

**Brazil: Detailed Assessment of Observance of Insurance Core Principles of the
International Association of Insurance Supervisors**

This paper was completed on June 2012. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Brazil or the Executive Board of the IMF.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

**International Monetary Fund
Washington, D.C.**

FINANCIAL SECTOR ASSESSMENT PROGRAM

BRAZIL

IAIS INSURANCE CORE PRINCIPLES

**DETAILED ASSESSMENT OF
OBSERVANCE**

JUNE 2012

INTERNATIONAL MONETARY FUND
MONETARY AND CAPITAL MARKETS DEPARTMENT

Contents	Page
Glossary.....	3
I. Assessment of Insurance Core Principles (ICPs).....	5
A. Introduction and Scope.....	5
B. Executive Summary.....	6
C. Institutional and Market Structure—Overview	11
D. Market Structure.....	12
E. Preconditions.....	18
F. Main Findings	20
Regulatory and supervisory key findings.....	20
Market key findings.....	23
II. Summary of Observance of the Insurance Core Principles.....	28
III. Recommendations and the Authorities’ Responses	33
IV. Detailed Assessment	40
Tables	
1. Total Assets Including Technical Reserves and Equity	13
2. Total Insurance Premium, 2005–2010	14
3. Insurance Premium and Penetration Evolution.....	15
4. Number of Insurers and Insurance Groups, 2007–2011.....	16
5. Investment Instruments used to Cover Technical Provisions 2011	18
6. Top 10 Insurance Groups by Assets in 2011.....	24
7. Market Share of Top Insurers as Percentages of Assets for Life and Premiums for Composite Business 2011	24
8. Aggregated Life Insurance Data, 2007–2011.....	25
9. Aggregated Composite Including Nonlife only Insurance Data, 2007–2011	26
10. Average Solvency Margins Above the Regulatory Requirements of	26
11. Excess Capital and Additional Requirements, 2011	27
12. Summary of Observance of the Insurance Core Principles.....	28
13. Recommendations to Improve Observance of ICPs.....	33
14. Detailed Assessment of Observance of the Insurance Core Principles.....	40
Figures	
1. Latin America & Caribbean Total Insurance Premiums 2010.....	13
2. Credit Expansion.....	14
3. Business Composition in Nonlife Insurance 2005–2010	17
4. Business Composition in Life Insurance 2005–2010.....	17

GLOSSARY

ANS	National Agency for Supplementary Health (Agencia Nacional de Saude),
BCB	Brazilian Central Bank (Banco Central do Brasil)
BRL	Brazilian monetary unit, the real
COREMEC	Committee on the Regulation and Supervision of Financial and Capital Markets, Insurance, Pensions, and Capitalization
CL 109	Complementary Law No. 109 of 2001
CL 126	Complementary Law No. 126 of 2007
CMN	National Monetary Council (Conselho Monetario Nacional)
CNSeg	National Confederation of Insurance
CNSP	National Council for Private Insurance (Conselho Nacional de Seguros Privados)
CVM	Securities Commission (Comissão de Valores Mobiliários)
DL 73	Decree Law No. 73 of 1966
FENACOR	Brokers Federation
FUNENSEG	Insurance Foundation
FSAP	Financial Sector Assessment Program
FX	Foreign exchange
GDP	Gross Domestic Product
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principles
IMF	International Monetary Fund
MOF	Ministry of Finance
MOP	Ministry of Planning
PGBL	Plano Gerador de Benefícios Livres (Retirement plan creator of free benefits; a type of 401K product)
PREVIC	National Supervisory Authority for Complementary Pension Plans (Superintendencia Nacional de Previdencia Complementar)
ROE	Return on Equity
SUMEF	Subcommittee for Monitoring the Stability of the National Financial System
SUSEP	Superintendency of Private Insurance (Superintendencia de Seguros Privados)
VGBL	Vida Gerador de Benefícios Livres (Life product creator of free benefits; a type of 401K product)

I. ASSESSMENT OF INSURANCE CORE PRINCIPLES (ICPs)

A. Introduction and Scope

1. **This report is a full assessment of Brazil’s compliance with the Insurance Core Principles (ICPs) of the International Association of Insurance Supervisors (IAIS), as adopted in October 2011.** The review was carried out as part of the 2012 Financial Sector Assessment Program (FSAP) assessment of Brazil, and was based on the regulatory framework in place, the supervisory practices employed, and other conditions as they existed in March 2012. The assessment was carried out by Dr. Rodolfo Wehrhahn, Technical Assistance Advisor, in the Financial Sector Oversight Division of the Monetary and Capital Markets Department, IMF.
2. **Regulation and supervision of the insurance industry in Brazil is largely the responsibility of the National Council for Private Insurance (CNSP) and the Superintendency of Private Insurance (SUSEP).** Ultimate supervisory authority is held by the National Council for Private Insurance—CNSP (Conselho Nacional de Seguros Privados), which reports to the Ministry of Finance and is responsible for establishing government policies, guidelines and directives. The Superintendency of Private Insurance—SUSEP (Superintendencia de Seguros Privados) acts as the CNSP’s executive, regulatory, supervisory, and enforcement arm and is generally responsible for supervision of the insurance business.
3. **The assessment is based solely on the laws, regulations, and other supervisory requirements and practices that were in place at the time of assessment.** Ongoing regulatory initiatives are noted by way of additional comments. The assessor had access to a complete self-assessment on the Insurance Core Principles (ICPs) and responses to a detailed questionnaire that had been provided by SUSEP prior to the commencement of the exercise.
4. **The assessment has been informed by discussions with regulators and market participants.** The assessor met with staff from SUSEP and various government ministries, insurers, industry associations, professional bodies and firms, and rating agencies. The assessor is grateful for the full cooperation extended by all.
5. **Brazil is one of the first jurisdictions to be assessed under the 2011 version of the ICPs.** The efforts required by SUSEP to prepare the self-assessment, as well as its excellent support during the mission, are especially appreciated.
6. **The level of observance for each ICP reflects the assessment of the various standards thereunder.** Each ICP is rated in terms of the level of observance as follows:
 - **Observed**—whenever all the standards are considered to be observed or when all the standards are observed except for a number that are considered not applicable.

- **Not Applicable**—when the standards are considered to be not applicable.
- **Largely Observed**—where only minor shortcomings exist, which do not raise any concerns about the authorities’ ability to achieve full observance.
- **Partly Observed**—where, despite progress, the shortcomings are sufficient to raise doubts about the authorities’ ability to achieve observance.
- **Not Observed**—where no substantive progress toward observance has been achieved.

B. Executive Summary

7. **The insurance industry in Brazil is an important part of the financial sector.** In the last five years the assets managed by the sector supervised by SUSEP has more than doubled. At the end of 2010, the total assets of the insurance sector amounted to USD 225 billion or 9.5 percent of GDP. It is the largest insurance sector in Latin America accounting for fifty percent of gross written premium in the region, and holding around 1.5 percent of the world premium. In 2010 the total written insurance premium amounted to USD 75 billion. The market is dominated by insurers belonging to large banking groups and Brazil is the host jurisdiction of all major international insurers together they hold over eighty percent market share in terms of assets.

8. **In the last few years the insurance industry experienced an explosive growth doubling the premium between 2005 and 2010 however, growth potential remains significant.** The long lasting financial and currency stability, steady growth of the economy, credit availability and insurance saving growth promoting policy, like the implementation of tax incentives¹ resulted in continuous growth of the insurance industry for the last 10 years. In particular the credit expansion generated growth in credit life, mortgage, homeowners and motor insurance. Notwithstanding this surge in insurance, currently the average Brazilian spends less than US\$ 350 in insurance per year and the insurance penetration is only 3.5 percent or just above 50 percent of the OECD countries’ average. Much effort has been dedicated to encourage further growth of the insurance sector, in particular on the low income sector, with supportive statements at the presidential level and a Microinsurance specific regulation having been enacted at the end of 2011.

9. **The market dominance of the large bank related entities is further increasing.** At the end of 2011 there were around 26 insurance groups and 115 active insurance companies. However, the three bank-related insurance groups, Itau, Bradesco and Banco do

¹ The government granted for the retirement products PGBL and VGBL tax advantages in the form of exempt contributions and built up and taxed distributions; and taxed contributions and exempt built up and distributions to encourage medium to long term savings. The tax benefits are accrued only after certain number of years that keeps increasing as the market becomes more accustomed with these products.

Brazil controlled around 65 percent of the insurance market in terms of assets either directly or through strategic alliances or exclusivity agreements. The top ten insurers, six of which are part of bank groups, accounted in 2011 for 80 percent of the life insurance market in terms of assets. In the nonlife sector represented by the composite insurers, the dominance by bank related groups is not as strong, where the top four bank-related insurers accounted for 43.7 percent of the business in terms of premium.

10. **Regulation strongly encourages the use of brokers and the distribution channel is broker dominated.** While there is no explicit requirement of the presence of a broker for every insurance transaction, in case of a direct sale, the equivalent amount to the commission needs to be paid the FUNENSEG, the insurance foundation dedicated to education and certification of insurance brokers and professionals. According to FENACOR, the brokers' federation, at the end of 2011 there were 46,513 individually registered active brokers and 23,000 broking companies, of which 67.4 percent and 74.4 percent respectively operated primarily in the nonlife sector.

11. **Notwithstanding the dominance of the Brazilian insurers in Latin America, spillover effects are minimal.** While the large insurers have some presence outside Brazil their business is domestic concentrated. Over 95 percent of the business underwritten by the Brazilian domiciled insurers is domestic. The inclusion in the last 10 years of over 20 million Brazilian into the economic segments D, C and B away from the marginal poor segments has created a very attractive domestic market. These new consumers have been the main source of strong growth for the insurance sector. It is expected that insurers will continue to exploit the Brazilian market before expanding cross-border.

12. **Investments by the insurance sector are conservative and short term, primarily comprising fixed income instruments.** The National Monetary council (Conselho Monetario Nacional, CMN) uses technical input from SUSEP to establish the investment requirements for the insurance sector. The requirements are transparent and their objectives include diversification, safety, profitability, solvency, and liquidity. The requirements are strict; for example: Foreign investment is largely prohibited, with a few exceptions that are related to the currency matching instruments for policies issued in foreign currency, and for investments made by investment funds; Securities lending is not allowed with respect to assets backing the technical provisions and, for other assets, 100 percent collateral is required. Insurers prefer using fixed income investment funds and government bonds, while open pension funds, apart from investments in government bonds, have large investments in bank deposits. Real estate and variable income exposure is low.

13. **Profitability levels of the insurance sector have been consistently high over the last five years.** For life insurers the combined ratio has been around 75 percent and the ROE above 20 percent. The nonlife business, while having a higher combined ratio of around 100 percent, has nevertheless been able to maintain a high ROE, running between

47 percent and 34 percent. The investment income of around 25 percent of the premium in both industries has also benefited the profitability of the insurers.

14. **Solvency ratio of the insurance industry is strong and other financial indicators of the insurance sector suggest resilience.** Under current regulatory solvency requirements, which represent an increment of around 35 percent in the capital requirements as compared with pure Solvency I requirements, the life insurance sector has an average margin of 250 percent above the regulatory requirements, while the nonlife sector shows as 90 percent above the required solvency margin. The ratio of capital and surplus to underwritten premium (the risk ratio) is around 1.7 and capital and surplus of 8.25 percent of total assets are both within international norms for sound companies. Foreign currency assets are negligible due to the limitation in foreign investments.

15. **SUSEP has been strengthening the solvency requirements towards a more risk sensitive regime.** SUSEP has recently incorporated specific capital risk surcharges for the nonlife underwriting risk and for the credit risk and is working on the surcharges for the market, operational and life underwriting risks. This is a positive step to modernize its capital requirements that until 2010 were basically based on the type of license and geographic area of action plus Solvency I. As a result of the upgraded capital requirements, on average an additional capital surcharge of 35 percent has been implemented.

16. **The public disclosure is extensive and audited information is required biannually.** The disclosed information contains detailed organizational, operational, financial, statistical, and risk management information including the composition of the capital requirements. The amount of information publicly disclosed is timely and permits consumers and other interested parties to gain a good understanding of the current financial position as well as risk exposures of insurers.

17. **SUSEP engagement in internal controls including fraud detection is commendable.** In recent years, SUSEP has more strongly emphasized the importance of risk management and internal controls. SUSEP has developed an inspection module for the compliance of the effectiveness of the internal controls and risk management systems. This module is used in every inspection and there have also been focused inspections on the internal controls and risk management systems. The quality of internal controls varies according to the size and complexity of the insurers. Large insurers have sophisticated systems in place, in keeping with international standards. SUSEP requires insurers and intermediaries to have controls in place to deter, prevent, detect, report and remedy fraud in insurance. SUSEP requires an opinion of the external auditors on the effectiveness and well functioning of the internal controls of the audited company as defined in Circular 280 of 2004.

18. **Licensing, changes in control, portfolio transfers and suitability requirements are largely in line with international standards.** The licensing requirements are clearly stated and cover both financial as well as non financial aspects to warrant a sound operation.

However there is room for improvement in the licensing process. For instance consultation with the home supervisor should be part of the licensing process of foreign participants and a period to grant a license should be introduced to increase transparency in the licensing process.

19. **The complex mandatory reinsurance sessions regulation adds cost and possibly hinders market development.** Currently a complex mechanism is in place to track the mandatory reinsurance sessions to local reinsurers. The liberalization of the reinsurance market will probably allow smaller companies to compete in the market and reduce the existing concentration. Going forward SUSEP is recommending the removal of any limits on the type of sessions that are allowed in dependence of the reinsurer's license, and move into a supervised regime based on risk capital. Thus the use of a reinsurer that presents higher risk to the insurers should required a higher capital charge for the insurers, or a limited recognition of the reinsurance credit on its balance sheet.

20. **Governance and enterprise risk management for solvency purposes needs to be developed.** There are minimum corporate governance requirements applicable to insurers in Brazil expressed in a few CNSP resolutions in addition to those set out in the Companies' Act. The establishment of corporate governance should be required by regulation which should be consistent with the international standards. Current regulation has no requirements with respect of enterprise risk management for solvency purposes. Enterprise risk management is an evolving field, both in Brazil and internationally. Some Brazilian insurers have sophisticated enterprise risk management systems, while others are at earlier stages of development.

21. **Cooperation and information sharing as well as cross-border crisis prevention and macroprudential surveillance need to be developed.** Regulatory framework and supervisory action is required for the new international standards, such as cross-border crisis prevention and macroprudential surveillance and insurance supervision. The cooperation with foreign jurisdictions needs to be enhanced and formalized. Signing the multilateral MoU is strongly recommended.

22. **Consumer protection has made important progress in the last years, but more work is needed.** The requirement to establish an effective ombudsman by each insurer has proven to be a successful measure to protect consumers. The high number of satisfactory outcomes, with only 4 percent of cases remaining unresolved and only 0.8 percent of them resulting in a fine, indicates a well functioning consumer complaints process. The requirement of having the claims paid within 30 days is also a commendable element in the protection of customers, in particular given that the 30 days can only be stopped to request relevant additional information. However, except for pension plans, there are no detailed requirements on the type of information consumers should receive before, during, and after purchasing an insurance product. There are also no requirements on the disclosure of commissions, nor with regard to the conflict of interest that intermediaries may have when

advising on the purchase of insurance. The large conglomerates operating in Brazil create a challenging environment when making sure best advice is provided to customers, free from conflict of interests. Further, the dynamics of the market that are currently incorporating a large number of first time consumers into the insurance market, requires further strengthening of consumer education and protection, in particular through the design of simple products for low income consumers. To enhance consumer protection, at least for long term saving products, transparency requirements need to be introduced. For instance, clear disclosure of conflict of interests of intermediaries; requirements to offer a number of similar products together with the disclosure of the product with the highest commission, etc are recommended. For microinsurance regulation particular emphasis on the simplicity of the products is recommended.

23. The legal framework governing SUSEP contains elements that undermine the independence and capacity of the supervisor to fulfill effectively its mandate and objectives:

- The CNSP can and has issued regulation based on limited technical input from SUSEP.
- The requirements of operational use of the allocated budget, like the approval of international travel, needs the approval of the MOF.
- There is no framework for the nomination of the Superintendent and Directors and there are no minimal requirements on their qualification. The Superintendent and the Directors of SUSEP are nominated and can at any time be dismissed by the President of the Republic. Similarly, the officers of SUSEP are nominated and can at any time be dismissed by the Superintendent. Dismissal reasons are not published.

24. SUSEP operational independence needs to be strengthened by introducing a transparent appointment procedure, requiring technical input on any regulation and providing autonomy on the use of the allocated budget.

25. The regulatory framework is weak in group supervision, even missing the definition of a financial group or conglomerate for the purpose of supervision. The market is dominated by insurers belonging to large financial groups. However the supervision of these large conglomerates is carried out on a solo basis. The missing picture of the whole group can create supervisory vulnerabilities that need to be addressed. The required regulation for consolidated supervision, including the introduction of ERM and capital requirements at group level, needs to be developed and implemented.

26. Currently around 88 percent of the insurance business is sold by around 70 thousand active brokers, but the supervision and disclosure requirements are thin:

- Brokers are not required to submit financial and operational information of a nature that will demonstrate that consumer funds are not being misdirected or mis-used.

The submitted information could be verified on a spot check basis by SUSEP—or even just required that to be *available*, for production on request by SUSEP.

- SUSEP does not perform onsite inspections on a regular basis but it analyses all complaints received against brokers and performs onsite inspections in those cases if deemed necessary.
- There are no requirements for insurance intermediaries to apply appropriate corporate governance.
- SUSEP has not developed specific requirements for the intermediation of insurance.
- There is no legal requirement that a broker who handles client monies must have safeguards in place to protect these funds.
- Only reinsurance brokers but not insurance brokers are required to obtain professional liability insurance and any reinsurance contract contains the intermediation clause, i.e., “payment to the reinsurance broker constitutes payment to the reinsurer”.

27. **SUSEP needs to strengthen the supervision and inspection of brokers.** SUSEP should urgently implement the self-regulation activity by publish missing regulation for the brokers’ self-regulation entity created by CL 137 to start supporting a tighter supervision of the insurance intermediation, including adding the intermediation clause for insurance brokers. A mandatory affiliation to the self-regulating entity of all brokers together with strong governance and supervision of the entity by SUSEP is recommended.

C. Institutional and Market Structure—Overview

Institutional structure

28. **Legislation identifies the main bodies regulating and supervising insurance, reinsurance, capitalization, and open private pension entities.** Ultimate supervisory authority is held by the National Council for Private Insurance—CNSP (Conselho Nacional de Seguros Privados), which reports to the Ministry of Finance and is responsible for establishing government policies, guidelines and directives. The Superintendency of Private Insurance—SUSEP (Superintendencia de Seguros Privados) acts as the CNSP’s executive, regulatory, supervisory, and enforcement arm and is generally responsible for supervision of the insurance business. The National Monetary Council—CMN (Conselho Monetario Nacional) establishes rules on the quality of the investments of insurers, which are supplemented by the requirements of the CNSP and SUSEP. Private health insurance in Brazil must be underwritten by separate health insurance companies, which are supervised by the National Agency for Supplementary Health—ANS (Agencia Nacional de Saude), while closed private pension entities are supervised by the National Supervisory Authority for Complementary Pension Plans—PREVIC (Superintendencia Nacional de Previdencia Complementar). This assessment focuses on the insurance activities that are regulated and supervised by the CNSP and SUSEP.

