

WITH SUCH CONCENTRATION SECONDARY PLAYERS MAY FIND IT INCREASINGLY DIFFICULT TO PRODUCE ACCEPTABLE MARGINS

Survey respondents gave it an average 7.4 ranking. Alexandre Saraiva, chief executive of Brazilian insurer Vida Maxima, says that given the country's infrastructure drive, coverage of those risks can be expected to grow.

Coverage for health and credit as well as microinsurance placed second, each scoring 6.6. Just 13 Brazilian insurers specialize in health, and the area is already expanding rapidly, more than doubling in size between 2006 and 2012, according to M&E.

Ricardo Nishimura, who has 15 years experience in insurance operations in Brazil, says microinsurance covering life, unemployment and personal accidents is likely to be a growth area thanks to recent regulatory changes. A new framework introduced a year ago covers cheap insurance to lower-income Brazilians, and allows sales through channels "usually considered unusual, like newsstands, lottery houses, micro financial institutions or even schools," he says.

In the survey, private unemployment insurance is ranked least likely to grow, with a score of 5.2. Respondents were also less keen on marine insurance (5.6) and business, rural, and liability insurance (5.9 each).

Insurers already find it difficult to cover Brazilians outside the main urban areas. Data from the regulator indicates that two-thirds of the country's insurance policies are to the country's south east – which includes São Paulo, Rio de Janeiro, and Belo Horizonte. Close to half – 47% – of premiums are for risks in São Paulo state alone.

As well as the problems that come with distributing the product to a more dispersed population, outside the south east, insurers have more trouble calculating the risks. There is less historic data for coverage in rural areas, making it tougher to charge the right price. This is particularly challenging for international firms.

Earnings, investments in question

The industry may be expanding at a steady clip, but insurers still face difficulties boosting their profits. A period of low interest rates has made it tougher for Brazilian insurers to grow their return on assets (RoA).

Fitch calculates that RoA at Brazilian insurers, excluding health coverage, came in at 1.8% last year, a drop from the 2.5% it had averaged in the four previous years. It attributes the fall to the central bank's dramatic series of interest rate cuts from late 2012 to April 2013, which cut insurance companies' earnings from investments.

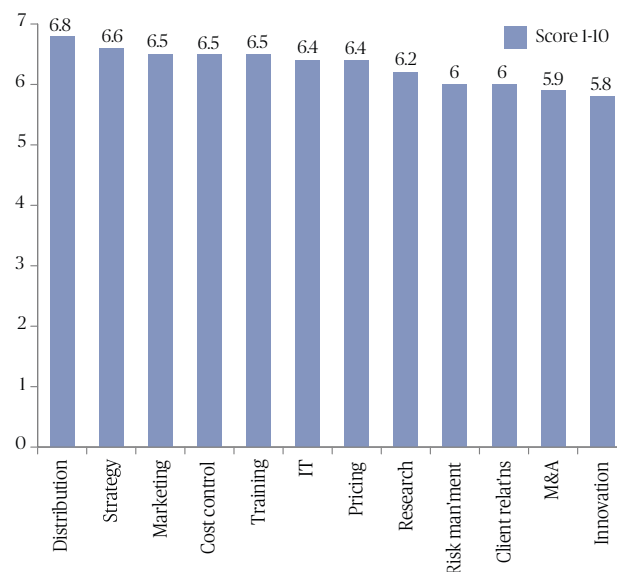
As a result, insurance companies are looking at their full range of options when it comes to investing the premiums that they hold, says Cox.

"There is a trend for insurers to go into private equity or hedge funds," he says. "The overall strategy is to increase returns."

Meanwhile, for investors in bonds and stocks, taking advantage of the likely growth in the sector is proving difficult. Access to

Value Drivers

Responses to: Which factors within non-life insurance companies will drive their performance in 2014?



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

instruments sold by non-life insurance firms are particularly scarce.

Respondents ranked shares of large life insurers as the most preferred investment vehicle for non-life insurance, awarding that instrument an average score of 6.7 out of 10. Bonds and stocks sold by the broader category of Brazilian financial institutions were next best – respondents gave this a score of 6.5.

Managed country funds and shares of reinsurers were the least popular, scoring 5.5 each, with regulatory risk a possible factor in reinsurance.

The industry may be tough to access for real money accounts and portfolio managers, but other forms of investment are likely: particularly mergers and acquisitions.

Respondents ranked M&A low among value drivers in the industry – giving it a score of 5.9, ahead of just one other likely value driver: product innovation, which scored 5.8. Yet, consolidation is likely, says M&E. Around 240 insurers, including life insurers, operated in Brazil in 2012 – but 10 of them accounted for around 80% of the industry. "With such concentration, secondary players may find it increasingly difficult to produce acceptable margins," the survey findings say.

Vida Maxima's Saraiva expects to see a number of transactions involving bigger brokers buying smaller rivals. He gives the example of Brasil Insurance, which has spent 470 million reais on a stream of acquisitions of smaller brokerages since it listed in 2011. Its most recent was Fidelle, which sells around 40 million reais in annual insurance premiums, and which it bought for 17 million reais in cash and stock in its fifth acquisition of 2013. **LF**

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