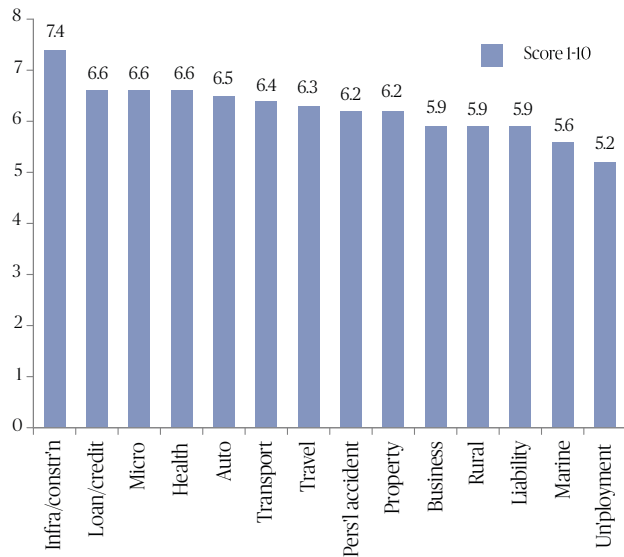


Growth potential

Responses to: How well will these non-life insurance types develop in Brazil in 2014?



Source: Bradesco Seguros Investor Survey on the 2014 Outlook for the Brazilian Non-Life Insurance Sector

6.8% over the next six years, according to the survey.

Still, the industry is growing more slowly than in other parts of Latin America. Non-life premiums rose 7.1% in Brazil between 2010 and 2011, on an inflation-adjusted basis in US dollar terms. In Mexico they grew by 12.3% over the same period and in Argentina, by 20.4%.

In addition, growth of the industry slowed in Brazil last year. Brazilian insurance premiums are estimated to have grown 13% in 2013, missing the 18% expansion forecast. Brazil's insurers association says they should rebound this year, going up 17%, however.

The survey was conducted by Management & Excellence for Bradesco Seguros, in cooperation with *LatinFinance*, between mid September and late December 2013. It garnered responses from 32 investors, analysts and specialists. Most were real money investors. Around a third were from hedge funds, while some insurance agents and private equity investors also participated. Almost all specialized in both Brazil and the insurance sector.

Demographic opportunity

Respondents ranked low rates of coverage as the primary opportunity for the non-life insurance industry for 2014. The survey points to plenty of quantitative support: Brazil's insurance market sat in 44th place globally by penetration rates, and around 70% of the country has no coverage. Munich Re reckons Brazil will be the world's 8th largest market by 2020 – overtaking India, Italy, Canada and Australia to get there.

Vehicle insurance offers a particularly stark example of the growth possibilities: only one in three cars driven in Brazil are insured, leaving over 30 million without insurance.

"Auto insurance is [also] expected to grow because of the growing auto market," says William Cox, chief executive of Management & Excellence. "There's great potential."

The growing middle class and the expansion of the internet were also important opportunities for the industry, respondents said. The rise of a consumer class across much of Latin America has been well-documented. Combine that with a rapidly expanding, cheap distribution network like the web, and the opportunities are clear.

Indeed, distribution channels were judged the principal value driver for non-life insurance – respondents awarded the item a score of 6.8 on a scale of 1 to 10, where the higher number represents greater importance. This was 20bp above the next contender, corporate strategy. Around 74 million Brazilians are active internet users, and 25 million have internet-capable phones.

Use of the internet has the power to disrupt established hierarchies, notes Cox. While the largest companies may find it easiest to set up product websites that operate smoothly, they also face threats from low-cost, internet-only start-ups. "It's a logical step that's happened elsewhere," he says.

Meanwhile, a stronger insurance culture in Brazil, low interest rates or inflation, tax incentives, and legal simplifications did not represent much opportunity to the non-life insurance industry, said respondents. All scored below five points in terms of main opportunities for the non-life sector.

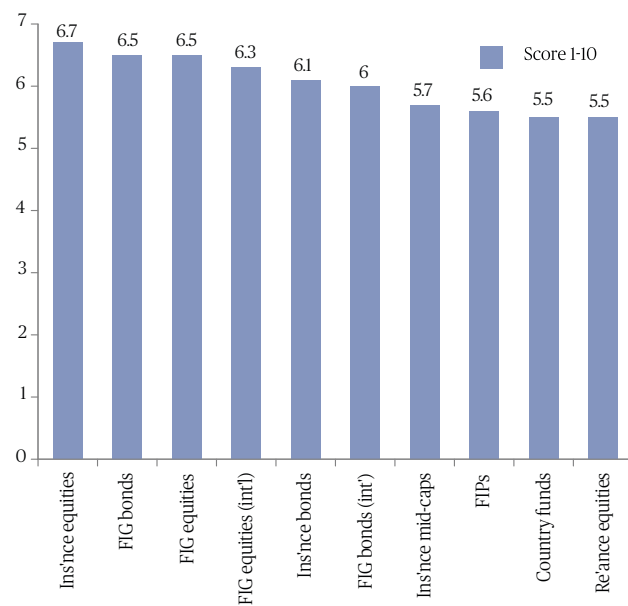
Building blocks

Brazil's demographic shift offers scope for growth in non-life insurance as a whole, but investors were clear that some areas of coverage are set to benefit more than others. Infrastructure and construction insurance is the most likely to grow quickly this year, the survey indicated.

"Infrastructure insurance is the smallest in terms of volume, but it's likely to be the largest in terms of volume growth," says Cox.

Investment vehicles

Responses to: How would you invest in the Brazilian non-life insurance sector in 2014?



Source: Bradesco Seguros Investor Survey on the 2014 Outlook for the Brazilian Non-Life Insurance Sector