29. **SUSEP is headed by the Superintendent and accountable to the Minister for Finance.** The Superintendent is responsible for the functioning of SUSEP. He is supported in its decisions by the Directors Council that is constituted by the Superintendent and four Directors. Each Director manages one of SUSEP's four directorates:

- Technical Directorate (DITEC), responsible for the technical matters and offsite monitoring.
- Inspection Directorate (DIFIS) responsible for onsite inspection, winding-up and sanctioning.
- Authorization Directorate (DIRAT) responsible for licensing and also products.
- Administration Directorate (DIRAD) responsible for internal administration.

30. **There were 457 staff members of SUSEP as of February 29, 2012, including the Superintendent.** The main source of financing of SUSEP is the inspection fee. The fees and fines collected by SUSEP are in balance with the current budget in the order of BRL 150 millions. The annual budget of SUSEP must be approved by the Ministry of Planning and the National Congress, which takes into consideration the need for a primary surplus for the government as a whole. Depending on the amounts involved, additional resources or the reallocation by SUSEP of already approved resources might require the approval of the Ministry of Planning (MOP). Currently the number of staff positions approved by congress is in the order of 800 however only around 500 positions have been confirmed by the MOP.

D. Market Structure

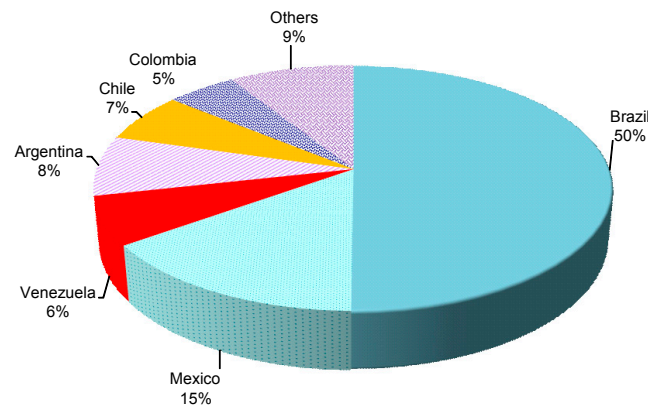
31. **The insurance industry in Brazil is an important part of the financial sector.** In the last five years the assets managed by the sector supervised by SUSEP has more than doubled. At the end of 2010, the total assets of the insurance sector amounted to US\$225 billion or 9.5 percent of GDP. It is the largest insurance sector in Latin America accounting for 50 percent of gross written premium in the region, and holding around 1.5 percent of the world premium. In 2010 the total written insurance premium amounted to US\$75 billion. The market is dominated by insurers belonging to large banking groups and Brazil is the host jurisdiction of all major international insurers together they hold over 80 percent market share in terms of assets (see table 6).

Table 1. Total Assets Including Technical Reserves and Equity
(in millions US\$)

	2009	2010
Insurance and Pensions	151,172	189,285
Technical Reserves	124,896	157,629
Equity	26,276	31,656
Health	17,832	22,015
Technical Reserves	4,905	6,692
Equity	12,927	15,323
Capitalization	11,959	14,073
Technical Reserves	8,583	10,361
Equity	3,376	3,712
Total Insurers assets	180,963	225,373

Source: CNSeg. Note that pensions are only those offered by open pension funds

Figure 1. Latin America & Caribbean Total Insurance Premiums 2010
(In Percent)



Source : Swiss Re.

32. **In the last few years the insurance industry experienced explosive growth, doubling the premium between 2005 and 2010.** The long lasting financial and currency stability, steady growth of the economy, credit availability and insurance saving growth promoting policy, such as the implementation of tax incentives,² resulted in continuous

² The government granted for the retirement products PGBL and VGBL tax advantages in the form of exempt contributions and built up and taxed distributions; and taxed contributions and exempt built up and

(continued)

growth of the insurance industry for the last 10 years. In particular the credit expansion generated growth in credit life, mortgage, homeowners and motor insurance.

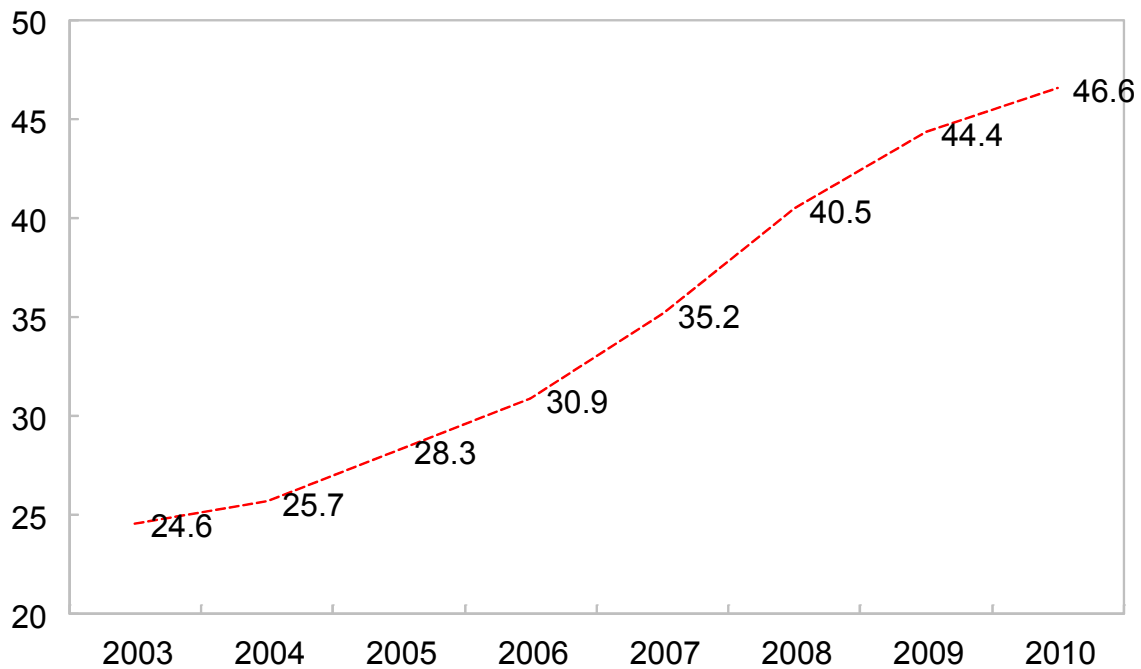
Table 2. Total Insurance Premium, 2005–2010
(In millions US\$)

	2005	2009	2010
Sum of Insurance and pension 1/	21,495	48,992	59,696
Health 1/	3,382	7,127	8,394
Capitalization	2,953	5,806	7,074
Total	27,830	61,925	75,164

Source: CNSeg and SUSEP

1/ Includes only pension and health products sold by insurers.

Figure 2. Credit Expansion (In percent of GDP)



Source: CNSeg.

33. **The growth potential of the insurance sector remains significant.** Currently the average Brazilian spends less than US\$ 350 on insurance per year and the insurance

distributions to encourage medium to long term savings. The tax benefits are accrued only after certain number of years that keeps increasing as the market becomes more accustomed with these products.

penetration is only 3.5 percent or just above 50 percent of the OECD countries' average. Much effort has been dedicated to encourage further growth of the insurance sector, in particular on the low income sector, with supportive statements at the presidential level. The results are beginning to be apparent but the transition still is at early stages. Microinsurance specific regulation aiming to regulated microinsurance providers like funeral houses but also allowing new forms of low cost microinsurance distribution has been enacted at the end of 2011.

Table 3. Insurance Premium and Penetration Evolution

	In bn of Reais	In percent of GDP
2005	65.1	3.0
2006	73.7	3.1
2007	84.3	3.2
2008	95.1	3.2
2009	107.8	3.4
2010	125.2	3.5

Source: SUSEP

34. **Substantial market consolidation and cooperation agreements are taking place.** During the last few years the insurance market has experienced unprecedented consolidation among the leading domestic companies, especially bank-affiliated groups, as well as increased participation by international insurance organizations through a combination of acquisitions and joint ventures with established domestic insurance. The 2009 acquisition of bank Unibanco by the bank Itau created the second largest insurer in the market as a result of the merger of the insurance operation of Unibanco Seguros, former AIG joint venture into Itau Seguros. Also the alliance between Banco do Brasil and Mapfre, and the incorporation of ITAU's motor insurance business into the Porto operation are shaping up the insurance market.

35. **The sector is highly concentrated in life and moderately concentrated in nonlife.** The Brazilian life insurance market consists of 37 life-only insurers and 49 composites, as compared with 875 in the U.S., around 190 in the U.K., and 231 in France. Only 29 nonlife-only insurers and 49 composites operate in the Brazilian nonlife sector, compared to 3,441 in the U.S., 790 in the U.K., and 259 in France. The five largest life insurers account for 87.4 percent of the life assets, while the five largest composite insurers account for 50.2 percent of the composite premium. Many insurers are members of one of the 26 groups operating in the market. Ownership and marketing ties between insurers and banks are common in Brazil.

Table 4. Number of Insurers and Insurance Groups, 2007–2011

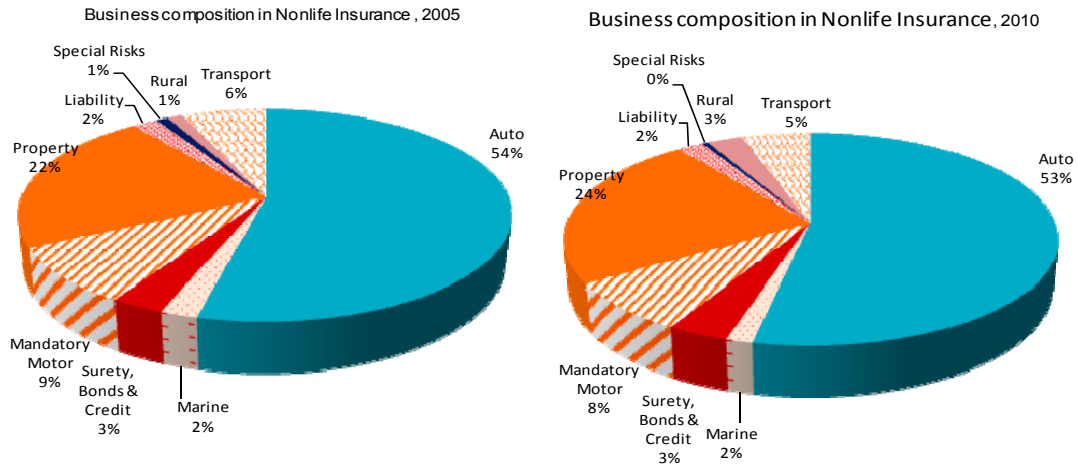
	2007	2008	2009	2010	2011
Local Insurers					
Life	44	42	40	37	37
Nonlife	26	26	26	27	29
Composite	53	52	52	52	49
Reinsurers	1	5	6	6	8
Subtotal	124	125	124	122	123
Admitted foreign reinsurers	0	0	18	21	25
Total	124	125	142	143	148
Insurance groups	25	27	25	25	26

Source: SUSEP

36. **In spite of the wide range of products the nonlife insurance market is dominated by motor insurance and an investment-type product dominates the life insurance sector.** With a market share of 61 percent that has basically not changed in the last five years, motor insurance is the main nonlife product and insurers are highly specialized in this area, managing to maintain profits amidst tough competition. The life sector is dominated by VGBL and PGBL products that are basically pure investments having attractive tax incentives for keeping the product over a longer period of time but provide minimal life or longevity protection. The market share of VGBL and PGBL has grown from 58 percent in 2005 to now 69 percent and over 90 percent is sold by Bank related insurers.

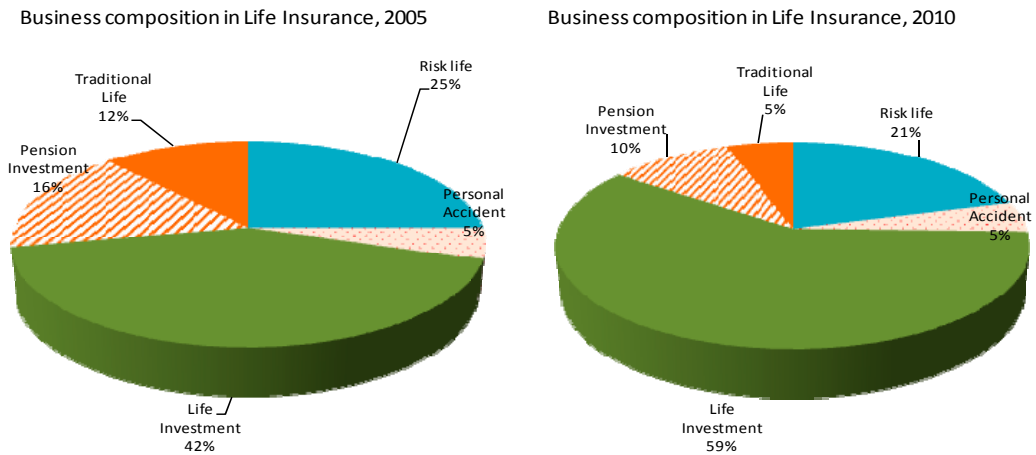
37. **The distribution channel is broker dominated.** Regulation strongly encourages the use of brokers for the distribution of insurance. While there is no explicit requirement of the presence of a broker for every insurance transaction, in case of a direct sale, the equivalent amount to the commission needs to be paid the FUNENSEG, the insurance foundation dedicated to education and certification of insurance brokers and professionals. According to FENACOR, the brokers' federation, at the end of 2011 there were 46,513 individually registered active brokers and 23,000 broking companies, of which 67.4 percent and 74.4 percent respectively operated primarily in the nonlife sector.

Figure 3. Business Composition in Nonlife Insurance 2005–2010



Source: SUSEP

Figure 4. Business Composition in Life Insurance 2005–2010



Source: SUSEP

38. **A strong insurance confederation, the Confederacao Nacional de Seguros (CNSeg) represents the market.** All nonlife, life, supplemental health and open pension funds companies, and capitalization companies must belong to the confederation. CNSeg's activities include the representation and lobbying of its members. CNSeg financial resources allow it to develop important contributions in areas of self regulation, access to insurance

and insurance literacy. CNSeg produces market statistics supplementing SUSEP's information.

39. **Investments in the insurance sector are conservative and short term, primarily comprising fix income instruments.** The National Monetary council (Conselho Monetario Nacional, CMN) uses technical input from SUSEP to establish the investment requirements for the insurance sector. The requirements are transparent and their objectives include diversification, safety, profitability, solvency, and liquidity. The requirements are strict; for example: Foreign investment is largely prohibited, with a few exceptions that are related to the currency matching instruments for policies issue in foreign currency, and for investments made by investment funds; Securities lending is not allowed with respect to assets backing the technical provisions and, for other assets, 100 percent collateral is required. Insurers prefer using fixed income investments funds and government bonds, while open pension funds beside government bonds they have large investment in bank deposits. Real estate and variable income exposure is low.

**Table 5. Investment Instruments used to Cover Technical Provisions 2011
(In percentage)**

Instrument	Insurers	Open pension funds
Government bonds	29.39	33.01
Bank Deposits	3.84	39.00
Fixed income Investment funds	49.02	
Other Fix income	15.81	18.35
Variable income	1.91	4.27
Real estate	0.03	2.30
Other investments		3.07

Source: SUSEP

E. Preconditions

40. **The Brazilian legal system is a civil law system.** The Brazilian legal system has its roots in Roman law, with strong influences from various European sources, such as Portuguese, French, Italian and German. Some elements of the American legal system can also be found in areas such as anti-trust, securities, environmental and taxation. The sources of law include the Constitution, which is the supreme law of the land, and codes such as: the Civil Code, the Civil Procedure Code, the Penal Code, and the Tax Code. In addition, there are hundreds of other pieces of primary legislation and significant bodies of case law to interpret or fill in gaps. The federal government, states and municipalities may all enact laws, with their legislative authority being specified and laid out in the federal constitution. Federal laws take precedence, and the federal government has the authority to legislate on insurance. The president of Brazil is empowered to issue legally-binding decrees, which must be approved by Congress. The executive power is vested in the Cabinet.

41. **The judicial system is independent.** The 1988 Brazilian Constitution divides the court in regular and specialized courts. Since Brazil is a federation, the system of ordinary courts is established at State and Federal level. The courts comprise ordinary civil and criminal courts and special courts dealing with employment cases, military and electoral. Appeals can be made in the courts of second and third instances. At the top of the judicial system for constitutional matters is the Supreme Court and the Superior Court is the court of last resort for non-constitutional matters. Both courts of last resort are located in Brasilia. Brazil is served by approximately 600,000 advocates of which it is believed that half are active. Consumer access is strengthened by the existence of courts that specialize in small amounts. However, the settlement of cases in the courts is often subject to delays.

42. **Brazil has mechanisms in place to promote financial stability.** The Committee on the Regulation and Supervision of Financial and Capital Markets, Insurance, Pensions, and Capitalization (COREMEC), created the Subcommittee for Monitoring the Stability of the National Financial System (SUMEF). The role of the SUMEF is to advise the COREMEC on market developments and interconnections, while the SUMEF is in charge to facilitate the exchange of information among committee members, the BCB, CVM, PREVIC and SUSEP to help identify events that may affect the stability of the financial sector; to coordinate actions aimed at meeting the demands of information on the consolidated SFN, especially those from international organizations, and to submit proposals to COREMEC actions to reduce the risk that the situations identified can generate for the stability of the SFN.

43. **Brazil has a well-developed financial reporting framework.** It includes accounting, auditing, and actuarial standards, professional bodies that support the practitioners and administer discipline programs, and an audit regulator, the Federal Accounting Council (Conselho Federal de Contabilidade, CFC). There are sufficient professionals to support the needs of the insurance sector, with most of the audits of insurers being performed by the “big four” international firms. The Brazilian Actuaries Institute (Instituto Brasileiro de Actuarios, IBA) founded in 1944 has around 830 members. The IBA requires an exam to become a member and has issued a Code of Conduct that is enforced by a panel elected members of IBA. It is not required to be member of the IBA to sign as an actuary on official papers but insurers are mainly served by IBA members for technical matters. IBA does not have the status as the CFC thus limiting its ability to self-regulate actuaries.

44. **The financial and capital markets have experienced growth but still lack long term instruments.** The availability of long-term fixed-income investments to support the long duration products offered by insurers and pension funds is limited.

F. Main Findings

Regulatory and supervisory key findings

45. **SUSEP has been strengthening the solvency requirements towards a more risk sensitive regime.** SUSEP has recently incorporated specific capital risk surcharges for the nonlife underwriting risk and for the credit risk and is working on the surcharges for the market, operational and life underwriting risks. This is a positive step to modernize its capital requirements that until 2010 was basically based on the type of license and geographic area of action plus Solvency I. As a result of the upgraded capital requirements, on average an additional capital surcharge of 35 percent has been implemented.

46. **The public disclosure is extensive and audited information is required biannually.** The disclosed information contains detailed organizational, operational, financial, statistical, and risk management information including the composition of the capital requirements. The amount of information publicly disclosed is timely and allows a good understanding of the current financial position as well as risk exposures of insurers.

47. **SUSEP engagement in internal controls including fraud detection is commendable.** In recent years, SUSEP has more strongly emphasized the importance of risk management and internal controls. SUSEP has developed an inspection module for the compliance of the effectiveness of the internal controls and risk management systems. This module is used in every inspection and there have also been focused inspections on the internal controls and risk management systems. The quality of internal controls varies according to the size and complexity of the insurers. Large insurers have sophisticated systems in place according to international standards. SUSEP requires insurers and intermediaries to have controls in place to deter, prevent, detect, report and remedy fraud in insurance. SUSEP requires an opinion of the external auditors on the effectiveness and well functioning of the internal controls of the audited company as defined in CNSP Resolution 280 of 2004

48. **Licensing, changes in control, portfolio transfers and suitability requirements are largely in line with international standards.** The licensing requirements are clearly stated and cover both financial as well as non financial aspects to warrant a sound operation. However there is room for improvement in the licensing process. For instance, consultation with the home supervisor should be part of the licensing process of foreign participants and a period to grant a license should be introduced to increase transparency in the licensing process.

