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Interview with José Carlos Cardoso, CEO of IRB Brasil RE

By Ronald Poon-Affat

With over 30 years of experience in the insurance market, José Carlos Cardoso joined IRB Brasil RE five years ago. During this time, the company, which was privatized in 2013, reinvented itself, expanded its business and nowadays is the Latin American leader in the reinsurance industry, being among the top 10 reinsurers worldwide as to market value: US\$7.75 billion in July 2019. These are, however, only a few of the good results of a consistently profitable reinsurer. Two years after the IPO, IRB became a corporation; since then its shares have appreciated by 267 percent in the Brazilian stock market, and the risk rating agency A.M. Best upgraded its rating to A. Some of the rationale behind the IRB Re's innovative model and robust financial results are set out here.

Ronald Poon-Affat (RP): The Brazilian reinsurance market started just over 10 years ago. How would you describe the current scenario and the challenges it poses?

José Carlos Cardoso (JC): Nowadays we have a very well-structured market, featuring 16 local, 40 admitted and 76 eventual reinsurers authorized to operate in Brazil, according to data published by the regulating agency Susep in 2018. This market is still growing, despite the economic downturn in recent years. Brazilian reinsurers reached another level, went international, and the country slowly established itself as a regional hub. The reinsurance market is strongly connected to the country's growth, and the sector is optimistic about the outlook for the years to come. It is worth mentioning that investments in some sectors, such as oil and gas, have already shown significant growth.

RP: IRB was at first a state company and went through several changes during its 80 years that resulted in its privatization and IPO. How was it possible to reinvent the company and achieve such striking results?

JC: We started investing heavily on staff training in order to show the benefits of a results-based management, to impart the "ownership attitude" in their mind-set. Additionally, we



José Carlos Cardoso

developed a unique and innovative management model, in which providing excellent services and generating value for the shareholder are the main objectives. Thus, the business decisions we make always prioritize the results. This is the company's guideline. We are concerned with presenting solid results, regardless of whether they come from the underwriting, finance or "these or that" business line. The management model is fully integrated and allows our target to be the result the customer will bring us. It is cultural: the company is focused on generating sustainable and evolving results. Everyone has clear goals for what they will do next month, next semester, next year and in the next few years.

RP: How was it to be the leader of this process?

JC: It is a dream that started coming true five years ago, when Fernando Passos [deputy CEO] and I joined IRB. He left a brilliant and meteoric career with a large Brazilian bank, and I swapped an international career built in the top global reinsurers to make a bet together, or rather, to initiate a transformation process. We knew it would be a big challenge, mainly because this transformation involved, among other things, a culture change. However, we did not imagine we would face so many problems along the way. But they only fueled our desire to succeed and create a genuinely Brazilian company in a universe led by great global players. In August 2019 we were ranked as the world's sixth largest reinsurer by market value on a listed stock market.

RP: What are the differentials of the IRB business model?

JC: Traditionally, the reinsurance market is very lean: you have the underwriting sector, the financial sector and the claim sector. In most models, these sectors are independent and do not communicate. When we started at IRB, we noticed this was not the best way, and we decided to implement an integrated management. We analyzed business opportunities as a whole: underwriting, finance and administrative areas. Another differential is to focus on customer needs. We do not look at the customer per business line, isolated; we analyze portfolios and take decisions using our pricing tools. These models enable us to take decisions with flexibility and autonomy so that solutions are combined in different business lines and adapted to the actual customer needs.

RP: Is this model crucial for the company to be the most profitable in the world?

JC: IRB has some differences to international players. Our ratio of administrative expenses in relation to the premiums was 4.8 percent in 2018, below that of the great international players. We have a leaner structure, with 400 employees, and we do not make long-term transactions. We operate on “short tail,” which turned out to be an advantage, as we have no risk liabilities assumed for many years and claims now materialize to values much higher than those originally priced.

RP: The company’s growth has crossed Brazilian borders and registered good rates abroad. Is there a strategy to expand this participation?

JC: Our expansion abroad has two drivers. The first—which is our priority—is to grow within South America replicating the model developed here in Brazil, because the risks are quite similar to ours. This means that a soy crop in Brazil is not that different from one in Bolivia, nor is a car factory in Argentina very different from a car factory here.

Another driver of international growth is the strategic partnerships, in which we do business with some big players. This mitigates the risk of taking on business in areas where we are not yet knowledgeable, but we have our partners using their expertise to underwrite. This way we undertake part of these businesses and learn from them.

RP: How is it possible to develop new products that are more suitable to customers’ needs in such a traditional market?

JC: The Brazilian markets, as well as the Latin American ones, need to enhance their product portfolios. There are few

countries with parametric insurance-based solutions, which in the agriculture line is a strong trend worldwide. The most modern life insurance products are also within our scope, as are others focusing on oil and gas and ocean freight.

RP: The technological advance has “shaken up” many sectors. Has this wave come to the insurance and reinsurance industry yet? Or will we still see a revolution?

JC: The world has changed, and there is no way back. Our segment still has a lot to develop in this sense. Insurance and reinsurance as we know them today will not exist in 10 years. Exponential machine learning technologies, artificial intelligence, big data, and blockchain have set the pace for greater transformations, not only in technology but also in social behavior. You have to understand that. We currently use these technologies to streamline and improve underwriting, and we invest in innovation-focused initiatives, such as the InsurTech innovation program, a partnership with a university and an insurer aimed to conduct research, development and innovation in such segments. Another initiative is the operating agreement with the digital bank C6, which is part of IRB’s strategy to position itself as a strategic partner for fintechs. In addition, we subscribed to 8.93 percent shares of B3i, which is one of the leading global initiatives for the development of new technologies in the insurance and reinsurance industry, including the registration of these operations through a blockchain platform.



RP: What is the role of the actuary in this new market?

JC: Technology propels a series of changes, besides allowing access to endless information. However, to understand such changes and interpret these data, we need more and more skilled professionals. Our industry will face severe changes, and actuaries, who are data scientists, must lead this process. They must be prepared to read this huge volume of data and give creative and accurate answers, creating new products, streamlining processes and subscribing quickly and accurately. It is necessary to give meaning to information as well as to use technology to get it. This is the role of the actuary.

RP: The insurance and reinsurance industry is often not the first option of young talents. How can companies attract and retain professionals?

JC: The insurance and reinsurance industry has developed a lot and is constantly changing. Nowadays, those who work in this segment are in contact with professionals around the globe, with very complex education. The market offers great growth possibilities, opportunities and challenges. IRB's current team is a mix of youth and experience, with highly qualified professionals. The results achieved by the company are the consequence of the commitment and effort of each employee. When a

company grows and values its employees, they grow together. Our company also invests in innovation and staff training, sending employees to the best courses in Brazil and also to the best universities in the world. We encourage the professional development of each of our team members. The result of this has enabled us not only to keep our talent, but to access the best professionals in the market.

RP: Reinsurers are crucial for the economy, but what about in the social area?

JC: The reinsurance industry is strongly connected to the country's economic development. For IRB, social development is also a very important aspect—it is part of our strategy. Through our own initiatives, external support and partnerships, we invest to improve life in society, creating purpose and building responsible bonds with the world we live in and the people with whom we relate. That is why we sponsor social, cultural and sports initiatives that are benefiting thousands of people in 2019. ■



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