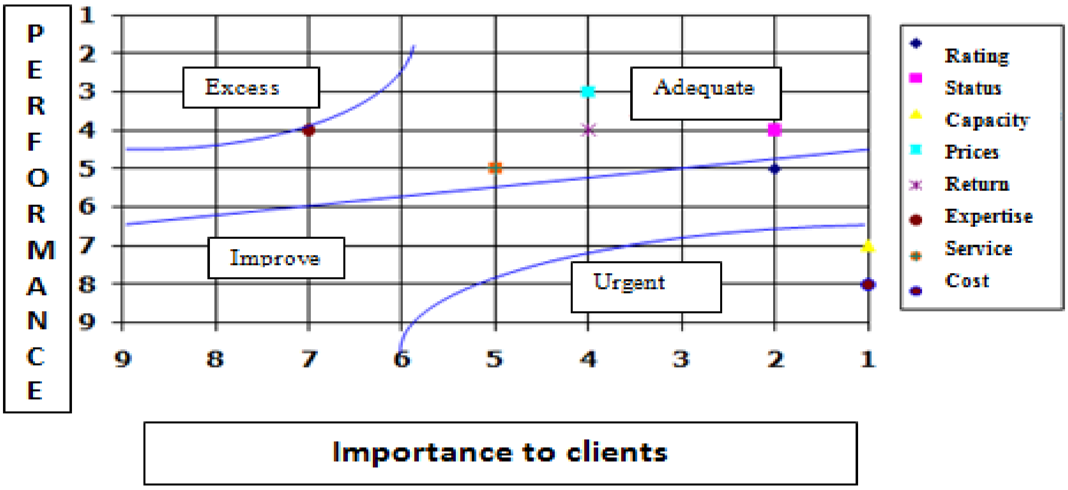


Figure: Performance vs. Importance Matrix

Source: Adapated by author from class on "Strategy of Operations" by Prof. Carlos A. Correa – FIA 22/10/2010

Based on the analysis of the above graph, determine the company's improvement priorities: define the performance areas and the action plan needed so it can face its competitors.

6 GOVERNANCE

The insurance market, open private pensions, capitalization, and reinsurance are regulated by SUSEP, a government agency responsible for the supervision of these markets. This body, created on November 21, 1966 by Decree Law No. 73, and connected to the Finance Ministry, also covers the national system of private insurance (CNSP), IRB Brazil Resseguros SA, IRB Brazil Re, companies authorized to operate in private insurance and capitalization, private pension funds, and licensed brokers.

7 CONCLUSION

With all the positive macroeconomic indicators in the Brazilian economy, insurance and reinsurance cannot fail to follow. The completion of infrastructure works, construction and operation of new plants, investment in construction, and increased sales of consumer products and services will generate increased turnover.

This allows two positions:

- Effective increase in the value involved in insurance;
- Prospecting of new modalities and/or improvement of existing arrangements to meet market needs.

The increase of value in the insurance market of course generates the need for reinsurance capacity, so that insurance companies can absorb the risks.

Although the reinsurance market has grown nominally by 177.341% in the period 2001-2009, it grew only 5.426% as a portion of GDP.

The insurance penetration in relation to GDP in Latin America as a whole is 2.5%, which is far below the observed rates seen in industrialized countries, which is above 6%.

Given that Brazil represents approximately 45% of the Latin American insurance market, and its penetration is still about 3%, comparison with the average global GDP share of insurance in industrialized countries clearly indicates that there is potential business available to the insurance market that still is not served.

Also important to note is that since 2007 the emerging markets, especially the BRIC, have witnessed higher growth in both their economies and in insurance premiums than have industrialized countries.

Despite initial difficulties faced by reinsurers seeking access to the market, in my opinion the Brazilian reinsurance market has demonstrated, since its effective opening in 2008, the potential for future growth, which has ultimately attracted several reinsurers, thereby making the market highly competitive.

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