49. **The complex mandatory reinsurance sessions regulation adds cost and possibly hinders market development.** Currently a complex mechanism is in place to track the mandatory reinsurance sessions to local reinsurers. The liberalization of the reinsurance market will probably allow smaller companies to compete in the market and reduce the existing concentration. Going forward SUSEP is recommended to remove any limits on the

type of cessions that are allowed in dependence of the reinsurer's license and move into a supervised based on risk capital. Thus the use of a reinsurer that presents higher risk to the insurers should require a higher capital charge for the insurers, or a limited recognition of the reinsurance credit on its balance sheet.

50. **Governance and enterprise risk management for solvency purposes needs to be developed.** There are minimum corporate governance requirements applicable to insurers in Brazil expressed in a few CNSP resolutions in addition to those set out in the Companies' Act. The establishment of corporate governance should be required by regulation which should be consistent with the international standards. Current regulation has no requirements with respect to enterprise risk management for solvency purposes. Enterprise risk management is an evolving field, both in Brazil and internationally. Some Brazilian insurers have sophisticated enterprise risk management systems, while others are at earlier stages of development.

51. **Cooperation and information sharing as well as cross-border crisis prevention and macroprudential surveillance need to be developed.** Regulatory framework and supervisory action is required for the new international standards like cross-border crisis prevention and macroprudential surveillance and insurance supervision. The cooperation with foreign jurisdictions needs to be enhanced and formalized. Signing of the IAIS Multilateral MoU is strongly recommended.

52. **Consumer protection has made important progress in the last years, but more work is needed.** The requirement for each insurer to establish an effective ombudsman has proven to be a successful measure to protect consumers. The high number of satisfactory outcomes, with only 4 percent of cases remaining unresolved and only 0.8 percent of them resulting in a fine, indicates a well functioning consumer complaint process. The requirement of having the claims paid within 30 days is also a commendable element in the protection of customers, in particular given that the 30 days can only be stopped to request relevant additional information. However there are no requirements on the type of information consumers should receive before, during and after the insurance intermediation, nor there is a disclosure of commissions or of the conflict of interest intermediaries may have when advising on the purchase of insurance. The large conglomerates operating in Brazil create a challenging environment when making sure that best advice is provided to customers, free from conflict of interests. Further, the dynamics of the market that are currently incorporating a large number of first time consumers into the insurance marketplace, requires further strengthening of consumer education and protection, in particular through the design of simple products for low income consumers. To enhance consumer protection, at least for long term saving products, transparency requirements need to be introduced. For instance, clear disclosure of conflict of interests of intermediaries, requirements to offer a number of similar products together with the disclosure of the product with the highest commission, etc, are recommended. For microinsurance regulation particular emphasis on the simplicity of the products is recommended.

53. The legal framework governing SUSEP contains elements that undermine the independence and capacity of the supervisor to fulfill effectively its mandate and objectives:

- The CNSP can and has issued regulation based on limited technical input from SUSEP.
- The requirements of operational use of the allocated budget, like the approval of international travel needs the approval of the MOF.
- There is no framework for the nomination of the Superintendent and Directors and there are no minimal requirements on their qualification. The Superintendent and the Directors of SUSEP are nominated and can at any time be dismissed by the President of the Republic. Similarly, the officers of SUSEP are nominated and can at any time be dismissed by the Superintendent. Dismissal reasons are not published.

54. SUSEP operational independence needs to be strengthened by introducing a transparent appointment procedure, requiring technical input on any regulation and providing autonomy on the use of the allocated budget.

55. The regulatory framework is weak in group supervision, even missing the definition of a financial group or conglomerate for the purpose of supervision. The market is dominated by insurers belonging to large financial groups. However the supervision of these large conglomerates is carried out on a solo basis. The missing picture of the whole group can create supervisory vulnerabilities that need to be addressed. The required regulation for consolidated supervision, including the introduction of ERM and capital requirements at group level, needs to be developed and implemented.

56. Currently around 88 percent of the insurance business is sold by around 70,000 active brokers, but the supervision and disclosure requirements are thin:

- Brokers are not required to submit financial and operational information of a nature that will demonstrate that consumer funds are not being misdirected or mis-used. The submitted information could be verified on a spot check basis by SUSEP—or even just required that to be *available*, for production on request by SUSEP.
- SUSEP does not perform onsite inspections on a regular basis but it analyses all complaints received against brokers and performs onsite inspections in those cases if deemed necessary.
- There are no requirements for insurance intermediaries to apply appropriate corporate governance.
- SUSEP has not developed specific requirements for the intermediation of insurance. There is no legal requirement that a broker who handles client monies must have safeguards in place to protect these funds.

- Only reinsurance brokers but not insurance brokers are required to obtain professional liability insurance and any reinsurance contract contains the intermediation clause, i.e., “payment to the reinsurance broker constitutes payment to the reinsurer”.

57. **SUSEP needs to strengthen the supervision and inspection of brokers.** SUSEP should urgently implement the self-regulation activity by publishing missing regulations for the brokers’ self-regulation entity created by CL 137 to start supporting a tighter supervision of the insurance intermediation. A mandatory affiliation to the self-regulating entity of all brokers together with strong governance and supervision of the entity by SUSEP is recommended.

Market key findings

57. **The market dominance of the large bank related entities is continuing to increase.** At the end of 2011 there were around 26 insurance groups and 115 active insurance companies. However, the three bank-related insurance groups, Itau, Bradesco and Banco do Brasil controlled around 65 percent of the insurance market in terms of assets either directly or through strategic alliances or exclusivity agreements (See table 6). The top 10 insurers, six of which are part of bank groups, accounted in 2011 for 80 percent of the life insurance market in terms of assets. In the nonlife sector represented by the composite insurers, the dominance by bank related groups is not as strong, where the top 4 bank related insurers accounted for 43.7 percent of the business in terms of premium (See table 7).

Table 6. Top 10 Insurance Groups by Assets in 2011

Insurance Groups in Terms of Assets		
Consolidated	Domestic Operations in BRL	Percent of Domestic Operations
Bradesco	115,202,522,557	27
Itaú	93,734,948,105	22
Banco Do Brasil-MAPFRE	63,859,310,080	15
Santander	24,735,042,352	6
Caixa Economica Federal	23,613,279,056	6
HSBC	12,872,929,944	3
Porto Seguro	12,308,579,304	3
Sulamerica	9,874,346,990	2
Icatu	5,410,609,075	1
Allianz	4,129,091,797	1
Total	365,740,659,259	86

Source: SUSEP

Table 7. Market Share of Top Insurers as Percentages of Assets for Life and Premiums for Composite Business, 2011**Life sector—As percentage of total assets**

1 BRADESCO VIDA E PREVIDÊNCIA S.A.	32.5
2 ITAÚ VIDA E PREVIDÊNCIA S/A	24.2
3 BRASILPREV SEGUROS E PREVIDÊNCIA S/A	16.6
4 Santander Seguros S/A	8.4
5 CAIXA VIDA E PREVIDÊNCIA S/A	5.8
6 HSBC VIDA E PREVIDÊNCIA (Brasil) S.A.	3.2
7 ICATU SEGUROS S.A	1.9
8 Sul América Seguros de Pessoas e Previdência S.A.	1.5
9 METROPOLITAN LIFE SEGUROS E PREVIDÊNCIA	0.9
10 Safra Vida e Previdência S.A.	0.9

Composite—As percentage of total premium

1 ITAU SEGUROS S/A	18.2
2 BRADESCO SEGUROS S.A	13.1
3 PORTO SEGURO CIA DE SEGUROS GERAIS	6.4
4 CAIXA SEGURADORA S/A	6.4
5 BRADESCO AUTO/RE COMPANHIA DE SEGUROS	6.0
6 SUL AMÉRICA CIA NACIONAL DE SEGUROS	5.2
7 MAPFRE SEGUROS GERAIS S.A. "em aprovação"	4.9
8 Companhia de Seguros Aliança do Brasil	4.0
9 ALLIANZ SEGUROS S.A.	3.8
10 PARANA COMPANHIA DE SEGUROS	2.7

Source: SUSEP.

58. **Notwithstanding the dominance of the Brazilian insurers in Latin America, spillover effects are minimal.** While the large insurers have some presence outside Brazil their business is domestically concentrated. Over 95 percent of the business underwritten by the Brazilian domiciled insurers is domestic. Over 20 million Brazilian have been incorporated into the economic segments D, C, and B away from the marginal poor segments in the last 10 years. These new consumers have been the main source of strong growth for the insurance sector. It is expected that the insurances will continue to exploit the Brazilian market before expanding cross-border.

59. **Profitability levels of the insurance sector have been consistently high over the last five years.** Life insurers combined ratio has been around 75 percent and the ROE above 20 percent. The nonlife business while having a higher combined ratio of around 100 percent the ROE has been high, between 47 percent and 34 percent. The investment income of around 25 percent of the premium in both industries has also benefited the profitability of the insurers.

Table 8. Aggregated Life Insurance Data, 2007–2011
(In BRL millions)

	2007*	2008	2009	2010	2011
Life					
Gross premiums	23,642	9,511	10,686	12,223	13,311
Net premiums	23,580	9,445	10,574	12,034	13,105
Investment income	3,227	2,662	3,228	3,691	3,623
Net claims incurred	-7,539	-3,562	-3,725	-4,109	-4,351
Expenses	-3,514	-4,200	-4,254	-5,564	-5,429
ROE(after tax, <i>in percent</i>)	27.4	27.9	23.5	24.2	20.4
Total assets	138,247	160,939	203,317	246,630	290,541
Intangible assets	0.5	61	1,326	1,168	1,347
Investments	134,340	155,392	195,842	238,477	280,701
Receivables	2,615	3,953	4,296	4,493	5,791
Reinsurance recoverables	48	28	106	176	208
Other assets	1,243	1,505	1,746	2,315	2,495
Liabilities	138,247	160,939	203,317	246,630	290,541
Share capital	5,145	7,551	11,469	12,129	12,277
Technical provisions	124,209	146,740	183,020	223,709	265,318
Other reserves	5,504	2,969	4,188	6,146	7,624
Other Liabilities	3,389	3,679	4,640	4,646	5,322

Source: SUSEP. *The effect on the premium reduction is due to a change in accounting. In 2007, the full contribution of VGBL was accounted as insurance premium as of 2008 only the risk part of the contribution is counted as premium.

**Table 9. Aggregated Composite Including Nonlife only Insurance
Data, 2007–2011**
(in millions of BRL)

	2007	2008	2009	2010	2011
Composite including nonlife					
Gross premiums	28,280	34,175	37,476	43,083	44,869
Net premiums	25,428	30,439	33,303	38,814	40,233
Investment income	10,303	9,563	9,890	11,130	11,191
Net claims incurred	-20,801	-17,776	-20,639	-22,701	-22,530
Expenses	-14,703	-16,641	-18,254	-21,042	-22,373
ROE(after tax, in person)	47.6	47.1	39.0	39.9	34.7
Total assets	64,289	69,636	88,236	99,273	114,555
Intangible assets	193	295	2,801	2,437	2,877
Investments	43,361	43,545	50,845	58,836	66,655
Receivables	14,763	18,221	19,542	21,614	25,074
Intra-group/related company receivables	0	0	0	0	0
Reinsurance recoverables	632	810	7,847	8,258	9,932
Other assets	5,340	6,764	7,201	8,129	10,017
Liabilities	64,289	69,636	88,236	99,273	114,555
Share capital	16,915	16,894	23,184	24,971	27,889
Technical provisions	18,449	24,144	33,880	38,467	44,610
Other reserves	13,466	13,956	16,091	19,583	22,656
Other liabilities	15,459	14,642	15,082	16,252	19,400

Source: SUSEP

60. **Solvency ratio of the insurance industry is strong.** Under current regulatory solvency requirements that represented an increment of around 35 percent in the capital requirements as compared with pure Solvency I requirements, the life insurance sector has an average margin of 250 percent above the regulatory requirements, while the nonlife sector shows as 90 percent additional solvency margin.

**Table 10. Average Solvency Margins Above the Regulatory
Requirements of Insurers**
(In percent)

	2011	2010	2009
Life insurers	249.70	383.9	322.2
Nonlife insurers	85.8	85.6	41.1
Composite insurers	90	125.4	113

Source: SUSEP

61. **Other financial indicators of the insurance sector suggest resilience.** The ratio of capital and surplus to underwritten premium (the risk ratio) is around 1.7 and capital and surplus of 8.25 percent of total assets are both within international norms for sound composite companies. Foreign currency assets are negligible due to the limitation in foreign investments.

Table 11. Excess Capital and Additional Requirements 2011
(In million of BRL)

Entity	Available Admitted Assets	Solvency I Requirements	Current Solvency Requirements	Increment (percentage)
Insurers	33,943	10,965	14,808	35
Open pension fund	59	30	34	12
Open pension fund (mutual)	280	-	37	
Capitalization	3,163	181	817	352
Reinsurer	3,492	-	126	

Source: SUSEP

II. SUMMARY OF OBSERVANCE OF THE INSURANCE CORE PRINCIPLES

Table 12. Brazil—Summary of Observance of the Insurance Core Principles

Insurance Core Principle	Overall Comments
1 - Objectives, Powers and Responsibilities of the Supervisor	<p>The authorities responsible for insurance supervision are clearly defined in the law. SUSEP, ANS and PREVIC are supervising insurance activity and therefore coordination among these entities is important to ensure consistency. SUSEP and the two agencies have started a dialogue that needs to be intensified and formalized.</p> <p>The objectives of supervision are well defined and include the protection of the interests of policyholders and beneficiaries and also the promotion of the development of the insurance market. SUSEP follows both objectives, avoiding conflicts by interpreting the development of the market as the development of a sound market.</p> <p>The recently-passed microinsurance regulation allows new distribution channels but maintains, following the proportionality principle of the complexity of the operations, prudential requirements on the providers.</p>
2 - Supervisor	<p>The legal framework governing SUSEP contains elements that undermine the independence and capacity of the supervisor to fulfill effectively its mandate and objectives:</p> <ul style="list-style-type: none"> • The CNSP can and has issued regulation limited technical input from SUSEP. • The MOF must approve the operational uses of the allocated budget, for instance the approval of international travel. • There is no framework or minimum requirements for the nomination of the Superintendent and Directors. They are nominated and can at any time be dismissed by the President of the Republic. Similarly, the officers of SUSEP are nominated and can at any time be dismissed by the Superintendent. Dismissal reasons are not published. • Legal protection for supervisors provides for defense by the Advocate General, however this may not always be sufficient to ensure that no intimidation will take place. <p>SUSEP lacks sufficient financial and staff resources to enable it to conduct supervision as effectively as necessary to fully meet supervisory objectives. For instance, the 55 inspectors inspect the 183 insurers on a three years cycle; however, this frequency can create supervisory vulnerabilities especially in the case of large groups that require more intense onsite supervision. Brokers are only inspected in case of complaints, but over 80 percent of the insurance business is done through an intermediary.</p> <p>Limitations on its budget and number of staff, together with the requirement that all staff be hired through public competition, have led to shortages of staff in all departments. SUSEP has a very low training</p>

	<p>budget. Furthermore, SUSEP does not have an organized, ongoing training program for its staff in spite of the large number of newly recruited staff in the order of 138 persons.</p> <p>Also, the legal provisions governing potential liability for officers and employees of SUSEP could be strengthened by clarifying that they will not be held liable while carrying out their duties in good faith. While they will be defended by the Advocate General, this may not always be sufficient to ensure that intimidation does not take place.</p>
3 - Information Exchange and Confidentiality Requirements	<p>SUSEP has memoranda of understanding with the BCB and the CVM that are used regularly to exchange supervisory information. SUSEP has the authority to enter into agreements to exchange information with other regulators, supervisors, and self-regulatory organizations, both local and foreign. However, it has not yet entered into bilateral agreements with any foreign authorities. SUSEP has applied to participate in the IAIS Multilateral Memorandum of Understanding, but is not yet a signatory.</p> <p>The international aspect of information sharing is assessed in ICP 25.</p>
4 - Licensing	<p>Licensing requirements to engage in insurance activities are set in the insurance law and unlicensed operations can be severely sanctioned. However, composite insurers are allowed. The licensing requirements are clearly stated and cover both financial as well as non-financial aspects to warrant a sound operation. However, this does not include consultation with the home supervisor in the case of foreign insurers. SUSEP only issues full licenses.</p>
5 - Suitability of Persons	<p>The suitability of statutory position holders and of significant owners must be maintained at all times as a condition of maintaining a license. However, there are no specific requirements to communicate any changes on the suitability of these persons.</p> <p>SUSEP does not exchange information with foreign authorities in the process of approval; rather it puts the onus on the foreign individual to provide the required information from the foreign authorities.</p>
6 - Changes in Control and Portfolio Transfers	<p>Both changes in control and portfolio transfers require written approval by SUSEP. There are clear rules and expectations set up by regulation on when SUSEP may approve such a petition. SUSEP's approval is required on acquisition of shares above five percent in one transaction or on an accumulated annual basis.</p> <p>With respect to portfolio transfers, the interests of the insured are taken into consideration as well as the economic and operational capacity of the entity assuming the business.</p>
7 - Corporate Governance	<p>There are minimum corporate governance requirements applicable to insurers in Brazil expressed in a few CNSP resolutions in addition to those set out in the Companies' Act.</p>
8 - Risk Management and Internal Controls	<p>In recent years, SUSEP has more strongly emphasized the importance of risk management and internal controls.</p> <p>SUSEP requires an opinion of the external auditors on the effectiveness</p>

	<p>and well functioning of the internal controls of the audited company as defined in CNSP Resolution 280 of 2004.</p> <p>The quality of internal controls varies according to the size and complexity of the insurers. Large insurers have sophisticated systems in place according to international standards.</p>
9 - Supervisory Review and Reporting	<p>SUSEP's inspections of insurers appear to be comprehensive. However, the frequency between inspections is not gauged to the size, complexity and risk profile of the insurers. The risk-based approach of supervision needs to be further developed and become part of SUSEP's culture. This will optimize the use of the limited resources with a stronger focus on the more complex and riskier insurers.</p> <p>While SUSEP has developed inspection modules for different areas, a comprehensive Inspection Manual does not exist.</p> <p>Onsite inspection of entities to which the insurers has outsourced certain functions is done indirectly through the supervised entity.</p>
10 -Preventive and Corrective Measures	<p>The supervisor has sufficient powers to take preventive and corrective actions on a timely basis to protect the policyholders and SUSEP uses these powers extensively.</p> <p>SUSEP has the faculty to freeze the assets of the company backing up the reserves at any given time and without any condition. The possibility for escalation is provided by warnings, letters, and action.</p>
11 -Enforcement	<p>SUSEP has the powers to enforce the measures imposed on the supervised entities and the process of recourses guarantees similar treatment for similar actions. However, the process of recourses takes too long and sanctions may prescribe.</p>
12 -Winding-up and Exit from the Market	<p>The winding up of insurers is carried out by SUSEP with the exception of major deficit or bankruptcy crimes.</p> <p>Legal priority is given to the protection of the rights and entitlements of policyholders only after liquidator fees, owed tax, and salaries within certain limits, and credits with collaterals (e.g., mortgages). However, the assets corresponding to retirement products are not legally segregated from the insurers' assets.</p> <p>By regulation, the insurers' assets backing up the technical provisions present a lien assigned to SUSEP and the insurer needs an explicit approval by SUSEP to gain control over them. This provides strong protection for policyholders and allows SUSEP a timely and effective enforcement tool in case of serious problems. In a winding up situation, however, there is legal uncertainty of the actions a liquidator might take in assigning those assets that legally belong to the insurer to policyholders' claims first.</p>
13 -Reinsurance and Other Forms of Risk Transfer	<p>The opening of the reinsurance market is recent and as such the participants are still in the process of adaptation.</p> <p>SUSEP currently does not analyze the reinsurance contract to assess if the intended risk transfer has taken place.</p> <p>Reinsurance contracts lack transparency.</p>

