Market Review
July 9, 2012

Complex Distribution Challenge Awaits in Brazil's Life Segment

Brazil's Consumers Favor Savings Products Over Protection.

Carriers seeking share in Brazil's life insurance market must address distribution challenges and develop savings-oriented products to help dissuade consumers from channeling increasing levels of income into a private pension segment dominated by bank-owned insurance subsidiaries.

Distribution stands as the loftier challenge for nonbank owned life insurers, given that product delivery has been built largely on the banking sector's extended network of branches and strong customer relationships.

Banks' consumer-oriented emphasis on marketing savings products has added further momentum, leaving nonbank owned life insurers with a limited ability to compete for the growing level of income held by Brazil's emerging middle class.

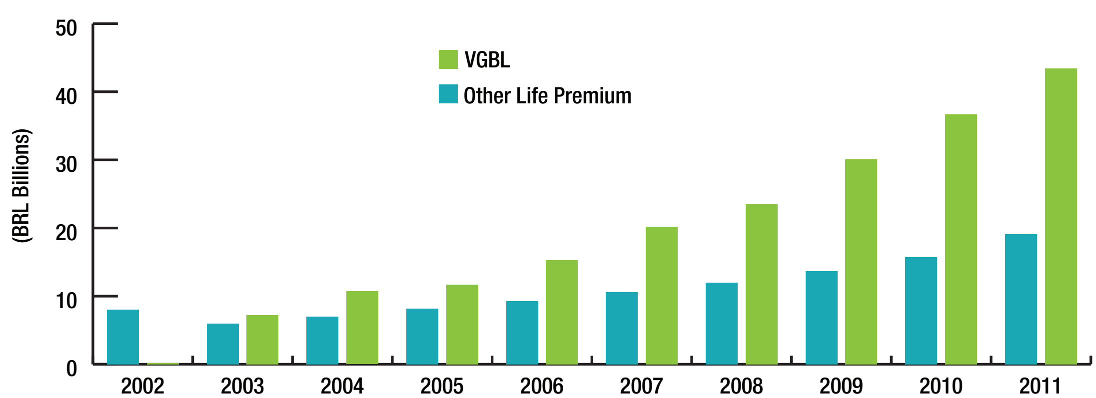
Perhaps an even more critical challenge is achieving a favorable spread between projected operating margins and the overhead of tailoring a distribution strategy for life products. There is a parallel hurdle in developing and deploying a universal life product that melds the accumulation component with a death benefit, but at a price that can generate premium volume and foster sustainable growth.

The tax benefits of two long-term savings products continue to appeal to Brazilian consumers. One of these retirement offerings alone, vida gerador de beneficio livre (VGBL), accounted for nearly 70% of the BRL 62.5 billion (USD 30.4 billion) that Brazilian consumers technically spent on life-related insurance products in 2011, according to the Superintendence of Private Insurance (SUSEP).

Exhibit 1

Brazil Life – Other Life Premium vs. VGBL (2002-2011)

Brazil's regulator counts vida gerador de beneficio livre (VGBL) as life segment premium. Premium growth in the private pension product has exceeded the traditional life segment.



Source: Superintendence of Private Insurance

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VGBL isn't a traditional life product so much as it is an investment vehicle that generates load and management fees for the companies on a percentage basis, resulting in a tighter profit margin that is a function of scale. Many VGBL account holders don't choose the death benefit rider that is available, opting instead to separately purchase less expensive term life coverage.

Banks maintain a dominant foothold in this VGBL segment, capitalizing on branch networks for distribution and a customer mindset that is less accustomed to more sophisticated insurance products.

Retirement Savings Flourish

The market for traditional life products is largely comprised of term coverage, with whole life and endowments contributing to the mix. Excluding VGBL, life insurance premium increased to BRL 19.1 billion in 2011, up 22% from a year earlier (see **Exhibit 1**). On that basis, banks hold eight of the top 10 market positions and generate 65% of the premium (see **Exhibit 2**).

Exhibit 2

Brazil Life – Top 25 Life Writers, Excluding VGBL (2011)

Brazil's regulator tracks vida gerador de beneficio livre (VGBL) as life insurance premium. This ranking excludes premium income from that private pension product.

