



Article from

Reinsurance News

November 2015
Issue 83

Brazilian Reinsurance Market Research Report

By Ronald Poon-Affat

The views expressed in this article are solely those of the author and do not reflect the views of either his employer or the Society of Actuaries.

Rodrigo Botti is the CFO and COO of Terra Brasis Re. Terra Brasis Re is a local multi-line Brazilian Reinsurance company operating since 2012. *Terra Report* is a comprehensive report that analyses and provides insightful comments regarding the Brazilian reinsurance market on a quarterly basis both in English and Portuguese. It is akin to a financial report provided by the Investment houses on specific industries and *Terra Report* has received high praise both within Brazil and internationally. The SOA Newsletter *Reinsurance News* recently interviewed Rodrigo on the development of this report.

WHEN DID YOU START? WHAT IS THE FREQUENCY?

We published the first edition of *Terra Report* in December 2010. At the time, we were at a pre-operational phase, still waiting for the approval from Brazil's regulatory superintendence—Susep.

We publish the report on a quarterly basis. I must confess though, that in the first two years, we had some issues and only managed to publish three editions in each of those years.

We publish all editions in both a Portuguese and an English

version. All the material is fully available at our webpage.

HOW DID YOU COME UP WITH THE IDEA FOR THE REPORT. WHAT INSPIRED YOU?

Terra Brasis' business model is strongly based on the belief that a reinsurer is more than just a capacity provider. A reinsurer must be a long-term

partner and a service provider to the insurance industry.

With that in mind, we developed several initiatives that we believed would add value to our clients and partner. *Terra Report* was one of them.

HOW DID YOU USE YOUR BACKGROUND IN FINANCE TO PRESENT THE ANALYSIS?

Back in 2001 I worked at the research department of a top investment bank. It was an exceptional team, ranked #2 in Emerging Market Fixed Income Research by *Institutional Investor Magazine*.

It was a great experience at a very interesting time. Interna-

tional fixed-income investors, who up to that point only invested in Emerging Market External Debt, were starting to explore Emerging Market Local Debt and other onshore investment products. To do so, they had to learn—and learn fast—about the peculiarities of the financial market of each individual emerging market country. One of our main roles was to educate these investors about this new investment frontier.

This experience helped with the development of *Terra Report*. I do see a parallel between these situations, as currently Brazilian insurance and reinsurance professionals are eager to keep pace with the new dynamic of the



country's reinsurance market and International professionals need to learn more about this fast growing market.

HOW MUCH EFFORT IS PUT INTO THE DEVELOPMENT OF THE REPORT?

There is considerable effort, but it is a very fulfilling job. We have a relative small team cracking the numbers, developing the analysis and putting together the report. Nevertheless, we try to engage the whole company in this effort. Before we publish each edition, we circulate a draft among management. We discuss the results internally and many times change and try to improve the report based on these discussions. In addition, for each edition we try to bring something new or a particular analysis.

Lastly, after we publish each edition we do a large meeting with the whole company, presenting the results. It is a great way to keep everyone up to date with market development and at the same time to test your conclusions.

WHAT ARE SOME KEY/INTERESTING OBSERVATIONS ABOUT BRAZILIAN REINSURANCE MARKET?

For one thing, it is not a boring place. There is always something new, something changing.

Jokes aside, the Brazilian Reinsurance market is a very dynamic market, with great long-term potential. One should not underestimate the magnitude of the transformation the Brazilian market went through. In the

space of five years, the Brazilian reinsurance market went from an IRB monopoly to one with 16 local and more than 100 foreign entities authorized to do business in the country. Moreover, the transition happened without any meaningful disruption and with significant benefits to cedants. It was a case study success.

One other interesting point is that the current reinsurance environment in Brazil is not homogeneous relative to the players involved. We currently have in the market Global, Regional and Local reinsurers competing, which to me translates into a very healthy environment, with clear benefits to the final consumers and the Brazilian society. It would have been disappointing if an IRB monopoly had been replaced by an oligopoly, dominated by the handful of the top Global Reinsurers.

DO YOU HAVE DIFFICULTIES WITH THE DATA?

Yes. As with the production of any market report, there are challenges in compiling data. We use in great part the data provided by the Brazilian Insurance Regulatory body, Susep. We are immensely grateful to them for making this data available to the public. It is a great tool, not only for us, but also for all market participants, which is only made possible by Susep's significant efforts.

The main challenges to the data analysis arise from the somewhat complex structure of the Brazilian insurance and reinsurance market. Accounting standards, for instance, have changed over time and

therefore one must be very careful when trying to construct historical series. In my opinion, a great part of the *Terra Report's* value comes from the process of working through the raw data to create valuable information.

DO YOU RECEIVE NEGATIVE/POSITIVE/SURPRISING FEEDBACK FROM THE MARKET? WHAT ARE YOUR PLANS FOR THE REPORT?

We have been receiving some very positive feedback. *Terra Report* is now distributed to more than 2,000 professionals in 25 countries and is available at our webpage. We also have been quoted and we have written articles to several well respected magazines in both Brazil and abroad, which makes us quite proud.

We have no immediate plans for changing the report. We have actually been focused in other initiatives. Two year ago, we developed a Brazilian Natural Catastrophe map, which we believe is the first in the industry dedicated solely to Brazil. Last year we created an interactive electronic version of this map, now available at our webpage. This year, what we have been working in is a new project, now close to completion, which we believe will fill another gap of the Brazilian Reinsurance Market. Unfortunately, I cannot elaborate further at the moment.

WHAT ARE YOUR OBSERVATIONS ABOUT THE DEVELOPMENT OF THE BRAZILIAN MARKET? It looks like we are heading to

another bumpy year in Brazil. We are currently compiling the data for the June 2015 edition. Premium volume continues to grow at a healthy pace, but results are deteriorating. The Loss Ratio of all Local Reinsurers combined reached 85 percent (123 percent excluding IRB) against 60 percent (70 percent excluding IRB) registered in the same period of the previous year.

On the positive side, we are seeing significant growth in the premium ceded from insurance companies outside Brazil to local Brazilian reinsurers, which demonstrates that the internationalization strategy of some local reinsurers is working. We do see, in the short term, Brazil as a regional reinsurance hub.

The reports are set out at <http://www.terrabrasis.com.br/en/Report/>. Rodrigo Botti is based in Sao Paulo, Brazil and his contact email is rodrigo.botti@terrabrasis.com.br



Ronald Poon-Affat, FSA, FIA, MAA, CFA, is VP and director with RGA Reinsurance Co. He can be contacted at rpoonaffat@rgare.com.