14 -Valuation	<p>The methods used for the valuation of assets and liabilities have been specified by SUSEP and basically reflect IFRS 4 rules. In general, consistent and objective bases are used for the valuations of assets and liabilities. The valuation of assets and liabilities is largely an economic valuation.</p> <p>The recent introduction of the LAT is a step in the right direction in recognizing full economic valuation of the liabilities.</p>
15 -Investment	<p>The investment requirements are transparent and their objectives include diversification, safety, profitability, solvency, and liquidity. The industry does not seem to be hindered by the existing investment limitations to execute appropriate investment strategies according to their liabilities, with the exception of the lack of long term assets to match long term liabilities existing in old annuity products.</p>
16 -Enterprise Risk Management for Solvency Purposes	<p>Current regulation has no requirements with respect to enterprise risk management for solvency purposes. Enterprise risk management is an evolving field, both in Brazil and internationally. Some Brazilian insurers have sophisticated enterprise risk management systems, while others are at earlier stages of development.</p>
17 -Capital Adequacy	<p>SUSEP has recently incorporated specific capital risk surcharges for the nonlife underwriting risk and for the credit risk. This is a positive step to modernize its capital requirements that until 2010 were based on the type of license and geographic area of action plus Solvency I. The use by insurers of approved internal models is recognized by SUSEP as a better risk control by allowing a lower capital surcharge in the nonlife underwriting risk.</p> <p>All capital requirements are at the legal entity level only.</p>
18 -Intermediaries	<p>Brokers are required to be registered and to acquire sufficient level of professional knowledge to intermediate insurance.</p> <p>Currently, around 88 percent of the insurance business is sold by around 70,000 active brokers, of which 46,000 are physical persons. However, the supervision and disclosure requirements are thin:</p> <ul style="list-style-type: none"> • Brokers are not required to submit financial and operational information of a nature that will demonstrate that consumer funds are not being misdirected or misused. • SUSEP does not perform onsite inspections on a regular basis; rather it analyses all complaints received against brokers and performs onsite inspections in those cases it deems necessary. • There are no requirements for insurance intermediaries to apply appropriate corporate governance. • SUSEP has not developed specific requirements for the intermediation of insurance. • There is no legal requirement that a broker who handles client monies must have safeguards in place to protect these funds. • Only reinsurance brokers are required to obtain professional liability insurance and any reinsurance contract contains the

	intermediation clause.
19 - Conduct of Business	<p>The requirement to establish an ombudsman by each insurer has proven to be a successful measure to protect consumers. Since 2006, the number of complaints received by the ombudsman has more than doubled (from 1,756 cases to 4,114), attesting a greater acceptance of this system of resolution by the consumers. The high number of satisfactory outcomes, with only 4 percent of cases remaining unresolved and only 0.8 percent of them resulting in a fine, indicates a well-functioning consumer complaints process.</p> <p>The requirement of having the claims paid within 30 days is also a commendable element in the protection of customers, in particular given that the 30 days can only be stopped to request justified additional information.</p> <p>With the exception of open pension plans, there are no detailed requirements on the type of information consumers should receive before, during, and after the insurance intermediation. Nor is there disclosure of commissions or the conflict of interest that intermediaries may have when advising customers on the purchase of insurance.</p> <p>The large conglomerates operating in Brazil creates a challenging environment when making sure the best advice, free from conflict of interests, is provided to customers. Another challenge is the large number of first time consumers of insurance products.</p>
20 - Public Disclosure	The amount of information publicly disclosed is timely and allows for a good understanding of the current financial position as well as risks exposures of insurers.
21 - Countering Fraud in Insurance	<p>SUSEP has taken an active role in the formalization of the requirements on internal controls to deter, prevent, detect, report and remedy fraud in insurance with Circular No. 344 of 2007.</p> <p>Quantification of fraud by the industry has been carried out since 2004 in a systematic way. The statistics show a constant level of proven fraud of around 1.4 percent of all claims paid throughout the years, while the relation between suspected fraud and proven fraud has increased from 11 percent in 2008 to 15 percent in 2010 indicating a higher level of effectiveness in combating insurance fraud after the formal involvement of SUSEP.</p>
22 - Anti-Money Laundering and Combating the Financing of Terrorism	<p>Brazil has developed a comprehensive AML/CFT strategy which has enabled it to make systematic progress to enhance its implementation of AML/CFT measures. SUSEP participation in the implemented the strategy is strong and it has developed an inspection module dedicated to AML/CFT.</p> <p>The resources at SUSEP are limited and as such onsite inspections are carried out by general inspectors and not AML/CFT experts.</p>
23 - Group-wide Supervision	The market is dominated by insurers belonging to large financial groups. However the supervision of these large conglomerates is carried out on a solo basis. The missing picture of the whole group can created supervisory vulnerabilities that need to be addressed.
24 - Macroprudential	SUSEPs current involvement on macroprudential surveillance and

Surveillance and Insurance Supervision	insurance supervision is limited to its role in the Subcommittee to Monitor the Stability of the National Financial System (SUMEF), which was created to expedite information sharing and coordinate macroprudential policies among domestic financial sector supervisory agencies.
25 -Supervisory Cooperation and Coordination	SUSEP does not regularly communicate with foreign supervisors with respect to either foreign or Brazilian insurers. Being the host supervisor of all major international insurers and home supervisor of large conglomerates justifies the need for strong regular exchange of information with foreign supervisors.
26 -Cross-border Cooperation and Coordination on Crisis Management	Cross-border cooperation and coordination specifically related to crisis management of Brazilian insurers is in its initial stages.
Aggregate Level: 7 observed (O), 11 largely observed (LO), 5 partly observed (PO), 3 not observed (NO), 0 not applicable (N/A).	

III. RECOMMENDATIONS AND THE AUTHORITIES' RESPONSES

Table 13. Brazil—Recommendations to Improve Observance of ICPs

Insurance Core Principle	Recommendations
1 - Objectives, Powers and Responsibilities of the Supervisor	<p>To help ensure that the objectives of insurance and pensions supervision are pursued in a consistent manner, the CNSP, SUSEP, the ANS, and the PREVIC should consider establishing a formal process that would facilitate the regular exchange of views on the objectives of supervision and the manner in which those objectives might be achieved. In particular, the supervision of the same products, as is the case of pension funds, should be closely coordinated.</p> <p>The DL 73 dates from 1966 and needs urgent update.</p>
2 - Supervisor	<p>Legislation should be enacted to strengthen SUSEP's operational independence by introducing a transparent appointment procedure, requiring technical input on any regulation, and providing autonomy on the use of the allocated budget.</p> <p>The legal provisions governing potential liability for officers and employees of SUSEP could be strengthened by clarifying that they will not be held liable while carrying out their duties in good faith.</p> <p>The establishment of ongoing and comprehensive training program for newly incorporated staff is strongly recommended.</p>
3 - Information Exchange and Confidentiality Requirements	<p>The signature of the IAIS MMOU is recommended.</p> <p>To avoid a time-consuming case-by-case decision on</p>

	<p>information requests by foreign authorities, clarification on the conditions that allow exchanging information in the absence of a MoU is recommended. This will also allow for an active exchange of information with relevant foreign supervisors.</p>
4 - Licensing	<p>Granting licenses with add-ons or limitations can be a way to increase market participation without endangering the protection of consumers. SUSEP should consider having the option to limit or restrict the licenses, at least for a period of time until it feels comfortable with issuing a full license.</p> <p>Consultation with the home supervisor should be part of the licensing process of foreign participants.</p> <p>A period to grant a license should be introduced to increase transparency in the licensing process.</p> <p>Licensing of composite insurers should be banned. The savings elements and long-term duration of the life insurance business as compared with nonlife business warrants a separate legal entity, in particular to increase transparency in winding-up situations with respect to customer investments in saving products.</p>
5 - Suitability of Persons	<p>SUSEP should require proactive communication from the insurers in cases the statutory position-holders and significant owners are no longer suitable.</p> <p>To gain first-hand information and accelerate the approval process, SUSEP should exchange information with foreign authorities during the approval process of key positions and significant owners.</p>
6 - Changes in Control and Portfolio Transfers	
7 - Corporate Governance	<p>The establishment of corporate governance should be required by regulation, consistent with the standards under this principle, and supervision processes should be created to assess implementation. A good place to begin is with a “duty of skill and care” provision, which is a powerful motivator for boards of directors to follow sound business and financial practices. This can serve as the cornerstone of an effective corporate governance regime.</p>
8 - Risk Management and Internal Controls	<p>A general opinion on the completeness and effectiveness of the internal models should be required of the external auditors, or CNSP Resolution 280 should be enhanced with an overarching statement on the effectiveness of the internal controls.</p>
9 - Supervisory Review and Reporting	<p>The risk-based approach of supervision needs to be further developed and become part of SUSEP’s culture. This will optimize the use of the limited resources with a stronger focus on the more complex and riskier insurers.</p>

	<p>A comprehensive Inspection Manual needs to be created and—ideally—made public. This will reduce the chances of supervisors missing something during the inspection as well as set clear expectations for the insurers.</p> <p>SUSEP should be granted the power to conduct onsite inspections directly.</p>
10 -Preventive and Corrective Measures	<p>Going forward, SUSEP should consider formalizing the ladder of intervention that it uses by introducing a proactive intervention framework that classifies supervised entities in different stages, each one requiring different types of preventive measures. Such a framework would have two key purposes. First, it would support early identification of risks to a firm's viability and ensure that firms take appropriate remedial action to reduce the probability of failure. Second, it would flag actions that the authorities need to take in advance to prepare for the resolution of a firm.</p>
11 -Enforcement	<p>The process of recourses needs to be streamlined to avoid any prescription of the sanctions. Also a shorter time between sanction and final decision needs to be implemented to maintain the effectiveness and timeliness of fines.</p>
12 -Winding-up and Exit from the Market	<p>To improve protection of policyholders' interests, it is recommended that at least for assets corresponding to retirement products, legal segregation be required. This should be done without losing the current lien on the assets backing up the technical provisions.</p>
13 -Reinsurance and Other Forms of Risk Transfer	<p>SUSEP should remove any limits on the type of cessions that are allowed in dependence of the reinsurer's license and move to a system based on risk capital. Thus the use of a reinsurer that presents higher risk to the insurer should require a higher capital charge for the insurer or a limited recognition of the reinsurance credit on its balance sheet.</p> <p>SUSEP should establish risk transfer requirements to reinsurance contracts and analyze them as part of its supervisory work.</p> <p>To enhance the transparency of reinsurance contracts SUSEP should forbid side letters.</p> <p>Steps should be taken to require more timely receipt of reinsurance documentation by cedants.</p>
14 -Valuation	<p>Further development of the mandatory scenarios to assess the adequacy of the technical provisions is recommended.</p>
15 -Investment	<p>To enhance transparency, investment limits should be set for investment funds that take into consideration the quality and nature of their underlying assets.</p>
16 -Enterprise Risk Management for	<p>SUSEP should establish enterprise risk management</p>

Solvency Purposes	<p>requirements for solvency purposes that address all relevant and material risks, consistent with international standards.</p> <p>SUSEP should also actively supervise the efforts of insurers in this area, to help ensure that their capabilities are evolving at an appropriate pace.</p>
17 -Capital Adequacy	<p>SUSEP is encouraged to further develop the missing risk charges for life underwriting risk, operational risk, and for capitalization of underwriting risk.</p> <p>A cautious approach is recommended before internal models can be used for solvency calculation purposes. Due to the complexity in the approval of internal models, as international experience attests, a few years of experience should pass before internal models can be used for solvency calculation purposes.</p> <p>SUSEP should introduce capital requirements at the group level.</p>
18 -Intermediaries	<p>Amending the law to make payment of a premium to a broker constitute payment to the insurer would provide an additional measure of protection to customers.</p> <p>SUSEP should urgently implement the self-regulation of brokers by publishing missing regulation for the brokers' self-regulation entity created by CL 137, to start supporting a tighter supervision of insurance intermediation. A mandatory affiliation to the self-regulating entity of all brokers together with strong governance and supervision of the entity by SUSEP is recommended. If necessary legislation supporting this change should be enacted. To avoid conflict of interests the self-regulation should not be through any existing trade organization but rather through a separate organization which would carry out the supervisory activities utilizing former brokers that are currently not licensed to practice.</p>
19 -Conduct of Business	<p>SUSEP should develop regulation for proper information disclosure by brokers given that the market is basically sold through these intermediaries.</p> <p>To enhance consumer protection, at least for long-term saving products, transparency requirements need to be introduced (e.g., clear disclosure of conflict of interests; offering a number of similar products together with the disclosure of the product with the highest commission; etc.).</p> <p>When introducing microinsurance regulation, particular emphasis on the simplicity of the products should be required.</p>
20 -Public Disclosure	
21 -Countering Fraud in Insurance	
22 -Anti-Money Laundering and Combating the Financing of	SUSEP should consider creating a group of dedicated inspectors for the supervision of AML/CFT matters.

Terrorism	Circular 380 is in the process of being updated, incorporating requirements to follow up on suspicion of AMF/CFT transactions. The updated Circular should also require identification of the ultimate beneficiary on group policies.
23 -Group-wide Supervision	<p>The required regulation for consolidated supervision, including the introduction of ERM and capital requirements at group level, needs to be developed and implemented.</p> <p>Resources should be allocated to achieve a level of supervisory intensity commensurate with the complexity and relevance of the insurance and financial groups.</p>
24 -Macroprudential Surveillance and Insurance Supervision	<p>SUSEP should develop and use a variety of tools as part of its macroprudential surveillance. At a minimum SUSEP should:</p> <ul style="list-style-type: none"> • Create a unit responsible for market analysis, which prepares a timely report on local and international market developments, including quantitative information. The report should be reviewed and commented on by senior supervisors as to the effects of these developments on insurers. • Interview senior management of the major insurers annually for their views on industry risks and trends. The results should be fed back to industry. • Analyze supervisory financial information by insurer, insurance group, and across the industry. The information analyzed should include solvency margins, reinsurance exposures, and credit exposures. • SUSEP should perform top-down stress testing of the insurance sector each quarter and as necessary with respect to equity-price, exchange-rate, and credit risks. <p>Action should be taken with individual insurers in response to concerns that are identified. Senior management of SUSEP should periodically discuss the results of the surveillance and consider whether additional supervisory measures are needed to deal with macroprudential concerns.</p> <p>SUSEP should comment publicly on market developments, trends, and its outlook. And the market data should be made publicly available.</p>
25 -Supervisory Cooperation and Coordination	<p>SUSEP should sign MoUs with relevant jurisdictions and start to actively exchange information.</p> <p>SUSEP should have the ability to participate in international</p>

	<p>supervisory meetings. Such decisions, including on the necessary budget, should be with SUSEP.</p> <p>SUSEP should establish supervisory colleges for Brazilian insurers should their foreign operations become material.</p>
26 -Cross-border Cooperation and Coordination on Crisis Management	<p>SUSEP should develop comprehensive plans for dealing with insurers in a crisis and ensure that it has the tools needed to carry out such plans. It should ensure that the plans are internationally-coordinated by working with foreign supervisors, for example, through supervisory colleges.</p>

Authorities' response to the assessment

62. **The Brazilian authorities want to express their gratitude towards the huge and valuable work developed by the IMF in assessing the implementation of the supervisory and regulatory competences.** The Financial Sector Assessment Program has been extremely useful in a moment where the experience of the IMF is received as precious benchmark to inspire the improvements to come, as a consequence of the new IAIS Insurance Core Principles implementation.

63. **The assessment concludes that the insurance sector is supervised under a sound regulatory framework.** Notwithstanding this good evaluation, the Brazilian authorities have an ambitious agenda to keep improving the supervisory process, making it more efficient, effective and adapted to the current economic and financial environment.

64. **In general terms, the FSAP assessment reflects well the current situation of the regulatory and supervisory regime, as well as that of industry participants.** However, there were a few points raised by SUSEP that could have been addressed in more depth or better, had the assessment work been carried out over a longer period of time.

65. **We refer to the following passage on ICP 6: “SUSEP’s approval is required on acquisition of shares above five percent in one transaction or on an accumulated annual basis”.** This passage would be more accurate with the following wording: “SUSEP’s approval is required on acquisition of shares above five percent in one or more transactions, even accumulated in more than one year”, as established in the article 12 of CNSP Resolution 166 of 2007.

66. **A few comments are worth clarifying in that there are requirements on the type of information consumers should receive before, during and after purchasing an insurance product, both in life and non-life lines.** For instance, SUSEP Circular 302 of 2005, for life insurance, and SUSEP Circular 256 of 2004, for non-life insurance, establish that all contractual rights and obligations should be made available to consumers before the purchase of any insurance product. The consumer, his legal representative or his insurance broker should assert that became aware of the contractual conditions. After purchasing or

renewing an insurance policy, insurance companies should send the policies or individual certificates to policyholders. Any changes to the contractual conditions in force shall be made by an amendment to the contract, with written agreement of the policyholder or his legal representative. In this case, insurance companies have to issue an endorsement.

67. **Some actions are already under way to implement the recommendations**, such as the regulation on the establishment, organization, operation and dissolution of brokers' self-regulation entities as supporting bodies to SUSEP. However, the recommendation of establishing mandatory affiliation to the brokers' self-regulation entities is not realistic as it is not provided in Complimentary Law 137 of 2010.

