

BZ Insurance

VC with SUSEP for update on competition/innovation agenda

New team implementing pro-competition agenda, similar to CB+

We hosted a VC between local investors and 3 managing directors of insurance regulator SUSEP (Eduardo Fraga, Rafael Scherre and Roberto Seabra), and were impressed by the new team. The feedback is that since they took over in April/May 2019, SUSEP's agenda has been moving forward fast to bring more credibility, transparency, innovation and penetration to Brazilian insurance, similar to what the Central Bank has been doing with the CB+/CB# agendas.

Bolder sandbox initiative allows applicants to underwrite some risk

The main initiative is the "Insurance Sandbox", which mirrors international models (mainly UK) and eases rules for a selected group of applicants for a certain time to allow them to test new insurance products under the regulator's umbrella. The "Brazilian version" is bolder and allows applicants to become an insurance company and underwrite risk up to a certain limit. In the UK, applicants only acted as service providers for incumbent insurers.

Lower capital requirement (from R\$15mn to R\$1mn) in the sandbox

One of the main advantages is a lower capital requirement of R\$1mn (vs. R\$15mn for traditional insurers). The reporting process will also be innovative, involving the use of APIs, which are more efficient, less costly and pave the way for Open Insurance. The sandbox deadline was suspended due to COVID-19, but will be reactivated after the crisis.

Several initiatives pave the way for Open Insurance

SUSEP's agenda goes well beyond the sandbox. Digital policies are in place since the beginning of the year and were handy in times of social distancing that forced companies and consumers to adopt digital channels. With the electronic registration of insurance policies, the regulator also expects to enhance the quality of information reported by insurers, and this is another initiative that paves the way for Open Insurance. The regulatory framework was revised to allow intermittent insurance, whereby the client can turn on/off whenever he/she wishes to be insured – a key feature to create new products and reduce the avg ticket size of insurance, enabling access to lower-income clients.

Simpler rules on the back of proportionality, principals and conduct

The regulatory framework is being revised to reflect the principle of proportionality (simpler rules for simpler business). Many corporate clients have more bargaining power and legal staff than insurers, so they are "big" enough to negotiate terms on their own, without regulatory intervention or approval. More care is needed in personal insurance, but less red tape. And a focus on expected principals and conducts can bundle safety, suitability and innovation together. Many sectors have a good level of competition, but innovation is low. *More on page 2...*

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Simpler rules on the back of proportionality, principals and conduct (cont.)

A regulation similar to the Central Bank, where different requirements apply according to the size/complexity of each business, is being designed for insurers as well.

Room to improve reinsurance framework...

We also discussed the reinsurance theme, which gained importance after recent developments at IRB. In 2019, IRB was included in the regular inspection plan – involving a more technical team that goes deeper into the details of report data –, but a full report is yet to be published. SUSEP monitors the key financial lines that are reported – which is easier for insurance companies as a high amount of information is provided on a monthly basis.

...although supervision is harder than regular insurance companies

For reinsurers, the task is harder. Info is narrower and reported quarterly. There is also a gap of 3-4 months between recognition of a claim at the insurer and at the reinsurer. But they are working to improve the reinsurance legal framework. The international framework for reinsurance is even more complex, while local reinsurers are 100% under SUSEP's authority, reinsurers "admitted" or "eventual" fall partially outside of SUSEP's authority. But they are looking to onboard more transparency, with specific reports to make information more tangible.

If lockdown lasts longer, whole market might be impacted

In terms of how SUSEP is handling the COVID-19 crisis, adapting its personnel, and if there are any worries about insurers, we note the following: although it didn't have a contingency plan for social distancing, adaptation was successful and most teams are in "home-office". There are no warning signs on insurers yet, but the main concern is the lockdown's duration – which seems to have a higher impact than claims in the non-life and life insurance segments. Overall, the market is well diversified.

Legislative discussions due to the crisis raise some concern

The crisis has raised legislative discussions on upping insurers' responsibility versus what was established by contracts, as they try to force indemnities, temporary moratorium or waiver on payments. SUSEP's position? Insurers and clients are in a better position to decide if any change is needed. ~90% of insurers already said that COVID-19 deaths will be indemnified even though, by definition, pandemics are excluded from contracts. This is a good sign as it was a free-will decision and shows that insurers are comfortable with any COVID-19-related claims.