(BRL Millions)

2010 Rank	2011 Rank	Company	Direct Premium	Y/Y % Change	Market Share (%)
1	1	Bradesco Vida E Previdencia	3,403.5	26.9	17.8
3	2	Companhia De Seguros Alianca Do Brasil	2,106.4	30.4	11.0
4	3	Santander Seguros	2,033.0	44.1	10.6
2	4	Itau Seguros	1,895.9	15.2	9.9
7	5	HSBC Seguros (Brasil)	860.6	19.3	4.5
6	6	Itau Vida E Previdencia	790.7	8.9	4.1
9	7	Caixa Seguradora	734.6	28.0	3.8
13	8	Icatu Seguros	682.2	92.8	3.6
8	9	Metropolitan Life Seguros E Previdencia	676.3	8.1	3.5
23	10	Mares - Mapfre Riscos Especiais*	660.2	460.7	3.5
12	11	Cardif Do Brasil Vida E Previdencia	562.4	47.1	2.9
5	12	Mapfre Vera Cruz Vida E Previdencia*	443.7	-47.2	2.3
11	13	Sul America Seguros De Pessoas E Previdencia	393.8	1.9	2.1
14	14	Porto Seguro Cia De Seguros Gerais	341.2	9.8	1.8
15	15	Unimed Seguradora	306.3	14.6	1.6
10	16	Tokio Marine Seguradora	303.4	-39.8	1.6
18	17	Prudential Do BR Seguros De Vida	288.1	30.2	1.5
17	18	Chubb Do Brasil Cia De Seguros	279.8	25.4	1.5
16	19	Ace Seguradora	275.7	9.9	1.4
25	20	Zurich Minas Brasil Seguros	249.3	150.1	1.3
19	21	Mongeral Aegon Seguros E Previdencia	183.9	33.6	1.0
22	22	Assurant Seguradora	178.1	47.0	0.9
31	23	Vida Seguradora	131.9	116.9	0.7
27	24	Safra Vida E Previdencia	113.6	24.4	0.6
24	25	Cia Seguros Previdencia Do Sul	105.5	2.5	0.6
		Other	1,133.4	-0.7	5.9
		Total	**19,133.3**	**21.7**	**100.0**

* Mapfre consolidated joint operations with Banco do Brasil on May 31, 2011.
Source: Superintendence of Private Insurance

Exhibit 3

Brazil Life – Top Writers Ranked on Direct Premium (2011)

Brazil's regulator includes private pension premium in the total life segment.
(BRL Millions)

2010 Rank	2011 Rank	Company	Direct Premium	Y/Y % Change	Market Share (%)
1	1	Bradesco Vida E Previdencia	18,127.0	25.0	29.0
2	2	Itau Vida E Previdencia	10,719.6	39.7	17.1
3	3	Brasilprev Seguros E Previdencia	9,383.6	24.2	15.0
4	4	Santander Seguros	4,741.2	-18.2	7.6
5	5	Caixa Vida E Previdencia	3,370.8	13.6	5.4
7	6	Companhia De Seguros Alianca Do Brasil	2,106.4	30.4	3.4
6	7	Itau Seguros	1,975.1	14.0	3.2
8	8	HSBC Vida E Previdencia (Brasil)	1,822.0	19.7	2.9
12	9	Icatu Seguros	981.5	58.7	1.6
10	10	Metropolitan Life Seguros E Previdencia	866.8	7.9	1.4
11	11	HSBC Seguros (Brasil)	860.6	19.3	1.4
14	12	Caixa Seguradora	734.6	28.0	1.2
28	13	Mares - Mapfre Riscos Especiais*	660.2	460.7	1.1
15	14	Sul America Seguros De Pessoas E Previdencia.	577.4	3.8	0.9
17	15	Cardif Do Brasil Vida E Previdencia	562.4	47.1	0.9
9	16	Mapfre Vera Cruz Vida E Previdencia*	540.0	-41.9	0.9
13	17	Safra Vida E Previdencia	483.1	-18.6	0.8
18	18	Porto Seguro Cia De Seguros Gerais	341.2	9.8	0.5
19	19	Unimed Seguradora	311.2	15.0	0.5
16	20	Tokio Marine Seguradora	303.4	-39.8	0.5
23	21	Prudential Do BR Seguros De Vida	288.1	30.2	0.5
21	22	Chubb Do Brasil Cia De Seguros	279.8	25.4	0.4
20	23	Ace Seguradora	275.7	9.9	0.4
30	24	Zurich Minas Brasil Seguros	249.3	150.1	0.4
24	25	Mongeral Aegon Seguros E Previdencia	193.0	39.9	0.3
		Other	1,768.8	1.2	2.8
		Total	**62,522.9**	**19.2**	**100.0**