IV. DETAILED ASSESSMENT

Table 14. Brazil: Detailed Assessment of Observance of the Insurance Core Principles

<p>ICP 1</p>	<p>Objectives, Powers and Responsibilities of the Supervisor</p> <p>The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.</p>
<p>Description</p>	<p>Decree Law No. 73 of 1966 (DL 73), Complementary Law No. 109 of 2001 (CL 109), and Complementary Law No. 126 of 2007 (CL 126) identify the main bodies regulating and supervising insurance, reinsurance, capitalization, and open private pension entities. Regulatory authority is held by the National Council for Private Insurance—CNSP (Conselho Nacional de Seguros Privados), which is chaired by the minister of Finance or its representative and is responsible for establishing government policies, guidelines and directives. The Superintendency of Private Insurance—SUSEP (Superintendencia de Seguros Privados) acts as the CNSP’s executive, supervisory, and enforcement arm and is responsible for supervision of the insurance business.</p> <p>Private health insurance in Brazil must be underwritten by separate health insurance companies, which under Law No. 9.961 of 2000 are supervised by the National Agency for Supplementary Health – ANS (Agencia Nacional de Saude), rather than SUSEP. Law No. 12.154 of 2009 provides that closed private pension entities are supervised by the National Supervisory Authority for Complementary Pension Plans—PREVIC (Superintendencia Nacional de Previdencia Complementar).</p> <p>This assessment focuses on the insurance activities that are regulated and supervised by the CNSP and SUSEP.</p> <p>DL 73, CL 109, and CL 126 define the objectives and powers of the CNSP and SUSEP. The CNSP’s responsibilities include setting insurance policy guidelines and rules, regulating the establishment of insurers, outlining the main characteristics of insurance contracts, establishing reinsurance rules, supervising the broker sector. SUSEP is responsible for the general supervision of the insurance market, including the establishment of operational requirements for insurers, the supervision of insurance law and practices, the imposition of penalties, prior review and authorization of mergers and acquisitions among insurers, the regulation of insurance policies and their contents, product approval, and the administrative liquidation of insolvent insurers.</p> <p>The objectives of supervision include:</p> <ul style="list-style-type: none"> • protect the interests of policyholders and beneficiaries; • promote the development of the insurance market and create operating conditions necessary to foster its integration into the economic and social process of the country; • avoid foreign currency outflow through the balance of the insurance and reinsurance operations with foreign countries;

	<ul style="list-style-type: none"> • establish the principle of reciprocity in insurance operations, conditioning authorization for the operation of enterprises and foreign firms to equal conditions in the country of origin; • promote the development of insurers; • preserve liquidity and solvency of insurers; • coordinate insurance policy with the investment policy of the Federal Government. <p>The responsibilities of the CNSP and SUSEP include planning with respect to the insurance regulatory framework. SUSEP takes action or proposes changes in legislation where it identifies significant aspects of the framework that compromise the achievement of supervisory objectives. For example, the need to increment the level of fines to achieve the desired dissuasion effect led to the revision of the corresponding resolution. However, the central Law DL 73 from 1966 presenting inconsistencies with the current Civil Code has been updated on specific issues only, and its complete updating has not been dealt with by the authorities.</p>
Assessment	Largely Observed.
Comments	<p>The authorities responsible for insurance supervision are clearly defined in the law. SUSEP, ANS and PREVIC are supervising insurance activity and therefore coordination among these entities becomes important to warrant a high level of consistency. SUSEP and the two agencies have started dialogue that needs to be intensified and formalized.</p> <p>The objectives of supervision are well defined and include the protection of the interests of policyholders and beneficiaries and also the promotion of the development of the insurance market. SUSEP follows both objects avoiding conflicts by interpreting the development of the market as the development of a sound market. The recently passed Microinsurance regulation allows new distribution channels but maintains, following the proportionality principle of the complexity of the operations, the prudential requirements of the providers.</p> <p>To help ensure that the objectives of insurance and pensions supervision are pursued in a consistent manner with respect to all parts of the Brazilian insurance sector, the CNSP, SUSEP, the ANS, and the PREVIC should consider establishing a process that would facilitate the regular exchange of views on the objectives of supervision and the manner in which those objectives might be achieved. In particular the supervision of the same products as is the case for pension funds should be closely coordinated.</p> <p>The DL 73 dates from 1966 and needs urgent update.</p>
ICP 2	<p>Supervisor</p> <p>The supervisor, in the exercise of its functions and powers:</p> <ul style="list-style-type: none"> • is operationally independent, accountable and transparent; • protects confidential information; • has appropriate legal protection;

	<ul style="list-style-type: none"> • has adequate resources; and • meets high professional standards.
Description	<p>The overall governance structure for supervision, in terms of the responsibilities of the CNSP and SUSEP, is clearly defined. However, SUSEP's internal organization structure has been subject to important modifications in recent years and the lack of a comprehensive mapping of the internal processes together with the large number of new staff does not ensure the integrity of supervisory actions nor support prompt and effective decision making.</p> <p>The chairman of the CNSP is the Minister of Finance or his representative, and its vice-chairman is the Superintendent of SUSEP. In practice it is the Superintendent that chairs the CNSP meetings as the presence of the minister is not usual. Representatives from the following government bodies also have a seat on the CNSP: the Ministry of Justice; the Ministry of Social Security; the Brazilian Central Bank—BCB (Banco Central do Brasil); and the Securities Commission—CVM (Comissão de Valores Mobiliários).</p> <p>The Superintendent and the Directors of SUSEP are nominated and can at any time be dismissed by the President of the Republic, who is not required to disclose the reasons for dismissal. Since 2007 three superintendents have been acting in SUSEP. The current Superintendent was nominated in June 2011, with the four directors being nominated after that date. There are no requirements on the qualification of the Superintendent or Directors. Similarly, the officers of SUSEP are nominated and can at any time be dismissed by the Superintendent.</p> <p>The institutional relationships between the supervisor and the executive and judicial authorities are clearly defined and transparent. SUSEP decisions can be reverted by the MOF. CNSP Resolution No. 186 of 2008 establishes the procedures for application of administrative penalties and for the appeal of such penalties. Every penalty is reviewed by the Council of Recourses of the CNSP (CRCNSP), a council chaired by the MOF and constituted by an equal number of government and industry representatives. At any stage insurers and brokers can appeal a SUSEP decision to the judicial system.</p> <p>SUSEP is organized in four directorates :</p> <p>Technical Directorate (DITEC), responsible for the technical matters and offsite monitoring.</p> <p>Inspection Directorate (DIFIS) responsible for onsite inspection winding-up and sanctioning.</p> <p>Authorization Directorate (DIRAT) responsible for licensing and products.</p> <p>Administration Directorate (DIRAD) responsible for internal administration.</p> <p>There were 457 staff members of SUSEP as of February 29 2012, including the Superintendent. SUSEP analysts are categorized within the high payment scale of the government salary's scale that ranges from 26 to 36 minimum. The Law No. 8.112 of 1990 protects public servants, including the staff of SUSEP other than its officers, who only can be dismissed for specific reasons and after the conclusion of an administrative proceeding, in which an individual has the right to legal defense.</p>

SUSEP training budget is thin. It spent BRL 140 thousand in 2010 and BRL 240 thousand in 2011 or less than 0.20 percent of its allocated budget. SUSEP uses the allocated budget to provide basic training to new and old staff.

SUSEP has the ability to hire or contract the services of outside experts when necessary. However, it rarely does so due to budget constraints and involved bidding procedures.

The main source of financing of SUSEP is the inspection fee, which is prescribed by Law No. 12.249 of 2010. The fees and fines collected by SUSEP are in balance with the current budget in the order of BRL 150 millions. The annual budget of SUSEP must be approved by the Ministry of Planning (MOP) and the National Congress, which takes into consideration the need for a primary surplus for the government as a whole. Depending on the amounts involved, additional resources or the reallocation by SUSEP of already approved resources might require the approval of the Ministry of Planning or the National Congress. Currently the number of staff positions approved by Congress is in the order of 800 however only around 500 positions have been confirmed by the MOP. Any international trip needs ministerial approval and is published in the Official Gazette.

SUSEP has an internal audit function with the scope and intensity of its activities focused on proper execution of the financial budget.

Regulatory requirements are set out in laws and through various official pronouncements of the CNSP, in the form of Resolutions, and those of SUSEP in the form of Circulars, which are all published in the National Gazette and on the website of SUSEP (www.susep.gov.br). SUSEP also publishes the most significant supervisory procedures on its website. In practice, material changes and regulatory proposals are subject to prior public consultation. However on a recent occasion regulation has been issued by the CNSP without previous public consultation and limited input provided by SUSEP.

SUSEP maintains regular communication with the industry to clarify its expectations, for example, through the creation of the Permanent Special Committee that comprises representatives of the industry and SUSEP that meets every three months. Also, the issuance of circular letters is used to communicate with the industry.

On its website, SUSEP also publishes information about insurers, actuarial statistics, services available to policyholders, and other relevant information of interest to the general public as well as information on its own role and how it performs its duties in its 5 year strategic planning document.

Public servants, including the staff of SUSEP, are forbidden under the Penal Code to divulge, without justification, the contents of documents, confidential correspondence, or information contained in systems or databases of the public administration. The staff of SUSEP is hired through public competition and must observe the requirements of Law No. 8.112 of 1990, as well as the Code of Professional Ethics of Staff of SUSEP, which is set out in SUSEP Deliberation No. 135 of 2009. The Code of Professional Ethics includes conflict of interest rules. Both the Penal Code and Law No. 8.112 of 1990 set out penalties for noncompliance. No cases of confidentiality breaches or misconduct have been reported.

SUSEP is further developing its policies regarding the security of information and its communication, in support of its strategic objectives of improving the security of data

	<p>and information and the effectiveness of internal and external communication.</p> <p>SUSEP denies requests for confidential information, other than when required by law, or when requested by another supervisor who has a legitimate supervisory interest and the ability to uphold the confidentiality of the requested information.</p> <p>The CNSP, SUSEP, and its staff are subject to lawsuits for actions taken in good faith while discharging their duties. In such cases, they are defended in court by the office of the Advocate General.</p>
Assessment	Partly Observed.
Comments	<p>The legal framework governing SUSEP contains elements that undermine the independence and capacity of the supervisor to fulfill effectively its mandate and objectives:</p> <ul style="list-style-type: none"> • The CNSP can and has issued regulation limited technical input from SUSEP. • The requirements of operational use of the allocated budget, like the approval of international travel needs the approval of the MOF. • Nomination of the Superintendent and Directors does not have a framework and no minimal requirements on their qualification exist. The Superintendent and the Directors of SUSEP are nominated and can at any time be dismissed by the President of the Republic. Similarly, the officers of SUSEP are nominated and can at any time be dismissed by the Superintendent. Dismissal reasons are not published. <p>SUSEP operational independence needs to be strengthened by introducing a transparent appointment procedure, requiring technical input on any regulation and providing autonomy on the use of the allocated budget.</p> <p>SUSEP lacks sufficient financial and staff resources to enable it to conduct supervision as effectively as necessary to fully meet supervisory objectives. For instance, the 55 inspectors are required to inspect the 183 insurers on a three year cycle; however this frequency can create supervisory vulnerabilities especially in the case of large groups that should require more intense onsite supervision. Brokers are only inspected in case of presented complaints, but over 80 percent of the insurance business is done through an intermediary.</p> <p>Limitations on its budget and number of staff, together with the requirement that all staff be hired through public competition, have led to shortages of staff in all departments of the organization. SUSEP does not have an organized, ongoing training program for its staff in spite of the large number of newly recruited staff in the order of 138 persons.</p> <p>The legal provisions governing potential liability for officers and employees of SUSEP could be strengthened by clarifying that they will not be held liable while carrying out their duties in good faith. The present requirement that they will be defended by the Advocate General, may not always be sufficient to ensure that no intimidation will take place.</p> <p>The establishment of a training program for newly incorporated staff is strongly recommended.</p>

ICP 3	<p>Information Exchange and Confidentiality Requirements</p> <p>The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.</p>
Description	<p>Article 88 of the DL 73 and article 41 of the CL 109 empower SUSEP to obtain information from insurers, reinsurers, and open private pension entities. This includes subsidiaries, insurance holding companies and their subsidiaries, and major shareholders of insurers. This power is not restricted to regulated entities however in these cases, information requirements are carried out indirectly, through the regulated entity.</p> <p>Since 2010, empowered by the CL 137, SUSEP is required to maintain regular information flows on the results found during inspections, sanctions and other relevant measures undertaken during course of its duties with the BCB and the CVM. CL 126 in article 25, Paragraph 2 further empowers SUSEP to enter into agreements to exchange information with other regulators, supervisors, and self-regulatory organizations, both local and foreign. Provided confidentiality of the information is safeguarded by the other entities and the needs for information exchanged are related to supervisory activities, such exchanges of information are not considered a breach of confidentiality requirements to which SUSEP is subject.</p> <p>The existence of an agreement of understanding on information exchange is not explicitly stated as a prerequisite for the exchange of information. However, following legal advice, in the absence of such agreements, SUSEP does not regularly exchange information with foreign supervisors. Responding to any request by a foreign supervisor requires the authorization of the Managing Council of SUSEP, and all responses are communicated by the Superintendent. This process can be slow and is analyzed case by case.</p>
Assessment	Largely Observed.
Comments	<p>SUSEP has memoranda of understanding with the BCB and the CVM that is used to frequently exchange supervisory information. SUSEP has the authority to enter into agreements to exchange information with other regulators, supervisors, and self-regulatory organizations, both local and foreign however it has not yet entered into bilateral agreements with any foreign authorities. SUSEP has applied to participate in the IAIS Multilateral Memorandum of Understanding, but is not yet a signatory to it. The signature of the IAIS MMOU is recommended.</p> <p>To avoid a time consuming case-by-case decision on information requests by foreign authorities, clarification on the conditions that allow exchanging information in the absence of a MoU is recommended. This will also allow for an active exchange of information with relevant foreign supervisors.</p> <p>The largely observance of this principle considers mainly the exchange of information within Brazil. The international aspect of information sharing is assessed in ICP 25 with its non observance.</p>

ICP 4	<p>Licensing</p> <p>A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.</p>
Description	<p>DL 73 requires all insurance, reinsurance, capitalization, and open private pension entities to be authorized by SUSEP before operating in Brazil.</p> <p>Domestic insurers must be stock companies (SA—sociedad anonima). Foreign insurers can operate either through subsidiaries or branches but, because it is difficult to obtain approval of a branch, most take the form of subsidiaries. There are no restrictions on foreign ownership.</p> <p>Insurers can be licensed for life insurance, nonlife insurance, or both. Many insurers are composites. Private health insurance must be underwritten through separate insurers, which are licensed and supervised by the ANS, although personal accident insurance may be written in the nonlife sector, or as a rider to life insurance policies. Also, life insurers may offer personal accident and homeowners' insurance products to persons taking out mortgages under the government's My House, My Life, subsidized housing program.</p> <p>Direct insurers are not permitted to assume reinsurance. CL 126, together with CNSP Resolution No. 168 and SUSEP Circular No. 359 of 2008, provide for three categories of reinsurers: local reinsurer, admitted reinsurers, and occasional reinsurers. Local reinsurers are subject to the same regulatory requirements as direct insurers. Foreign reinsurers may be authorized as either admitted or occasional reinsurers; the same requirements apply to both, but with higher thresholds for admitted reinsurers.</p> <p>DL 73 Article 1113 provides that a legal or natural person who conducts insurance business without authorization can be banned from doing so and subjected to a fine in an amount equal to the amount at risk. In a recent public audience the Superintendent commented on a fine (in dispute) in the order of USD six billions issued to an offshore insurer operating in Brazil without a license.</p> <p>DL 73, CL 109, and CL 126 set out the application procedure and the criteria for licensing. Applications must be submitted to SUSEP, requesting authorization for the specific classes of insurance and providing various documents related to the company, its sources of capital, its business plan, and its directors and officers. After verifying compliance with financial and legal requirements, SUSEP can issue the license. There is no set time frame to issue the license and in practice it varies from three months to over two years, depending on the quality of documentation presented.</p> <p>CNSP Resolutions 136 of 2005 and 166 of 2007 set out requirements on governance and suitability. SUSEP reviews the governance framework of an applicant and considers, for example, whether the group structure and group governance framework are transparent. Any changes in the controlling group that may cause changes to the effective management of an insurer must be authorized by SUSEP.</p> <p>The main focus of analysis set by SUSEP before issuing a license is on the economic capacity of the owners to execute the business plan. In general a financial capacity of about twice the investment is considered as acceptable. A minimal capital of BRL 15 million is required to operate as an insurer in all Brazil.</p>

	<p>Where a foreign insurer is seeking to establish a branch or subsidiary in Brazil, SUSEP generally does not consult its home supervisor before recommending the issuance of a license. There are no constraints on the owners' activities as long as the source of the investments are legal.</p> <p>Cross border insurance activities without a physical presence in Brazil are generally limited to the placement of reinsurance with occasional reinsurers (in some circumstances, such as the unavailability of coverage locally, direct insurance can also be placed in foreign markets). Before authorizing an occasional reinsurer, SUSEP requires it to submit a declaration of solvency and licensing issued by its home supervisor.</p> <p>No license is issued to an applicant who does not meet the licensing criteria. A license can either be granted or denied. If granted, no restrictions or limitations can be imposed. A license states its scope, in terms of whether it is for life insurance or nonlife insurance, as well as the regions where the insurer is authorized to underwrite. An insurer that wants to expand into an additional class of insurance must submit a revised business plan to SUSEP and obtain an amendment of its licensing.</p>
Assessment	Largely Observed.
Comments	<p>Licensing requirements to engage in insurance activities are set in the insurance law and unlicensed operations can be severely sanctioned. The licensing requirements are clearly stated and cover both financial as well as non financial aspects to warrant a sound operation. However there is room for improvement in the licensing process.</p> <p>Granting licenses with adds on or limitations can be a way to increase market participation without endangering the protection of consumers. SUSEP should consider having the option to limit or restrict the licenses at least for a period of time until it feels comfortable with issuing a full license.</p> <p>Consultation with the home supervisor should be part of the licensing process of foreign participants.</p> <p>A period to grant a license should be introduced to increase transparency in the licensing process.</p> <p>Licensing of composite insurers is recommended to be banned. The savings elements and long term duration of the life insurance business as compared with nonlife business warrant for separated legal entities, in particular to increasing transparency in winding-up situations towards consumers of saving products.</p>
ICP 5	<p>Suitability of Persons</p> <p>The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfill their respective roles.</p>
Description	<p>CNSP Resolution 136 of 2005 requires the appointment of key functions of insurers, capitalization entities and open pension funds to be homologated by SUSEP while CNSP Resolution 166 of 2007 does so with respect to significant owners, those with five percent or higher share in the company. Resolution 136 states, that the possession and exercise of functions in statutory bodies of the insurance companies,</p>

of capitalization companies and open pension funds are private persons whose election or appointment needs to be confirmed by SUSEP. The acts of election or appointment of members of statutory bodies should be submitted to SUSEP within thirty days from the date of completion of the act. SUSEP has thirty days to express a no objection to the appointment.

The basic conditions needed for the approval of a statutory position include among others: not being prevented by general or special law; have a solid reputation; not be declared bankrupt or insolvent, or have participated in the administration or controlled firm or company bankrupt, liquidated or under insolvent liquidation; not be declared disqualified or suspended for the exercise of statutory positions in institutions referred to in the article 136 or at other institutions subject to authorization, control or supervision of the agency or entity of government directly or indirectly.

In addition, a minimal level of professional expertise is required for certain positions: Advisory board members should have at least two years experience in similar functions or show proven ability to perform the position. Members of the executive board are required to have at least two years experience in the area of responsibility, and higher education degree, or similar level of experience and education.

In case of re-election or reappointment the process of homologation is not necessary.

In the event that the appointment is not communicated to SUSEP, any act of the appointed person is not recognized by SUSEP and a sanctioning process could be started.

Statutory positions that must be held by at least two director are the following as determined by SUSEP Circular No. 234/2003, SUSEP Circular No. 344/2007, SUSEP Circular No. 249/2004, CNSP Resolution No. 118/2004 and CNSP Resolution No. 143/2005:

- the officer designated as responsible for relations with the SUSEP, responsible for the relationship with SUSEP, providing, alone or together with other directors, the information required by it;
- the officer designated as the technical director will oversee all technical activities, covering product development, regulations, conditions and technical notes, and the calculations that allow the incorporation of appropriate provisions, reserves and funds;
- the officer designated as responsible for finance and administration, shall be responsible for overseeing the administrative activities and economic and financial decisions, including the compliance with all applicable corporate law;
- the officer designated as responsible for compliance with the provisions of Law 9613 of March 3, 1998, it will ensure its compliance and its supplementary regulations.
- The director responsible for compliance with the Circular on: systems of internal controls to prevent fraud;
- Officer responsible for internal controls;
- Director responsible for the monitoring, supervision and enforcement of accounting standards and procedures set out in regulations;
- Director responsible for compliance with the resolution - record of policies and endorsements issued and coinsurance accepted by insurance companies in specific accounts.

