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THE OPENING OF THE BRAZILIAN REINSURANCE MARKET: ALL ROADS LEAD TO RIO DE JANEIRO

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The Brazilian Reinsurance Institute (Instituto de Resseguros do Brasil SA—IRB) was founded in 1939 and is jointly owned by the Insurance Companies that are licensed to do business in Brazil (non-voting shares) and by the Government of Brazil (voting shares). For more than 70 years all Reinsurance business has been transacted via the IRB. All of this is about to change. January 2008 marked the start date of the transition to an open market.

A milestone of this process was the sanctioning of the Complementary Law N° 126 (dated 15/01/07) that regulates the reinsurance market. This effectively opens the reinsurance market to competition and has renewed and heightened interest of both foreign reinsurers and local financial groups.

In order to ensure that the resulting legislation is best suited for the Brazilian market, the Supervisor of Insurance (SUSEP) invited comments relating to the proposed regulation until 16th of November 2007.

The proposed legislation is an excellent start, but significant work still needs to be done to refine the final document in order to attract key players and

facilitate a competitive market. After this phase is over, the next decision will be regarding in which Brazilian city should a reinsurer establish its headquarters, with the main options being Rio de Janeiro or São Paulo. The decision is fundamental since it is likely that a reinsurer's Brazilian office may develop into being its regional center for Latin America.

Government authorities in both cities and states have been actively trying to draw the attention of those reinsurers that are presently in the process of assessing local conditions. Already based in Rio de Janeiro are 84 percent of the Reinsurance Brokers (there are currently 28) and 50 percent of the Reinsurers' representative offices. Therefore it would certainly appear that all roads lead to Rio de Janeiro.

The IRB's headquarters have been in Rio de Janeiro since its creation in 1930, hence Rio de Janeiro has the history, experience and tradition. Other Industry bodies that are based in Rio de Janeiro include:

- SUSEP (Insurance regulators);
- Fenaseg's headquarters (Federação Nacional das Empresas Seguradoras—National Federation of Insurance Companies);
- ANS' headquarters (Agência Nacional de Saúde—

National Health Agency that regulates Health Industry);

- CVM's headquarters (Comissão de Valores Mobiliários—Securities and Exchange Commission);
- Fenacor's headquarters (Federação Nacional dos Corretores de Seguros—National Federation of Insurance Brokers); and
- ABER's headquarters (Associação Brasileira de Resseguradores—Brazilian Association of Reinsurers).

These organizations comprise all of the regulatory, supervisory and industry representatives of both the insurance and reinsurance sectors.

Rio de Janeiro, because of its long-standing tradition in insurance and reinsurance, has Brazil's largest and most experienced pool of qualified insurance professionals. This source of talent has been nurtured by the industry's traditional and influential educational institutions. These include:

- Funenseg (Escola Nacional de Seguros—National Insurance School);
- UFRJ (Federal University of Rio de Janeiro) which is the oldest and most respected Insurance faculty; for over 50 years offering undergraduate courses in actuarial science;
- PUC—IAPUC faculty (Instituto de Administração de Riscos Financeiros e Atuariais—Financial and Actuarial Risks Management Institute), with the first Masters Degree in actuarial science in Latin America; and
- IBA's headquarters (Instituto Brasileiro de Atuária—Brazilian Actuarial Institute),

The State of Rio de Janeiro is also a principal market for reinsurers both in terms of premium from ceding companies and large industrial risks. According to the IRB, 50 percent of ceded premiums of large industrial risks originate in Rio de Janeiro. The reason is simple – many large companies and industrial plants are located here, including: Petrobras, Eletrobras, Nuclebras, Vale do Rio Doce, shipbuilding industry, steel mills, telecommunications companies, etc. Major new investments include Companhia Siderúrgica do Atlântico and the Petrochemical conglomerate (COMPERJ).

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An unexplored and as-yet untapped risk market is the country's largest pension funds. The largest ones, such as Previ and Petros, are based in Rio de Janeiro. Such companies would greatly benefit from risk transfer solutions to offset their embedded life risks; such solutions are not currently available in Brazil.

We believe that the final decision should not be swayed by short-term offers of incentives or subsidies. Rather there needs to be a deep analysis and understanding of economic rationality and decentralization of activities. In conclusion, based on these facts and data, we certainly believe that Rio de Janeiro is by far the best option for reinsurers to establish their headquarters. ✨



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