* Mapfre consolidated joint operations with Banco do Brasil on May 31, 2011.
Source: Superintendence of Private Insurance

When VGBL is factored into life segment premium, bank-owned insurers occupied the top eight market positions in 2011 and generated 84% of direct premium (see **Exhibit 3**).

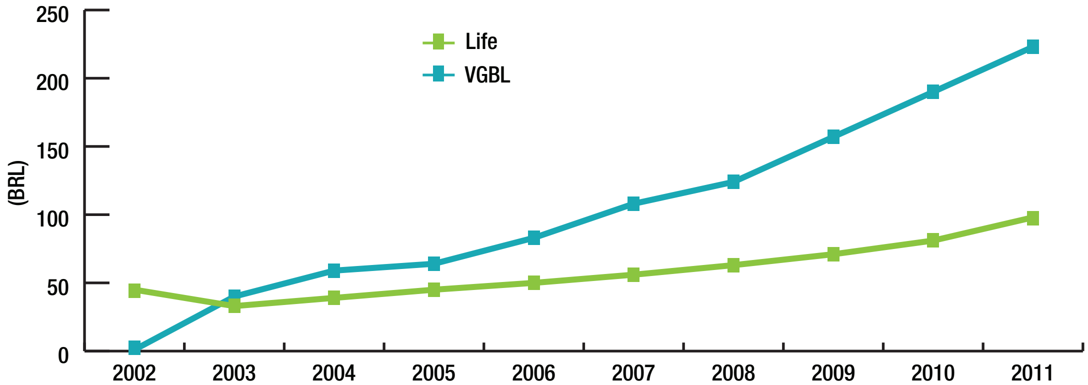
Brazil's economic growth of 2.7% in 2011 continues to foster a favorable outlook for increased premiums. Recent forecasts have projected 2012's economic growth rate in the 3% range.

Brazil still is reaping the upswing of an estimated 40 million people joining its middle class in the past eight years, which is nearly 20% of the country's current population. Another 13 million may be added to the middle class by 2014.

Life insurance premium penetration is considerably low at less than 1% of Brazil's gross domestic product (GDP). On a per capita basis, Brazil consumers spent BRL 98 on life insurance products in 2011, compared with BRL 223 spent on VGBL products (see **Exhibit 4**).

Exhibit 4

Brazil Life – Per Capita Spending on Life Product & VGBL (2002-2011)



Source: Superintendence of Private Insurance, International Monetary Fund

As Brazil's work force grows larger and becomes more skilled, customers' interest in investment-type savings products has continued to expand. The private pension segment grossed BRL 5.6 billion in the first quarter of 2012, up 38% from a year earlier. This growth indicates an opportunity for insurers, provided they can steer consumers' increased spending capacity toward protection-type products.

Brazil's banking system has been well positioned to capitalize on this investment-oriented focus through a widespread distribution platform that can reach across varying income levels to address clients' needs.

Introduced in 2002, the VGBL is an annuity-type product that is paid up with after-tax dollars, with no guaranteed minimum payment during accumulation. Only the earnings on the principal are taxed once the term is complete. The product is classified as an insurance product under International Financial Reporting Standards, since the mortality table requires a guarantee if the account holder opts for an annuity. VGBL premiums increased 18.2% to BRL 43.3 billion in 2011 (see **Exhibit 5**).

Exhibit 5

Brazil Life – Top VGBL* Writers (2011)

Ranked on direct premium.