	<p>The suitability of statutory position holders and of significant owners must be maintained at all times as a condition of the maintaining the license valid. However there are no specific requirements to communicate any changes on the suitability of these persons.</p> <p>Any changes in the statutory functions and significant owners need to be approved by SUSEP in a process similar to the initial approval. SUSEP has the power to remove individuals that are no longer suitable from key positions including the independent actuary and auditor.</p> <p>SUSEP does not exchange information with foreign authorities in the process of approval but puts the onus on the foreign individual to provide the required information from the foreign authorities.</p>
Assessment	Largely Observed.
Comments	<p>The suitability of statutory position holders and of significant owners must be maintained at all times as a condition of the maintaining the license valid. However there are no specific requirements to communicate any changes on the suitability of these persons. SUSEP would be well served to require proactive communication from the insurers in cases where the statutory position holders and significant owners are no longer suitable.</p> <p>SUSEP does not exchange information with foreign authorities in the process of approval but puts the onus on the foreign individual to provide the required information from the foreign authorities. To gain first hand information and accelerate the approval process, SUSEP should exchange information with foreign authorities during the approval process of key positions and significant owners.</p>
ICP 6	<p>Changes in Control and Portfolio Transfers</p> <p>Supervisory approval is required for proposals to acquire significant ownership or an interest in an insurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer. The same applies to portfolio transfers or mergers of insurers.</p>
Description	<p>CNSP Resolution No. 166 of 2007 deals with the authorization of changes of control and CNSP Resolution 79 of 2002 with portfolios transfers. Accordingly any changes in control as well as changes in the controlling group, directly or indirectly, which may affect in the affairs of the entity, require prior written consent from SUSEP. The changes that require approval include: shareholders' agreement or shareholders; inheritance and disposal of acts of will (the example of donation); acts alone or jointly, of any person or entity, or group people representing mutual interest.</p> <p>Also, depending on previous and express authorization of SUSEP, the change of object of the entity; the change in the geographic area of operation; any mergers and demergers; and, recently through CNSP Resolution 250 of 2012, also capital reductions need approval by SUSEP.</p> <p>SUSEP has no time limit is responding to changes in control but such requests are treated with high priority.</p> <p>There are limitations on the control of insurers. The direct equity investments</p>

	<p>involving corporate control can only be held by individuals; entities authorized to operate SUSEP; entities that have as their sole object the participation in companies authorized to operate by SUSEP, and adopt standards corporate governance, as defined by law.</p> <p>SUSEP will deny the approval where there is no identification of the individual members of the control group or holders of qualifying holdings. Fit and properness of the controlling individuals is required.</p> <p>The term control of an entity is defined in corporate law 6.404 of 1976 and updates, and includes controlling above 50 percent of the voting shares, ability to appoint the majority of the directors or having the responsibility for the administration of the entity. Shareholders holding five percent or more of the social capital are registered by SUSEP.</p> <p>SUSEP approves a change from a mutual company into a stock company under transparent requirements set up in CNSP Resolution 142 of 2005.</p> <p>CNSP Resolution No. 79 of 2002, along with SUSEP Circulars 217 of 2002 and 263 of 2004, deal with portfolio transfers, which are subject to the approval of SUSEP. Portfolio transfers take into consideration the interests of the insured, the financial and non financial capacity of the accepting company. Actuarial calculations of the reserves and sufficient capital and adequate internal controls are required for the portfolio accepting company by regulation.</p>
Assessment	Observed.
Comments	<p>Both, changes in control and portfolio transfers require written approval by SUSEP. There are clear rules and expectation set up by regulation as when SUSEP may approve such a petition. SUSEP's approval is required on acquisition of shares above five percent in one transaction or on an accumulated annual basis</p> <p>On portfolio transfers the interests of the insured are taken into consideration as well as the economic and operational capacity of the entity assuming the business.</p>
ICP 7	<p>Corporate Governance</p> <p>The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognizes and protects the interests of policyholders.</p>
Description	<p>There are minimum corporate governance requirements applicable to insurers in Brazil expressed in a few CNSP resolutions in addition to those set out in the Companies' Act. However, an applicant for a license must provide information regarding the corporate governance standards it intends to follow.</p> <p>SUSEP Circular No. 249 of 2004 and CNSP Resolution No. 118 of 2004 set out the responsibilities of the board of directors for internal controls. Such responsibilities include:</p> <ul style="list-style-type: none"> • providing oversight of risk management and internal controls; • ensuring there is a reliable financial reporting process; • ensuring there is appropriate, timely, and effective communications with the

	<p>supervisor and relevant stakeholders on the governance of the insurer; and</p> <ul style="list-style-type: none"> ensuring senior management carries out its responsibilities in an effective manner. <p>An audit committee is required for companies having one of the following characteristics, either adjusted capital in excess of BRL 500 million or technical reserves in excess of BRL 700 million. The audit committee can served the entities of the whole financial group.</p>
Assessment	Partly Observed.
Comments	<p>There are minimum corporate governance requirements applicable to insurers in Brazil expressed in a few CNSP resolutions in addition to those set out in the Companies' Act.</p> <p>The establishment of corporate governance should be required by regulation consistent with the standards under this principle and supervision processes should be created to assess implementation.</p> <p>In particular, other jurisdictions have found that a "duty of skill and care" provision can serve as a cornerstone for their corporate governance regimes, with the potential to serve as a more effective motivator than monetary penalties of the type described under ICP's 10 and 11. Consider the following and note especially paragraph 3, which cuts through the corporate veil to expose directors and officers to personal liability if they have not followed the provisions of the law, which of course include paragraphs 1 and 2 of the duty of skill and care provision:</p> <ol style="list-style-type: none"> Every director and officer of a company in exercising any of the powers of a director or an officer and discharging any of the duties of a director or an officer shall:(a) act honestly and in good faith with a view to the best interests of the company; and (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Every director, officer and employee of a company shall comply with this Act, the regulations, the company's incorporating instrument and the by-laws of the company. No provision in any contract, in any resolution or in the by-laws of a company relieves any director, officer or employee of the company from the duty to act in accordance with this Act and the regulations or relieves a director, officer or employee from liability for a breach thereof. <p>(Example from Insurance Companies Act (Canada))</p>
ICP 8	<p>Risk Management and Internal Controls</p> <p>The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters, and internal audit.</p>
Description	SUSEP Circular No. 249 of 2004 prescribes that insurance, capitalization, and open private pension entities must have internal controls over their activities, information systems, and compliance with legal requirements. It deals with aspects of the systems of risk management and internal controls such as the following:

	<ul style="list-style-type: none"> • the nature, independence, and resources of the control functions; • the need for periodic updating to ensure that emerging risks have been captured; • the responsibility of the board to establish a function to ensure compliance with legal requirements; and • the need for an internal audit function, which must report directly to the board. <p>CNSP Resolution No. 135 of 2005 requires each entity to have an actuarial function to advise the board and senior management. In practice, the responsibilities of the actuaries vary considerably from one entity to another. However on the biannual reports the actuarial statement is required on the sufficiency of the provisions as well as on any new technical note.</p> <p>SUSEP has developed an inspection module for the compliance of the effectiveness of the internal controls and risk management systems. This module is used in every inspection and there have also been focused inspections on the internal controls and risk management systems. SUSEP assesses onsite the adequacy of an insurer's systems of risk management and internal controls. This includes the independence of control functions, the sufficiency of their resources, and the effectiveness of their work. If concerns arise, SUSEP takes various actions, such as requiring insurers to improve their practices and to submit reports or materials concerning their status. Also the level of risk retention of the insurer can be reduced.</p> <p>Outsourced functions are allowed but the responsibility is maintained with the insurer. Inspections of the outsource activities are done if deemed necessary either directly or indirectly.</p> <p>SUSEP requires an opinion of the external auditors on the effectiveness and well functioning of the internal controls of the audited company as defined in CNSP Resolution 280 of 2004. A general opinion on the completeness and effectiveness of the internal models is not required to be provided by the external auditors.</p>
Assessment	Observed.
Comments	<p>In recent years, SUSEP has more strongly emphasized the importance of risk management and internal controls.</p> <p>SUSEP requires an opinion of the external auditors on the effectiveness and well functioning of the internal controls of the audited company as defined in CNSP Resolution 280 of 2004.</p> <p>The quality of internal controls varies according to the size and complexity of the insurers. Large insurers have sophisticated systems in place according to international standards.</p> <p>A general opinion on the completeness and effectiveness of the internal models should be required to be provided by the external auditors or CNSP Resolution 280 should be enhanced with an overarching statement on the effectiveness of the internal controls.</p>

ICP 9	<p>Supervisory Review and Reporting</p> <p>The supervisor has an integrated, risk-based system of supervision that uses both off-site monitoring and onsite inspections to examine the business of each insurer, evaluate its condition, the quality and effectiveness of its Board and Senior Management and compliance with legislation and requirements. The supervisor obtains the necessary supervisory information to conduct effective supervision of insurers and evaluate the insurance market.</p>
Description	<p>SUSEP assesses the risks of insurers and other supervised entities using information obtained from off-site monitoring and onsite inspection, and its communications with other local supervisors, such as the BCB and CVM.</p> <p>SUSEP has initiated a methodology to rate insurers according to their risk profile. The system uses the inputs from on-site inspections and off-site monitoring and other sources of information. Currently, the risk assessments are not made within a structured system of risk rating: calibration and consolidation of the risks parameters for the rating methodology is still evolving.</p> <p>SUSEP takes the results of its assessments into account when determining its supervisory program for each insurer. The use of the rating methodology is the main input for planning and scheduling inspections, but onsite inspections can also be required by new findings or other form of intelligence.</p> <p>SUSEP performs ongoing monitoring, including analyzing financial and statistical information and other reports submitted by the insurers. The results of this monitoring help to determine the timing and scope of onsite inspections. There are dedicated inspection teams for insurers that are members of groups and for those that are of particular supervisory concern.</p> <p>CNSP Resolutions No. 118 of 2004 and No. 135 of 2005, along with SUSEP Circulars No. 360 of 2008 and No. 410 of 2010, set out the requirements and procedures for supervisory reporting, which include financial and statistical information, actuarial reports, and reports on the adequacy of liabilities. Comprehensive audited information is reported bi-annually. Some financial, actuarial and statistical information is also reported monthly, and SUSEP can request additional information as needed. Monthly reporting is done in electronic format, and the information can be readily accessed for analysis and comparative reporting. Off-balance sheet exposures are required to be reported. However there is no explicit requirement for insurers (or their auditors or actuaries) to report promptly any material changes that could affect their condition.</p> <p>SUSEP has access to the insurers' assets by direct link to their custodians and can at anytime determine the market value of those assets.</p> <p>SUSEP Circular No. 234 of 2003 requires insurers to designate directors responsible for specific functions, including the timing and accuracy of various types of information.</p> <p>SUSEP reviews its reporting requirements regularly and revises them as appropriate through issuing circulars.</p> <p>DL 73, CL 109, and CL 126 empower SUSEP to require the submission of reports and materials, and to conduct onsite inspections. They do not require SUSEP to give advance notice of an inspection, although SUSEP rarely conducts an onsite</p>

	<p>inspection without doing so.</p> <p>SUSEP verifies information in financial and statistical reports as part of its onsite inspections, through specific inspection modules. Verification includes the assessment of systems and controls, as well as the testing of transactions and calculations on a sampling basis. Claims reserves are also verified against actual claims files. The inspectors regularly discuss matters with internal auditors and the appointed ombudsman. SUSEP reviews the results of external audits and has access to the external auditor working papers. SUSEP also meets with the external auditors, ensuring that the auditor's requirement to maintain confidentiality has been waived before doing so.</p> <p>SUSEP develops a schedule for inspections at the beginning of every business year. The purpose and scope of each onsite inspection is determined and discussed with the inspector, taking the insurer's risk profile and other matters into consideration. Generally, insurers are inspected at least once every three to four years. In the past there has been a continuous onsite inspection program for the larger insurers. However SUSEP has abandoned this practice due to limited resources.</p> <p>The inspection plan describes two types of inspections: "general inspection", under which governance, compliance, risk management systems and practices and business operation of an insurer are assessed comprehensively; and "partial inspection", under which specific areas and issues are focused on and assessed. SUSEP has developed inspection modules for different areas including internal controls, fraud, AML/CFT, solvency, to assist the inspectors' work. A comprehensive Inspection Manual does not exist.</p> <p>The general inspection of an insurer usually involves two inspectors and extends over a period of 1 to 8 weeks. Approximately 55 people are regularly involved in performing inspections of insurers.</p> <p>At the end of an onsite inspection, the inspection team discusses its findings with the insurer and issues a notice of any deficiencies that have been identified, to the insurer. SUSEP requires the insurer to submit a plan for correcting the deficiencies, and follows up to ensure that the plan is being implemented. A formal report is prepared in respect of each inspection.</p> <p>SUSEP is not empowered to extend its inspections to certain operations which an insurer may have outsourced. However, it can require an insurer to provide information regarding outsourced activities.</p>
Assessment	Largely Observed.
Comments	<p>SUSEP's inspections of insurers appear to be comprehensive. However, the frequency between inspections is not gauged to the size, complexity and risk profile of the insurers. The risk based approach of supervision needs to be further developed and become part of its culture. This will optimize the use of the limited resources with a stronger focus on the more complex and riskier insurers.</p> <p>While SUSEP has developed inspection modules for different areas, a comprehensive Inspection Manual needs to be created and ideally made public. This will reduce the chances of missing points during the inspection as well as set the clear expectations that SUSEP sets for the insurers.</p>

	<p>While the onsite inspection of entities to which the insurers has outsourced certain functions is done indirectly through the supervised entity, SUSEP should be granted the power to conduct onsite inspections directly. This will make SUSEPs work more efficient. An alternative acceptable approach would be for the law to make clear that insurers are expected to (1) evaluate the risks associated with outsourcing arrangements, (2) develop a process for determining the materiality of such arrangements, (3) implement a program for managing and monitoring the risks and (4) ensure that the board receives information sufficient to enable it to discharge its duties under the law.</p>
<p>ICP 10</p>	<p>Preventive and Corrective Measures</p> <p>The supervisor takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.</p>
<p>Description</p>	<p>DL 73 Article 113 provides that a legal or natural person who conducts insurance business without authorization can be banned from doing so and subjected to a fine in an amount equal to the amount at risk. In a recent public audience the Superintendent commented on a fine (in dispute) in the order of USD six billions issued to an offshore insurer operating in Brazil without a license. Around 200 complaints have been filed with SUSEP during 2011. SUSEP has acted on all of them resulting in 60 spontaneous onsite inspections.</p> <p>Legislation empowers SUSEP to take various administrative actions in order to protect policyholders and to ensure the sound and appropriate management of insurers, including requiring an insurer to submit a plan to correct governance or control deficiencies, cancelling the authorization to underwrite various products, or withdrawing the license.</p> <p>There is not an official progressive escalation in actions or remedial measures that can be taken if the problems become worse or the insurer ignores requests from the supervisor to take preventive and corrective action, however in practice the initial warning turns into a monetary fine, the repetition of the action triggers an increased fine. The final step in the ladder of interventions will be the license withdrawal. Further, whenever it deems necessary or appropriate to defend the interests of policyholders, SUSEP verifies the faithful fulfillment of the contract, including the accuracy of the calculation of technical reserves and the causes delaying claims' payments, which may be related to economic difficulties of the enterprise. This could trigger the appointment of an administrator.</p> <p>In case of insufficient coverage of technical reserves or poor financial situation of the insurance company, at the discretion of SUSEP, this may, in addition to other appropriate measures, including special supervision, appoint an administrator for an indefinite period, at the expense of the insurer..</p> <p>The Penalty System—SISPEN—administers the sanctions applied, which are warning, suspension or disqualification, to be appointed in statutory positions for up to five years, as well as monetary fines. The monetary fines are by far the largest type of sanctions applied. In the last three years the numbers of fines applied were as follows:</p> <p>Year 2009—882 cases were applied—the total amount of fines: BRL 21 million. Year 2010—787 cases were applied—the value of fines: BRL 19 million. Year 2011—894 cases were applied—the value of fines: BRL 25 million.</p>

	<p>CNSP Resolution No. 227 of 2010 empowers SUSEP to intervene on the basis of an insurer's solvency margin ratio (see ICP 17). Intervention is triggered if the solvency margin ratio is less than 100 percent, as follows:</p> <ul style="list-style-type: none"> • If the solvency margin ratio is less than 100 percent but more than 70 percent, SUSEP can require a solvency corrective plan; • If the solvency margin ratio is less than 70 percent but more than 50 percent, SUSEP can require a solvency recovery plan, along with a new business plan and actuarial note; • If the solvency margin ratio is less than 50 percent but more than 30 percent, SUSEP can implement a special inspection regime; • If the solvency margin ratio is less than 30 percent, SUSEP can cancel the license and initiate extrajudicial liquidation. <p>The final two levels of action are not automatic, requiring the approval of the Managing Council of SUSEP, consisting of the Superintendent and the Directors.</p> <p>SUSEP requires business improvement plans to be satisfactorily implemented within 18 months. The 18 months can be extended 12 additional months given certain economic conditions in Brazil.</p> <p>SUSEP communicates with the board, senior management, and key persons in control functions, as needed, and brings to their attention any material concern in a timely manner to ensure that preventive and corrective measures are taken and the outstanding issues are followed through to a satisfactory resolution.</p> <p>SUSEP assesses the effectiveness of an insurer's compliance through both off-site monitoring and onsite inspection, and takes action to deal with noncompliance.</p> <p>Further, SUSEP can apply a range of actions or remedial measures allowing for early intervention when necessary, including measures such as limiting the amount of new business, removing the ability of the company to freely manage its assets as well as ordering the company to modify its operational practices in specific ways.</p>
Assessment	Observed.
Comments	<p>The supervisor has sufficient powers to take preventive and corrective actions on a timely basis to protect the policyholders and SUSEP uses these powers extensively.</p> <p>SUSEP has the faculty to freeze the assets of the company backing up the reserves at any given time, and without any condition. With this power the escalation is basically indicating the company that is getting closer to that stage in the form of warnings, letters and action.</p> <p>Going forward SUSEP might consider formalizing the ladder of intervention that it uses by introducing a proactive intervention framework that classifies supervised entities in different stages, each one requiring different types of preventive measures. Such a framework will have two key purposes. First, it will support early identification of risks to a firm's viability and ensure that firms take appropriate remedial action to reduce the probability of failure. Second, it will flag actions that the authorities will need to take in advance to prepare for the resolution of a firm.</p>