BIS says "Insurers more likely to suffer from financial results than from lower premiums"

In a BIS article entitled "Insurance regulatory measures in response to Covid-19", a member of the Financial Stability Institute said insurers are more likely to suffer losses from financial results than from higher insurance claims due to COVID-19, in line with what we've heard from local players. It added that some authorities have recommended insurers to preserve capital and be prudent with dividends and variable remuneration. In Brasil, SUSEP also recommended supervised entities to preserve capital and be prudent with dividends.

Great update, new administration devoted to increase competition/innovation

It was a great update on SUSEP's agenda. Insurers of banks and listed insurers have low exposure to corporate risk. Their main exposure is to the personal insurance segment, which is more diversified and should have a lower impact from claims. In the ST, lockdown and weaker economic activity should boost loss ratios. But the main concerns are on top line deceleration and financial results. Last week, we updated our estimates for BBSE and Porto, assuming slightly lower earnings in 2020 and flat earnings in 2021. Yes, insurance players are more defensive in the ST, but a recovery won't be quick...so look out for lower ROEs!

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IRB Brasil RE ^{1, 2, 4, 6, 18, 19, 20, 22}	N.A.	Neutral	R\$9.46	27-4-2020
Porto Seguro ^{1, 2, 4, 6, 18, 19, 20, 22}	N.A.	Neutral	R\$44.96	27-4-2020

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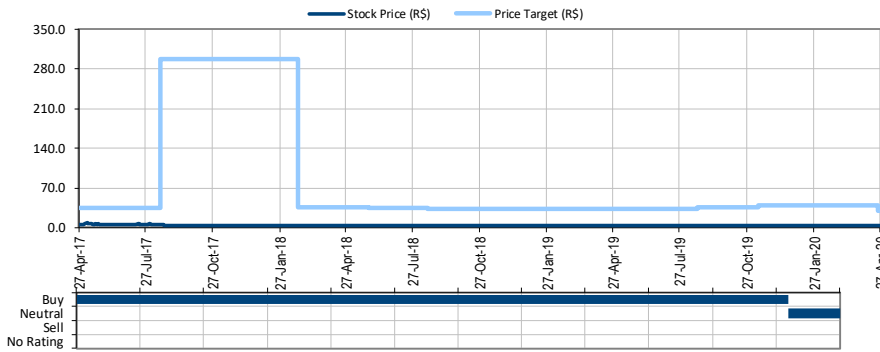
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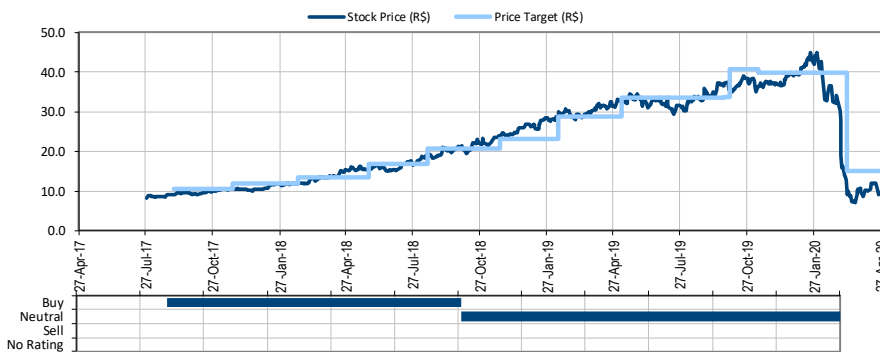
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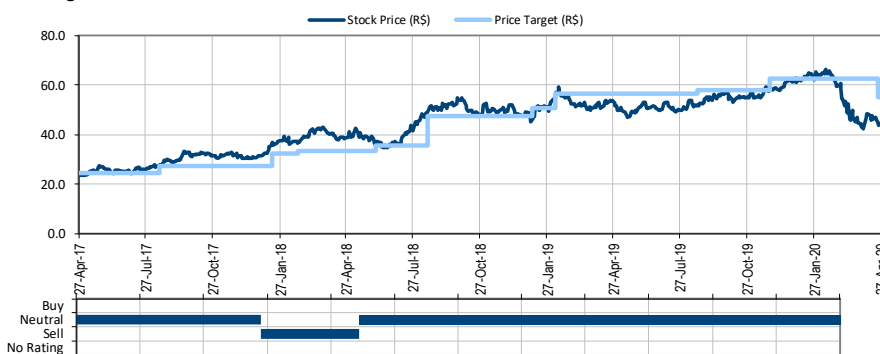
Source: BTG Pactual and Economica. Prices as of 27 April 2020

IRB Brasil RE



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