(BRL Millions)

2010 Rank	2011 Rank	Company	DPW	Y/Y % Change	Market Share (%)
1	1	Bradesco Vida E Previdencia S.A.	14,723.5	24.5	33.9
3	2	Itau Vida E Previdencia S/A	9,928.9	42.9	22.9
2	3	Brasilprev Seguros E Previdencia S/A	9,383.6	24.2	21.6
5	4	Caixa Vida E Previdencia S/A	3,363.0	13.3	7.8
4	5	Santander Seguros S/A	2,708.3	-38.2	6.2
6	6	HSBC Vida E Previdencia (Brasil) S.A.	1,822.0	19.7	4.2
7	7	Safra Vida E Previdencia S.A.	369.5	-26.4	0.9
8	8	Icatu Seguros S.A.	299.2	13.0	0.7
9	9	Metropolitan Life Seguros E Previdencia	190.5	7.4	0.4
10	10	Sul America Seguros De Pessoas E Previdencia S.A.	183.7	8.2	0.4
		Other	417.2	6.2	1.0
		Total	**43,389.6**	**18.2**	**100.0**

* Vita gerador de beneficio livre

Source: Superintendence of Private Insurance

The plano gerador de beneficio livre (PGBL) is a private pension plan that is similar to the 401(k) in the United States. A death benefit can attach separately. PGBL funds increased 13.5% to BRL 6.9 billion in 2011 (see **Exhibit 6**).

Exhibit 6

Brazil Life – Top PGBL* Writers (2011)

Ranked by plan contributions.

(BRL Millions)

2010 Rank	2011 Rank	Company	Contributions	Y/Y % Change	Market Share (%)
1	1	Brasilprev Seguros E Previdencia S/A	1,856.5	9.4	26.8
2	2	Bradesco Vida E Previdencia S.A.	1,805.1	27.2	26.1
3	3	Itau Vida E Previdencia S/A	1,427.5	14.1	20.6
4	4	Santander Seguros S/A	387.7	(1.5)	5.6
5	5	HSBC Vida E Previdencia (Brasil) S.A.	366.9	8.9	5.3
6	6	Caixa Vida E Previdencia S/A	328.8	2.3	4.8
8	7	Icatu Seguros S.A.	190.4	14.1	2.8
7	8	Sul America Seguros De Pessoas E Previdencia S.A.	181.1	8.0	2.6
9	9	Porto Seguro Vida E Previdencia S/A	113.5	20.0	1.6
10	10	Mapfre Vera Cruz Vida E Previdencia S.A.	81.1	28.2	1.2
		Other	176.4	(2.4)	2.6
		Total	**6,914.9**	**13.5**	**100.0**

* Plano gerador de beneficio livre

Source: Superintendence of Private Insurance

Bank-owned insurers dominate both of these lines of business, clearly demonstrating the synergy banks derive from their distribution platform. This bancassurance channel is expected to continue driving premium growth in the industry as more of Brazil's population gains access to banking. This may be especially true should growth trends favor the country's less developed outlying regions.

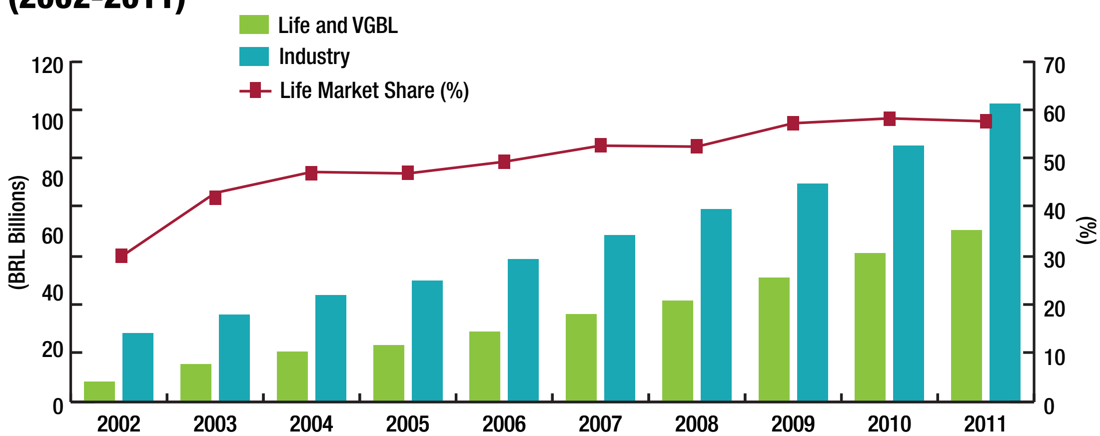
Life Products Lack Versatility

Considering the lack of an approved universal-life product, Brazil's life market remains immature with respect to cash-value oriented life products. Whole life and endowment products have a minimal market presence when compared with the volume of term coverage.