ICP 11	<p>Enforcement</p> <p>The supervisor enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.</p>
Description	<p>DL 73, CL 109, and CL 126 empower SUSEP to take various administrative actions in order to protect policyholders and to ensure the sound and appropriate management of insurers (see ICP 10), including requesting an insurer to submit a business improvement plan. If a proposed improvement plan or the implementation of such a plan is not satisfactory, SUSEP can take additional measures, including requesting additional capital and imposing formal directions.</p> <p>SUSEP can request corrective plans to deal with internal control deficiencies. It can order the dismissal of directors if they do not meet the suitability requirements and it can ban directors for up to 10 years from occupying statutory positions in the financial sector. CNSP Resolution No. 118 of 2004 empowers SUSEP to suspend the work of an external auditor following an administrative inquiry.</p> <p>CNSP Resolution No. 60 of 2001, which has recently been replaced by the enhanced CNSP Resolution No. 243 of 2011, sets out administrative penalties and sanctions that can be imposed on natural and legal persons involved in the activities supervised by SUSEP. The actions that are sanctioned are typified and the amount of the fine indicated.</p> <p>CNSP Resolution 243 that applies as of March 2012, improves the ability of SUSEP to fine directors, accountants, the actuary, managers and even service providers such as external auditors. Also the amount of the possible fines has been dramatically increased. The former ceiling of BRL 20 thousand is now BRL 1 million per action.</p> <p>SUSEP has the power and has used it in the past to appoint an administrator should the insurer face financial deterioration that is deemed it could affect the policyholders' interests. The court is not involved in this process and the period of administration is not limited.</p> <p>By regulation the insurers' assets backing up the technical provisions present a lien assigned to SUSEP and the insurer needs an explicit approval by SUSEP to gain control over them. This provides SUSEP with an important tool to protect policyholder's interests.</p> <p>As noted above, legislation provides sanctions by way of fines and other penalties against insurers and individuals where the provisions of the legislation are violated.</p> <p>CNSP Resolution No. 186 of 2008 establishes the procedures for application of administrative penalties and for the appeal of such penalties. Every penalty is reviewed by the Council of Recourses of the CNSP (CRCNSP), a council chaired by the MOF and constituted by an equal number of government and industry representatives. At any stage insurers and brokers can appeal a SUSEP decision to the judicial system. While only about 5 percent of the cases are decided in favor of the insurers, the large amount of cases, around 800 a year, handled by the CRCNSP delays the application of fines. Some are dismissed because of a five year prescription.</p> <p>The delay between the sanctions and the actual confirmation of the fines is in some cases too long and thus loses its remedial effect making it impossible to assess their effectiveness.</p>

Assessment	Observed.
Comments	SUSEP has the powers to enforce the measures imposed on the supervised entities and the process of recourses guarantees similar treatment to similar actions. However the process of recourses needs to be streamlined to avoid any prescription of the sanctions. Also a shorter time between sanction and final decision needs to be implemented to maintain the effectiveness and timeliness of fines.
ICP 12	Winding-up and Exit from the Market The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with insolvency of insurance legal entities. In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimizing disruption to provision of benefits to policyholders.
Description	<p>Insurers are generally not subject to the ordinary rules of bankruptcy and may not apply for court-approved arrangements with their creditors. The rules and procedures for dealing with the winding-up of an insurer are set out in DL 73, CL 109, and CL 126. However, the Bankruptcy Law is applied if the assets of the company are insufficient to pay at least 50% of the preferred creditors or if there are substantial grounds to believe that the company has committed a bankruptcy crime under specific statutes.</p> <p>CNSP Resolution No. 227 of 2010 defines the solvency margin ratios at which it would no longer be permissible for an insurer to continue its business (see ICP 10).</p> <p>Law No. 10.190 of 2001 provides that insolvent insurers are subject to an intervention regime and may have share control transferred to a government entity (normally SUSEP) for a period not greater than one year, with the possibility of one renewal. The winding-up proceedings would be carried out by SUSEP, which would appoint the liquidator. There are no qualifications or experience requirements for the choice of the liquidator. The regulation does not provide for incentives to accelerate the winding up process. Further, a liquidator does not have the power to enter into agreements with the creditors. This has led to situations where the liquidation can last for several years. The oldest still on-going liquidation is over 30 years old.</p> <p>High legal priority is given to the protection of the rights and entitlements of policyholders only after liquidator fees, owned tax and salaries within certain limits, and credits with collaterals like mortgages. However the assets corresponding to retirement products are not legally segregated from the insurers' assets.</p> <p>There is no policyholder protection fund in Brazil.</p> <p>There have been few insolvencies within the Brazilian insurance sector, with the most recent having taken place in 2008 a small open pension fund.</p>
Assessment	Largely Observed.
Comments	The winding up of insurers is carried out by SUSEP with the exception of major deficit or bankruptcy crimes.

	<p>Legal priority is given to the protection of the rights and entitlements of policyholders only after liquidator fees, owned tax and salaries within certain limits, and credits with collaterals like mortgages. However the assets corresponding to retirement products are not legally segregated from the insurers' assets.</p> <p>By regulation the insurers' assets backing up the technical provisions present a lien assigned to SUSEP and the insurer needs an explicit approval by SUSEP to gain control over them. This provides strong protection for policyholders and allows SUSEP a timely and effective enforcement tool in case of serious problems. In a winding up situation however there is legal uncertainty of the actions a liquidator might take in assigning those assets that legally belong to the insurer to policyholders' claims first. To improve protection of policyholders' interests, it is recommended that at least for assets corresponding to retirement products legal segregation should be required. This should be done without losing the current lien on the assets backing up the technical provisions.</p>
ICP 13	<p>Reinsurance and Other Forms of Risk Transfer</p> <p>The supervisor sets standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programmes. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.</p>
Description	<p>The reinsurance market was recently opened to the private sector through by the complementary law CL 126 of 2007. Until 2008 the IRB was the solo reinsurer and reinsurance regulator, norms and reinsurance contract clauses were standard. Reinsurance contracts are now freely negotiated. The market has developed since and currently there are 98 reinsurers registered by SUSEP.</p> <p>All reinsurance must be ceded to a reinsurer authorized by SUSEP. CL 126, together with CNSP Resolution No. 168 of 2007 and SUSEP Circular No. 359 of 2008, provide for three categories of reinsurers: local reinsurer, admitted reinsurers, and occasional reinsurers. Local reinsurers are subject to the same regulatory requirements as direct insurers. Foreign reinsurers may be authorized as either admitted or occasional reinsurers. Direct insurers are not permitted to assume reinsurance. There are 10 local reinsurers, 29 admitted and 59 occasional reinsurers as of February 29th</p> <p>When assessing applications of for admitted or occasional reinsurers, SUSEP dismisses applications coming from countries classified as a fiscal paradise by the government. Local reinsurers need to have the legal form of a corporation and are subject to the same licensing requirements as insurers. Admitted reinsurers have to open a representation office and can only be active in reinsurance and consulting in insurance matters.</p> <p>Reinsurers are required to set up a minimal capital to operate. Also in the case of admitted and occasional reinsurers a minimal rating of BBB- or BBB for admitted and occasional reinsurers respectively is required.</p> <p>CNSP Resolution 168 of 2007 sets limits on the reinsurance cessions to admitted and eventual reinsurers in dependence of their rating. The limits on the reinsurance premium range from 25 percent to ten percent of the adjusted assets and for the reinsured claims from 50 percent to 20 percent. CNSP Resolution 232 of 2011 limits local insurers and reinsurers on intra-group risk transfers to 20 percent of premiums</p>

	<p>they accept on each contract. There are also overall limits on the amount of business that insurers can reinsure with admitted and occasional reinsurers. Insurers are not permitted to cede more than 10 percent of premiums to occasional reinsurers, and no insurer or local reinsurer may cede more than 50 percent of premiums to admitted or occasional reinsurers.</p> <p>CNSP Resolution No. 168 amended by CNSP Resolution 203 of 2009 further sets out requirements regarding the documentation of reinsurance contracts. Article 37 indicates that reinsurance agreements must be formally documented within 270 days of the commencement of coverage. Through off-site analysis and onsite inspection, SUSEP assesses the timeliness and appropriateness of documentation. However reinsurance contracts are not analyzed.</p> <p>Insurers cannot be exposed more than three percent of their adjusted assets on each risk and thus reinsurance is required in excess of that amount. Further, and with some exceptional lines of business, such as coverage of nuclear risks, insurers are required to retain at least fifty percent of the risk.</p> <p>The financial information submitted to SUSEP is on a gross basis and reinsurance recoverable is then an additional position in the balance sheet. This allows SUSEP to analyze the impact reinsurance has on the insurers financial position. There are rules to write off long-outstanding amounts recoverable from reinsurers in accordance with IFRS.</p> <p>SUSEP has a lien on the reinsurers' assets and in case of a delay in claims' payments, it could freeze the assets and thus protect the liquidity needs of the cedant.</p> <p>Insurers are not allowed to transfer risk to the capital markets.</p>
Assessment	Largely Observed.
Comments	<p>The opening of the market is recent and as such the participants are still in the process of adaptation. Going forward SUSEP is recommended to remove any limits on the type of cessions that are allowed in dependence of the reinsurer's license and move into a supervised based on risk capital. Thus the use of a reinsurer that presents higher risk to the insurers should require a higher capital charge for the insurers, or a limited recognition of the reinsurance credit on its balance sheet.</p> <p>SUSEP currently does not analyze the reinsurance contract to assess if the intended risk transfer has taken place. It is recommended that SUSEP sets risk transfer requirements to reinsurance contracts and analyze them as part of their supervisory work.</p> <p>The transparency of the reinsurance contracts can be enhanced by forbidding side letters. This can be done by requiring a contract completeness clause on each reinsurance contract.</p> <p>Steps should be taken to require more timely receipt of reinsurance documentation by cedants.</p>

ICP 14	<p>Valuation</p> <p>The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.</p>
Description	<p>The methods used for the valuation of assets and liabilities have been specified by SUSEP, and basically reflect IFRS 4 rules. SUSEP established a chart of accounts to be used by insurers to help ensure a consistent measurement of the financial and solvency positions. These methods address the recognition, de-recognition, and measurement of assets and liabilities. CNSP Resolution 222 of 2010 determines the rules to calculating admitted assets for solvency purposes, intra-group investments are excluded as well as any tax credits, or assets with doubtful valuation like objects of art.</p> <p>In general, consistent and objective bases are used for the valuations of assets and liabilities. The valuation of assets and liabilities is largely an economic valuation. Financial assets are valued at market value through the direct access to the custodian houses of these assets on a monthly basis. Real estate is valued exclusively at acquisition cost. Less liquid assets, including derivatives are valued at notional value or using the latest market transactions. In addition, if the book value of an asset is materially higher than its market value, a provision for impairment must be established.</p> <p>Long term life and pension liabilities are calculated using the contractual conditions when the policy was issued, and the valuation of technical provisions does not include explicit margins over the current estimates. However, SUSEP Circular No. 410 of 2010 requires that the adequacy of the liabilities be tested and any deficiency recognized. Provisions for insufficiency of premia or contributions were required since 2004. This reduced the impact the introduction of LAT had on the insurers in 2011.</p> <p>Each insurer must submit monthly a database that facilitates testing the value of technical provisions under alternative scenarios and assumptions.</p> <p>The criteria for incorporating the time value of money into the monthly estimates of technical provisions have not yet been defined. Also, although the valuation bases must also be disclosed in the audited financial statements, requirements for the auditing of technical provisions have not been specified.</p> <p>The valuation of technical provisions and other liabilities does not reflect the insurer's own credit standing.</p> <p>Insurers are required to consider embedded options and guarantees when calculating the technical provisions and testing their adequacy. However very few products having embedded guarantees are sold.</p>
Assessment	Largely Observed.
Comments	<p>The methods used for the valuation of assets and liabilities have been specified by SUSEP, and basically reflect IFRS 4 rules. In general, consistent and objective bases are used for the valuations of assets and liabilities. The valuation of assets and liabilities is largely an economic valuation.</p> <p>The introduction recent introduction of the LAT is a step in the right direction in recognizing full economic valuation of the liabilities. Further development of the</p>

	mandatory scenarios to assess the adequacy of the technical provisions is recommended.
ICP 15	<p>Investment</p> <p>The supervisor establishes requirements for solvency purposes on the investment activities of insurers in order to address the risks faced by insurers.</p>
Description	<p>The National Monetary Council—CMN (Conselho Monetario Nacional) establishes rules on the admitted investments of insurers, through CMN Resolution No. 3.308 of 2005 and modifications, which are complemented by CNSP Resolution No. 226 of 2010 and SUSEP Circular No. 284 of 2005 and modifications. These rules state in which assets and at which limits an insurance company may or may not invest, as well as concentration limits by class of investment (fixed income, equity and property) and by counterparty.</p> <p>The CMN uses technical input from SUSEP when establishing the investment requirements. The requirements are transparent and their objectives include diversification, safety, profitability, solvency, and liquidity. The requirements are strict; for example:</p> <ul style="list-style-type: none"> • Foreign investment is largely prohibited, with a few exceptions that are related to the currency matching instruments for policies issue in foreign currency, and for investments made by investment funds; • Securities lending is not allowed with respect to assets backing the technical provisions and, for other assets, 100 percent collateral is required; and • Intra-group transactions are prohibited with the exception when investing on an index that contains shares of a related party. <p>CNSP Resolution No. 226 of 2010 indicates that insurers should invest in a manner that is appropriate in light of the nature of the liabilities. SUSEP assesses the appropriateness and the current market value of the investments through the direct access to the custodian and clearing houses of these assets on a monthly basis. Admitted investments funds need to be approved by the CMV and at SUSEP's request the underlying assets need to be disclosed. However the investment limits set for investment in funds do not take into consideration the quality or nature of their underlying assets.</p> <p>The Supervisory Guideline provides expectations regarding risk management related to investment, including risk management systems from the standpoint of governance, market risk management techniques, and risk management systems for credit investments such as securitization products.</p> <p>SUSEP takes action if an insurer invests in assets which it cannot appropriately assess, requiring its immediate replacement with admitted assets.</p> <p>The insurance companies are allowed to operate with derivatives exclusively for hedging purposes and admitted investment funds cannot hold derivatives in excess of their total value. The prior approval of SUSEP is not required. CNSP Resolution No. 226 of 2010 limits the total exposure to derivatives to 100 percent of the technical provisions. Although not included in the current regulations, there are plans to impose limits on margin accounts in order to mitigate the risk of leverage through derivatives.</p>

Assessment	Observed.
Comments	<p>The investment requirements are transparent and their objectives include diversification, safety, profitability, solvency, and liquidity. The industry does not seem to be hindered by the existing investment limitations to execute appropriate investment strategies according to their liabilities, with the exception of the lack of long term assets to match long term liabilities existing in old annuity products.</p> <p>To enhance transparency of the investments it is recommended to set investment limits for investment funds that take into consideration the quality and nature of their underlying assets.</p>
ICP 16	<p>Enterprise Risk Management for Solvency Purposes</p> <p>The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.</p>
Description	<p>SUSEP Circular No. 249 of 2004 prescribes that insurance, capitalization, and open private pension entities must have internal controls over their activities, information systems, and compliance with legal requirements. Although it deals with certain aspects of risk management, there are currently no requirements in respect of enterprise risk management for solvency purposes.</p>
Assessment	Not Observed.
Comments	<p>Current regulation has no requirements with respect of enterprise risk management for solvency purposes. Enterprise risk management is an evolving field, both in Brazil and internationally. Some Brazilian insurers have sophisticated enterprise risk management systems, while others are at earlier stages of development.</p> <p>SUSEP should establish enterprise risk management requirements for solvency purposes that entail insurers to address all relevant and material risks, consistent with the standards under ICP 16. SUSEP should also actively supervise the efforts of insurers in this area, to help ensure that their capabilities are evolving at an appropriate pace.</p>
ICP 17	<p>Capital Adequacy</p> <p>The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.</p>
Description	<p>CL 73 and CNSP Resolution 155 of 2006 set out the minimum amount of capital required of insurers, as the maximum between two regimes, one basically Solvency I requirements and the other comprised of the sum of base capital which varies by geographic region and an additional capital to cover nonlife underwriting risk and credit risk. Currently, the resulting second regime requires on average an additional capital for insurers in the order of 35 percent of the requirements based on Solvency I.</p> <p>The nonlife underwriting risk established in CNSP Resolution 411 of 2010 is based on historical data and is calibrated at 95 percent for insurers that have an internal model</p>

	<p>for risk assessment and 97.5 percent in case the insurer does not have such a model. The internal models need to satisfy certain conditions, like a statistical quality and a calibration test that SUSEP certifies before the reduced capital surcharge can be used.</p> <p>The surcharge is calculated as the sum of a percentage of the premium and of the past claims. The factors have been developed by SUSEP and are deemed to be updated on an annual basis.</p> <p>The credit risk capital surcharge has been developed in CNSP Resolution 228 of 2010 and consists of two types of counterparty risk: exposure to reinsurance and exposure to the financial market assets. The reinsurance exposure uses an internal model developed by SUSEP to allocate the probability of default based on the rating and type of the reinsurer. The credit risk exposure on financial assets is equivalent to the BCB model for the same risk thus avoiding regulatory arbitrage. This module contains 45 different parameters. The reinsurance and the financial assets counterparty risks are added using a correlation matrix. The determination methodology for the parameters and the aggregation matrices are not public.</p> <p>SUSEP is working on the risk capital surcharges for the life underwriting risk, market risk and also operational risk.</p> <p>CNSP Resolution No. 227 of 2010 empowers SUSEP to intervene on the basis of an insurer's solvency margin ratio, taking progressively more severe supervisory actions (see ICP 10). Intervention is triggered if the solvency margin ratio is less than 100 percent, which is effectively the Prescribed Capital Requirement—PCR. Liquidation can occur if the solvency margin ratio is less than 30 percent, which is effectively the Minimum Capital Requirement—MCR.</p> <p>There are no solvency margin requirements at the group level.</p> <p>The use of internal models for the calculation of the required solvency margin is not allowed except for the allowed reduction in the risk parameters of the nonlife underwriting risk.</p> <p>SUSEP does not impose variations to the solvency margin requirements on individual insurers.</p> <p>CNSP Resolution 222 of 2010 sets out the approach for determining the available assets for solvency purposes (see ICP 14) that requires the assets to have objective loss absorbing characteristics.</p>
Assessment	Largely Observed.
Comments	<p>SUSEP has recently incorporated specific capital risk surcharges for the nonlife underwriting risk and for the credit risk. This is a positive step to modernize its capital requirements that until 2010 was basically based on the type of license and geographic area of action plus Solvency I. SUSEP is encouraged to further develop the missing risk charges for the life underwriting risk, the operational risk and for the capitalization underwriting risk.</p> <p>The used by insurers of approved internal models is recognized by SUSEP as a better risk control by allowing a lower capital surcharge in the nonlife underwriting risk. This approach appears to be a good step to start introducing the use of internal</p>

	<p>models. However, due to the complexity in the approval of internal models as international experience attests, a cautious approach is recommended here and a few years of experience before internal models can be used for solvency calculation purposes.</p> <p>All capital requirements are at the legal entity level, to enhance supervision the introduction of capital requirements at the group level is recommended.</p>
ICP 18	<p>Intermediaries</p> <p>The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.</p>
Description	<p>Law No. 4.594 of 1964 and DL 73 require that a registered insurance broker must be used in all insurance transactions, unless an amount equivalent to the commission is paid to an educational fund for insurance. Brokers can be individuals or legal entities. There is no separate category of agents, although some brokers place business with only one insurer and some major companies and banks use in-house brokers to place insurance. The amount of commission is not regulated, so bank intermediaries and similar entities are frequently allocated only a nominal commission rate.</p> <p>Currently there are around 70 thousand active brokers. Brokers are not required to submit financial and operational information. SUSEP does not perform onsite inspections on a regular basis but it analyses all complaints received against brokers and performs onsite inspections in those cases if deemed necessary.</p> <p>CNSP Resolution No. 249 of 2012 and SUSEP Circular No. 429 of 2012 establish the requirements with respect to professional knowledge and experience, integrity, and competence of brokers. The proof of having professional skills is based on passing the national certification exam or successfully completing the broker habilitation course that includes comprehensive training on technical and legal skills:</p> <ul style="list-style-type: none"> • general theory of insurance; • Brazilian insurance law; • the basics of consumer defense and protection as well as the Civil Code • the basics of accounting insurance; • notions about settlement of claims; • notions about selling insurance, ethics, public relations and human relations at work; • basic business management and information technology. <p>On average 30 percent of the candidates pass the exam and 80 percent are able to complete successfully the habilitation course.</p> <p>The law 8.078 of 1990 on consumer rights contains general provisions of disclosure and fair treatment of consumers. However SUSEP has not developed specific requirements for the intermediation of insurance, like disclosure of the working relationship with the insurers, disclosure of the commission level, understanding of the client needs, etc.</p> <p>Brokers are organized in syndicates. One for each of the 26 States. 25 of the syndicates have are members of the Federation of insurance Brokers (FENACOR)</p>

	<p>(Federacao Nacional dos Corretores de Seguros Privados, de Capitalizacao, de Previdencia Privada e das Empresas Corretoras de Seguros). FENACOR has established a code of ethics, which aims to improve transparency among brokers, insurers and clients. Within the broker's syndicate an ethics committee first judges complaints of irregularities committed by insurance brokers within their jurisdiction, followed by FENACOR's National Committee of Ethics, which forwards the result of their deliberations to SUSEP for the imposition of appropriate sanctions.</p> <p>Currently around 88 percent of the insurance business is sold by around 70 thousand active brokers, of which 23 thousand are legal persons. However there are no requirements for insurance intermediaries to apply appropriate corporate governance.</p> <p>Further there is no legal requirement that a broker who handles client monies must have safeguards in place to protect these funds, except for a prohibition to split the premium payments in a higher frequency as received by the insured.</p> <p>Only reinsurance brokers are required to obtain professional liability insurance and any reinsurance contract contains the intermediation clause.</p> <p>Law No. 4.594 of 1964 and DL 73 Article 113 empower SUSEP to take action against any legal or natural person who engages in insurance solicitation without authorization.</p> <p>The CL 137 from 2010 created the self-regulation entity of insurance intermediaries as an auxiliary body to SUSEP. SUSEP through CNSP Resolution 233 on 2011 has regulated this entity; however implementation of the self-regulation through circulars is still pending. The main difficulties being the decision to mandate all brokers to be members of the self-regulating entity.</p>
Assessment	Party observed.
Comments	<p>Brokers are required to be registered and to acquire sufficient level of professional knowledge to intermediate insurance.</p> <p>Currently around 88 percent of the insurance business is sold by around 70 thousand active brokers, of which 46 thousand are physical persons. However the supervision and disclosure requirements are thin:</p> <ul style="list-style-type: none"> • Brokers are not required to submit financial and operational information of a nature that will demonstrate that consumer funds are not being misdirected or mis-used. The submitted information could be verified on a spot check basis by SUSEP—or even just required that to be available, for production on request by SUSEP. • SUSEP does not perform onsite inspections on a regular basis but it analyses all complaints received against brokers and performs onsite inspections in those cases if deemed necessary. • There are no requirements for insurance intermediaries to apply appropriate corporate governance. • SUSEP has not developed specific requirements for the intermediation of insurance. • There is no legal requirement that a broker who handles client monies must have safeguards in place to protect these funds

	<ul style="list-style-type: none"> • Only reinsurance brokers are required to obtain professional liability insurance and any reinsurance contract contains the intermediation clause. • Consumers would have an additional measure of protection if the law were amended to make payment of a premium to a broker, constitute payment to the insurer. This provision is in effect in many jurisdictions. <p>SUSEP needs strengthening the supervision and inspection of brokers. SUSEP should urgently implement the self-regulation of brokers by publishing missing regulation for the brokers' self-regulation entity created by CL 137, to start supporting a tighter supervision of the insurance intermediation. A mandatory affiliation to the self-regulating entity of all brokers together with strong governance and supervision of the entity by SUSEP is recommended. To avoid conflict of interests the self-regulation should not be through any existing trade organization but rather through a separate organization which would carry out the supervisory activities utilizing former brokers but no currently licensed individuals.</p>
ICP 19	<p>Conduct of Business</p> <p>The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.</p>
Description	<p>The Consumer Protection Code 8.078 of 1990 considerably strengthened the rights of customers, and the Consumers' Defense Association is a strong defender of such rights. Also, DL 73 establishes consumer protection as one of the objectives of SUSEP. In recent years, SUSEP has given increased emphasis to consumer protection, which has included setting up ombudsman centers at its head office and regional offices. Further, to protect consumers, Brazil has established a consumer orientation and protection program (PROCON) that deals with general consumer protection complaints and consumer rights orientation.</p> <p>SUSEP Circular No. 292 of 2005 stipulates the administrative procedures and requirements for dealing with consumers. It indicates that an applicant must sign a declaration acknowledging receipt of the information needed to enter into the insurance contract with sufficient knowledge of its provisions. It also sets out the criteria used by SUSEP to analyze potentially deceptive advertisements and marketing materials.</p> <p>CNSP Resolution No. 110 of 2004 requires each insurer to have an ombudsman and sets out minimum rules and criteria for such ombudsmen. Their main objectives are to explain and clarify the rights of customers and to act to prevent and resolve conflicts. Ombudsman centers handle cases involving amounts up to BRL 30,000 per event, and will hear complaints from insurers, beneficiaries, insurance brokers and third parties. Since 2006 the number of complaints received by the ombudsman has been increasing, from 1,756 cases to 4,114 cases, thus attesting of a greater acceptance of this dispute resolution schemes by the consumers. 94 percent of the received cases in 2011 have been resolved and less than 20 percent of the unresolved cases resulted in a fine for the insurer. This indicates a well functioning consumer complaints process.</p> <p>SUSEP Circular No. 429 of 2012 specifies that an insurance broker is legally responsible to consumers and insurers for damages arising from acts or omissions</p>

	<p>related to its brokerage activity. There are no requirements on the type of information consumers should receive before during and after the insurance intermediation with the exception of open pension plans, nor is there a disclosure of commissions and conflict of interest intermediaries may have when advising for the purchase of insurance.</p> <p>Insurers are required to pay claims within 30 days or are subject to fines as set up in Circular 256 of 2004. The 30 days can be stopped to request justified additional information. Through onsite inspection, SUSEP reviews with high priority the claims payment internal controls and processes. SUSEP enforces penalties in case of a violation of the 30 days payment requirement and requires insurers to strengthen their claims-payment processes if needed.</p> <p>The Consumer Protection Code 8.078 of 1990 has provisions to ensure personal information is not used for purposes other than their business activities and that it is not divulged, lost or impaired by third parties to which the management of customer information has been outsourced. This applies to insurers and intermediaries. SUSEP will act on any complaint received related to violation of confidentiality of personal information.</p> <p>SUSEP's web page provides various types of information that support the fair treatment of customers. For example, it issues warning notices regarding unauthorized solicitation, publishes consumer education leaflets, and sends staff to speak at meetings and conferences for the purpose of consumer education. At government level, financial education has been launched at every school. SUSEP has been involved in providing the material for the insurance education module.</p>
Assessment	Largely Observed.
Comments	<p>The requirement to establish an effective ombudsman for each insurer has proven to be a successful measure to protect consumers. Since 2006 the number of complaints received by the ombudsman has more than doubled, from 1756 cases to 4114, attesting of a greater acceptance of this system of resolution by the consumers. The high number of satisfactory outcomes, with only 4 percent of cases remaining unresolved and only 0.8 percent of them resulting in a fine indicates a well functioning consumer complaints process.</p> <p>The requirement of having the claims paid within 30 days is also a commendable element in the protection of customers, in particular given that the 30 days can only be stopped to request justified additional information.</p> <p>With the exception of open pension plans, there are no detailed requirements on the type of information consumers should receive before, during, and after the insurance intermediation. Nor is there disclosure of commissions or the conflict of interest that intermediaries may have when advising customers on the purchase of insurance.</p> <p>The large conglomerates operating in Brazil create a challenging environment when making sure best advice is provided to customers and that it is free from conflict of interest. To enhance consumer protection, at least for long term saving products, transparency requirements need to be introduced. For instance; clear disclosure of conflict of interests; requirements to offer a number of similar products together with the disclosure of the product with the highest commission, etc.</p>

	<p>The dynamics of the market that are currently incorporating a large number of first time consumers into insurance consumption, requires further strengthening of consumer education and protection, in particular through the design of simple products for low income consumers. It is recommended when introducing Microinsurance regulation that particular emphasis on the simplicity of the products requirements.</p>
ICP 20	<p>Public Disclosure</p> <p>The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.</p>
Description	<p>CNSP Resolution No. 118 of 2004 and SUSEP Circular No. 424 of 2011 require insurers to disclose extensive audited information biannually and keep it available to the public. Circular No. 424 specifies in detail the items to be disclosed, which include organizational, operational, financial, statistical, and risk management information including the composition of the capital requirements. On an annual basis the information is published on the public press by the end of February. The biannual information which is also audited is made available to the public on SUSEP's web page by the end of August.</p> <p>Consistency and comparability in the manner of disclosure are promoted by the requirements set out in Circular No. 424. SUSEP reviews the disclosures to assess compliance with the requirements and if necessary correction of the published documents are required.</p> <p>Information disclosed by the insurers and SUSEP is complemented by information made available to the public by CNSeg, FUNENSEG and FENANCOR.</p>
Assessment	Observed.
Comments	The amount of information publicly disclosed is timely and allows to gaining a good understanding of the current financial position as well as risks exposures of insurers.
ICP 21	<p>Countering Fraud in Insurance</p> <p>The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance.</p>
Description	<p>Fraud in insurance is addressed in the Criminal Law, which prescribes sanctions of one to five years' imprisonment and fines.</p> <p>SUSEP has developed its understanding of fraud risks through mechanisms such as offsite monitoring and onsite inspection of insurers.</p> <p>SUSEP Circular No. 344 of 2007 requires insurers and intermediaries to have controls in place to deter, prevent, detect, report and remedy fraud in insurance. Insurers are required to notify SUSEP and the relevant authorities, including the police of cases of fraud that they identify, either within their own operations or those of subsidiaries.</p>

	<p>Internal audit is required to assess the effectiveness of fraud-related controls. SUSEP reviews offsite and onsite the effectiveness of internal controls, including the fraud detection functions. SUSEP requires that improvements be made to remedy any deficiencies that are identified.</p> <p>CNSEg collects statistics on fraud activity since 2004. The last report indicates that claims with suspected fraud totaled 9.1 percent of all claims paid by the insurance sector in 2010, or BRL 1.9 billion; around BRL 280 millions in claims correspond to confirmed fraud.</p>
Assessment	Observed.
Comments	<p>SUSEP has taken an active role in the formalization of the requirements on internal controls to deter, prevent, detect, report and remedy fraud in insurance with Circular No. 344 of 2007.</p> <p>Quantification of fraud by the industry has been carried out since 2004 in a systematic way. The statistics show a constant level of proven fraud of around 1.4 percent of all claims paid throughout the years, while the relation between suspected fraud and proven fraud has increased from 11 percent in 2008 to 15 percent in 2010 indicating a higher level of effectiveness in the insurance fraud combat after the formal involvement of SUSEP.</p>
ICP 22	<p>Anti-Money Laundering and Combating the Financing of Terrorism</p> <p>The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, the supervisor takes effective measures to combat money laundering and the financing of terrorism.</p>
Description	<p>Brazil is a member of both the FATF and the GAFISUD (Grupo de Acción Financiera de Sudamérica). It has developed a comprehensive AML/CFT strategy, the National Strategy Against Corruption and Money Laundering—ENCCLA (Estratégia Nacional de Combate à Corrupção e à Lavagem de Dinheiro), which has enabled it to make systematic progress to enhance its implementation of AML/CFT measures. An outcome of this strategy is a Bill to amend Federal Law 9613 of 1998 (the AML Law) and criminalize terrorist financing. This Bill has been approved by the Senate and is currently under consideration in the House of Representatives.</p> <p>SUSEP participates with three analysts in the discussions of the FATF and in the development and implementation of the ENCCLA. It is also a permanent member of the Council for Financial Activities Control – COAF (Conselho de Controle de Atividades Financeiras), which reports to the Ministry of Finance.</p> <p>Regular training is provided by COAF, the Police and the State Intelligence to SUSEP’s staff. The training contributes to SUSEP’s better understanding of AML/CFT risks in insurance. SUSEP also builds its understanding through onsite inspections of insurers’ analysis of suspicious transactions reports.</p> <p>SUSEP Circular No. 380 of 2008 stipulates requirements with which insurers including branches in and outside Brazil and brokers must comply. These requirements contain the establishment of effective internal controls in the area of AML/CFT, including proper CCD, reporting and information filing.</p>

	<p>SUSEP provides feedback following its onsite inspections, which include the explicit review of controls related to AML/CFT. Where necessary, SUSEP requires supervised entities to improve their controls.</p> <p>SUSEP has mechanisms in place and is cooperating with other Brazilian authorities to deal with AML/CFT issues and concerns. It can cooperate with foreign authorities through the COAF. As mentioned under ICP 3, SUSEP has also applied to participate in the IAIS Multilateral Memorandum of Understanding.</p>
Assessment	Largely Observed.
Comments	<p>Brazil has developed a comprehensive AML/CFT strategy which has enabled it to make systematic progress to enhance its implementation of AML/CFT measures. SUSEP participation in the implemented the strategy is strong and it has developed an inspection module dedicated to AML/CFT.</p> <p>The resources at SUSEP are limited and as such onsite inspections are carried out by general inspectors and not AML/CFT experts. SUSEP should consider creating a group of dedicated inspectors to the supervision of AML/CFT matters.</p> <p>Circular 380 is in the process of being updated to incorporating requirements to follow up on suspicion of AMF/CFT transactions. The updated Circular should also require identification of the ultimate beneficiary on group policies.</p>
ICP 23	<p>Group-wide Supervision</p> <p>The supervisor supervises insurers on a legal entity and group-wide basis.</p>
Description	<p>Definition of a financial group or conglomerate does not exist in current legislation for the purpose of supervision.</p> <p>Supervision is carried out only at the solo level.</p> <p>As of 2011 consolidated financial statements are required.</p> <p>SUSEP takes into account possible double counting of related parties' investments by reducing from the qualified assets for solvency purposes any intra-group investment.</p>
Assessment	Not Observed.
Comments	<p>The market is dominated by insurers belonging to large financial groups. However the supervision of these large conglomerates is carried out on a solo basis. The missing picture of the whole group can create supervisory vulnerabilities that need to be addressed.</p> <p>The required regulation for consolidated supervision, including the introduction of ERM and capital requirements at group level, needs to be developed and implemented.</p> <p>Resources should be allocated to achieve a level of intensity in the supervision commensurate to the complexity and relevance of the insurance and financial groups.</p>

ICP 24	<p>Macroprudential Surveillance and Insurance Supervision</p> <p>The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilize information from, and insights gained by, other national authorities.</p>
Description	<p>The Consultative Committee on the Regulation and Supervision of Financial and Capital Markets, Insurance, Pensions, and Capitalization (COREMEC) established in 2006 by Decree 5.685, created the Subcommittee for Monitoring the Stability of the National Financial System (SUMEF) at its meeting of August 30th 2010. The role of the SUMEF is to advise the COREMEC on market developments and interconnections that could have an impact on the stability of the national financial sector (SFN).</p> <p>SUMEF is in charge to facilitate the exchange of information among committee members, the BCB, CVM, PREVIC and SUSEP to help identify events that may affect the stability of the financial sector; to coordinate actions aimed at meeting the demands of information on the consolidated SFN, especially those from international organizations, and to submit proposals to COREMEC actions to reduce the risk that the situations identified can generate for the stability of the SFN.</p> <p>Most recent work analyzed by SUMEF is related to the impact of avoiding the overreliance on rating agencies for the supervision of the financial sector.</p> <p>SUSEP, motivated by certain market events has requested additional information to the market and sometimes prepared an internal report, for instance the effect of on the technical provisions if the reserves corresponding to the mandatory third party motor liability insurance are segregated. Beside these sporadic interventions, SUSEP current involvement on macroprudential surveillance and insurance supervision is limited to its role in SUMEF.</p>
Assessment	Partly Observed.
Comments	<p>SUSEP current involvement on macroprudential surveillance and insurance supervision is limited to its role in SUMEF.</p> <p>SUSEP should develop and use a variety of tools as part of its macroprudential surveillance. At a minimum SUSEP should:</p> <ul style="list-style-type: none"> • Create a unit responsible for market analysis, which prepares a timely report on local and international market developments, including quantitative information. The report should be reviewed and commented by senior supervisors on the effects of these developments on insurers. • Senior management of the major insurers should be interviewed annually for the views on industry risks and trends. The results are fed back to industry. • Supervisory financial information is analyzed by insurer, insurance group, and across the industry. The information analyzed includes solvency margins, reinsurance exposures, and credit exposures. • SUSEP performs top-down stress testing of the insurance sector each quarter and as necessary with respect to equity-price, exchange-rate, and credit risks.

	<p>Action should be taken with individual insurers in response to concerns that are identified. Senior management of SUSEP should periodically discuss the results of the surveillance and consider whether additional supervisory measures are needed to deal with macroprudential concerns.</p> <p>SUSEP should comment publicly on market developments, trends, and its outlook. And the market data should be made publicly available.</p>
ICP 25	<p>Supervisory Cooperation and Coordination</p> <p>The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.</p>
Description	<p>As noted under ICP 3, CL 126 empowers SUSEP to enter into agreements to exchange information with other regulators, supervisors, and self-regulatory organizations, both local and foreign. SUSEP has not yet entered into bilateral agreements with any foreign authorities. SUSEP has applied to participate in the IAIS Multilateral Memorandum of Understanding, but is not yet a signatory to it.</p> <p>SUSEP is also in the process of negotiating bilateral agreements with the supervisors in foreign jurisdictions where Brazilian insurers have material operations, such as Argentina and Angola.</p> <p>SUSEP participates in colleges of supervisors for foreign insurers that operate in Brazil, but has not established colleges for Brazilian insurers with foreign operations.</p>
Assessment	Partly Observed.
Comments	<p>SUSEP does not regularly communicate with foreign supervisors with respect to either foreign or Brazilian insurers. Being the host supervisor of all major international insurers and home supervisor of large conglomerates justifies the need for strong regular exchange of information with foreign supervisors. SUSEP is recommended to sign Memoranda of Understanding with relevant jurisdictions and start to actively exchange information.</p> <p>The ability to participate in international supervisory meetings is also recommended and such decisions including the budget should be within SUSEP.</p> <p>SUSEP should establish supervisory colleges for Brazilian insurers in case their foreign operations become material.</p>
ICP 26	<p>Cross-border Cooperation and Coordination on Crisis Management</p> <p>The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.</p>
Description	<p>As noted under ICPs 3, 23, and 25, SUSEP exchanges information, cooperates, and coordinates with other local supervisors in various contexts, but does not do so regularly with foreign supervisors.</p> <p>SUSEP has not yet developed comprehensive plans for dealing with Brazilian</p>

	<p>insurers in crisis, but it has participated in the development of such plans for some foreign insurers that operate in Brazil.</p> <p>Insurers are required to have the systems needed to supply information to SUSEP, including information related to actual or potential crises. In the past, they have been able to comply with any requests for information.</p> <p>SUSEP has the authority to cooperate in the development of internationally-coordinated solutions to actual or potential crises.</p> <p>SUSEP Circular No. 285 of 2005 requires insurers to prepare contingency plans and to test them periodically. The plans, and the results of such testing, are reviewed by SUSEP.</p>
Assessment	Not Observed.
Comments	<p>Cross-border cooperation and coordination specifically related to crisis management of Brazilian insurers is in its initial stages.</p> <p>SUSEP should develop comprehensive plans for dealing with insurers in crisis and ensure that it has the tools needed to carry out such plans. It should ensure that the plans are internationally-coordinated by working with foreign supervisors, for example, through supervisory colleges.</p>