Brazil lacks an adequate supply of specialist brokers, a factor that drives up the overhead on distribution. Reaching and educating potential customers, who may be largely

Exhibit 7

Brazil Life – Total Life and VGBL Share of Industry Direct Premium (2002-2011)



Source: Superintendence of Private Insurance

unfamiliar with risk-based products, remains another key cost driver. While retail sales chains provide a possible remedy for generating leads and reaching prospects, the nature of competition has driven up the cost of these arrangements.

The economic potential for organic growth still serves as a lure, but tighter margins in an increasingly competitive market have required insurers to take a longer term view.

Distribution is not the only complexity that exists in Brazil's life segment. Another unique trait involves the sale of policies to individuals through a group life structure, often through an entity or association established by a carrier. The policies are sold individually, with pricing done on a collective basis. SUSEP's awareness of the issue has increased as it tries to more closely track those products that could be better characterized an individual policies.

Nonetheless, this market practice persists and prevents a true demarcation between premiums generated from the group life and individual segments. There are more limitations on the sale of individual life policies. Individual rates must be filed with SUSEP, but only the minimum rate must be disclosed on a group product.

New market entrants also are launching products geared toward high-net-worth clients, seemingly to capitalize on a regulatory practice that has discouraged the placement of such policies with offshore entities.

SUSEP recently announced that it had fined U.S.-based National Western Life BRL 11.7 billion, claiming that the company illegally sold BRL 331 million in life insurance coverage in Brazil through December 2010. National Western has disputed that claim, maintaining that it does not have operations in Brazil and the regulator lacks jurisdiction.

Large commercial brokers are fueling aggressive competition in employee benefits to add transaction-based value. Benefits have gained more prominence as Brazil's work force expands and grows more skilled.

A MetLife workplace survey last year indicated that 30% of Brazil's employers anticipate some type of labor shortage. And nearly half of Brazilian employees who receive benefits through work are interested in a wider array of offerings, according to the survey results.

Rising Debt Creates Growth

Credit-related life products, known in the market as prestamista, have grown significantly amid an upswing in consumer credit. Premium generated from credit life products increased 43% to BRL 4.5 billion in 2011 compared with a year earlier (see **Exhibit 8**). Premium volume in this line has almost doubled in three years.

Credit as a percentage of GDP reached 56% last year, up from 40% in 2006. Banks have maintained a significant presence in this segment, benefiting from bundled loans that can include life coverage with payments scheduled through a credit card.

According to the International Monetary Fund (IMF), private bank credit expanded rapidly in Brazil between 2006 and 2008, reaching annual growth rates of 35% (see **Exhibit 9**). Brazil sought to temper this growth in 2010 by increasing the capital requirements for vehicle loans, personal credit loans and payroll-deducted loans, according to the IMF. Future growth in this segment also is predicated on macroeconomic conditions.

Exhibit 8
Brazil Life – Top Credit Life Writers (2011)

Ranked on direct premium.

(BRL Millions)

2010 Rank	2011 Rank	Company	DPW	Y/Y % Increase	Market Share (%)
1	1	Santander Seguros S/A	901.3	30.8	19.9
4	2	Comphania De Seguros Alianca Do Brasil	666.1	96.5	14.7
3	3	Bradesco Vida E Previdencia S.A.	469.1	32.1	10.4
2	4	Itau Seguros S/A	465.8	12.0	10.3
5	5	Cardif Do Brasil Vida E Previdencia S/A	453.0	57.8	10.0
9	6	Mares - Mapfre Riscos Especiais S.A.	375.8	219.7	8.3
11	7	Icatu Seguros S.A.	310.2	349.9	6.9
7	8	HSBC Seguros (Brasil) S.A.	287.9	27.0	6.4
10	9	Assurant Segurodora SA	142.5	36.1	3.2
20	10	Zurich Minas Brasil Seguros S.A.	78.2	347.0	1.7
		Other	372.0	-52.7	8.2
		Total	**4,522.0**	**32.7**	**100.0**

Source: Superintendence of Private Insurance

Brazil has attracted considerable attention due to a favorable economic growth outlook, which has been helped along by its role as host of the 2014 FIFA World Cup and the 2016 Olympic Games.

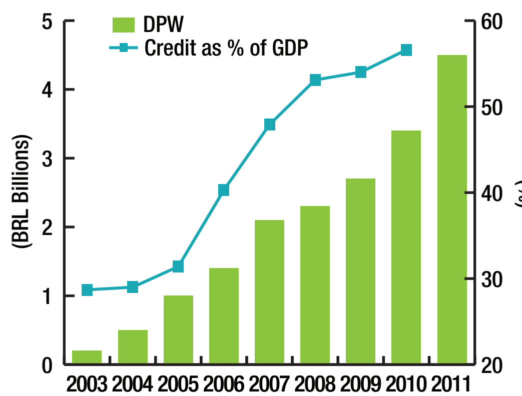
Considerable challenges will persist in the development of Brazil's life insurance market. Chief among the issues for stand-alone insurers is resolving the distribution challenge. Brazil's broker network has developed along the property/casualty lines, resulting in a dearth of specialist brokers with deep knowledge of life products. As insurers strive to boost brokers' productivity with increased marketing, they must strike a balance of competitive premiums, acceptable commissions and adequate reserving.

Distribution Drags on Profit
The bancassurance channel faces its own challenge in maintaining, if not improving, the quality of the sale for insurance-related products. As Brazil's consumers grow more familiar with insurance products, the idea of purchasing coverage outside of the bancassurance channel may become more mainstream.

As insurers create and build out distribution channels to take advantage of this prospect, the overhead of establishing a highly effective sales force will drag against profitability. Multi-platform approaches that use affinity marketing and telemarketing may prove beneficial. More expensive products may generate limited volume.

The prospect of carving life market share from the growing pool of private pension contributions will be helped by a low interest rate environment. Consideration also is being given at the regulatory level to permitting a private pension product that would allow tax-deferred savings to be spent on long-term care coverage.

Exhibit 9
Brazil Life – Credit Life Direct Premium (2003-2011)



Sources: Superintendence of Private Insurance, International Monetary Fund

SUSEP is reviewing this issue, and also preparing to increase capital requirements in the life segment. Life insurers and VGBL writers must establish minimum base capital of BRL 15 million.

Market pressures are expected to build as the country's regulator pursues more conservative reserving and capital requirements. While underwriting risk and credit risk are regulated for non-life carriers, those mechanisms have yet to be implemented for the life segment. SUSEP's pursuit of this course could generate merger and acquisition activity as local companies consolidate, and new market entrants try to establish a footprint in Brazil.

The current, limited role of reinsurers in Brazil's life segment is expected to expand under more open market conditions. This stems from Brazil lifting the monopoly that IRB Brasil Resseguros had on the reinsurance segment until five years ago. The move to an open market has created new demand among reinsurers for employees with technical skills.

Brazil's life insurers are gaining an increased awareness of the benefits that can be accessed through a reinsurance partner. Finding strategic support for product development; underwriting; and financing new distribution channels are among the considerations that can help primary writers deploy capital more efficiently, and compete more readily against a dominant bancassurance channel. These and other factors contribute to a continued stable outlook for growth in Brazil's life insurance segment.

Private Health Option Continues to Expand

Brazil's Unified Health System (SUS) has provided universal coverage to the country's citizens since 1988. Yet 47.6 million Brazilians also had supplemental coverage through private health insurers in 2011. This represents a quarter of the country's population and marks a 23% increase in the number of private plan participants since 2007, according to the National Health Agency (ANS). The number of individuals with private dental insurance has nearly doubled in that same period to 16.8 million.

The total combined revenue among Brazil's health care plan operators increased almost 12% to BRL 83.4 billion in 2011, compared with a year earlier.

Private health care insurance is considered a non-life class of business in Brazil and is grouped with personal accident coverage. This system was reformed in 1998 and resulted in insurers being required to establish separate provider companies that are regulated by ANS. Much like home ownership, private health coverage is gaining favor with Brazil's growing middle class.

While the number of insureds in the private segment continues to increase, rate limitations and other regulatory factors have proved challenging for providers. The ANS added 60 new procedures to the overall coverage mandate for private plans, which took effect Jan. 1, 2012.

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