



**Joint Colloquium of the IACA, PBSS and IAAHS Sections
of the International Actuarial Association**
Westin Copley Place Hotel, Boston, U.S.A. – 4-7 May 2008

Brazilian Health Market



Alex Kogan FSA, FCIA, MAAA



➤ Brazil is in the news!



International Reinsurance Center



New Investments

THE BRAZILIAN INSURANCE INDUSTRY

Up to now

**IRB IS THE COMPULSORY REINSURER FOR ALL
DOMESTIC RISKS**

LOCAL CEDING
COMPANY

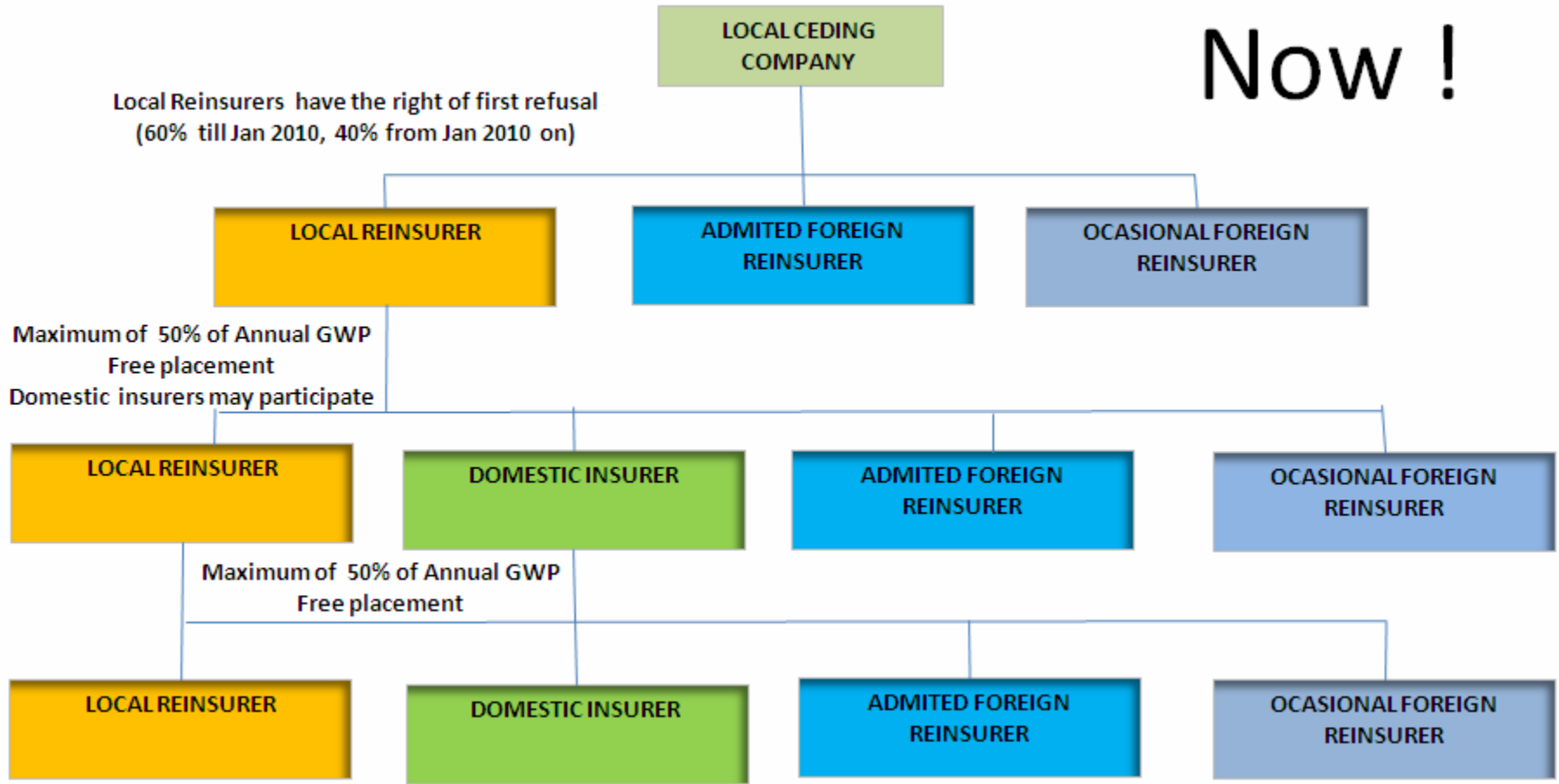
```
graph TD; A[LOCAL CEDING COMPANY] --- B[LOCAL REINSURER IRB];
```

LOCAL REINSURER
IRB

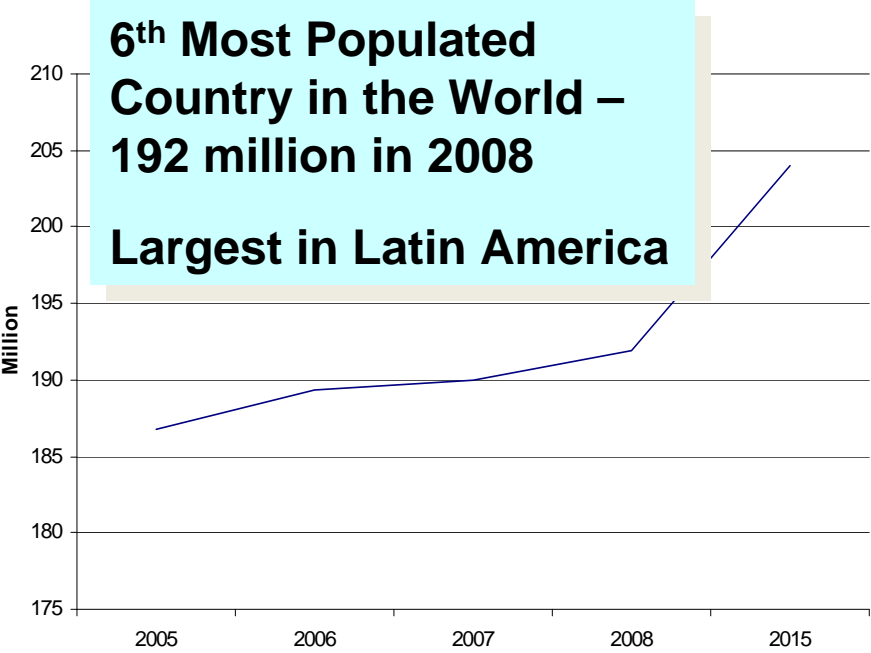
Reinsurance Market in Brazil

BRAZILIAN REINSURANCE REGULATION

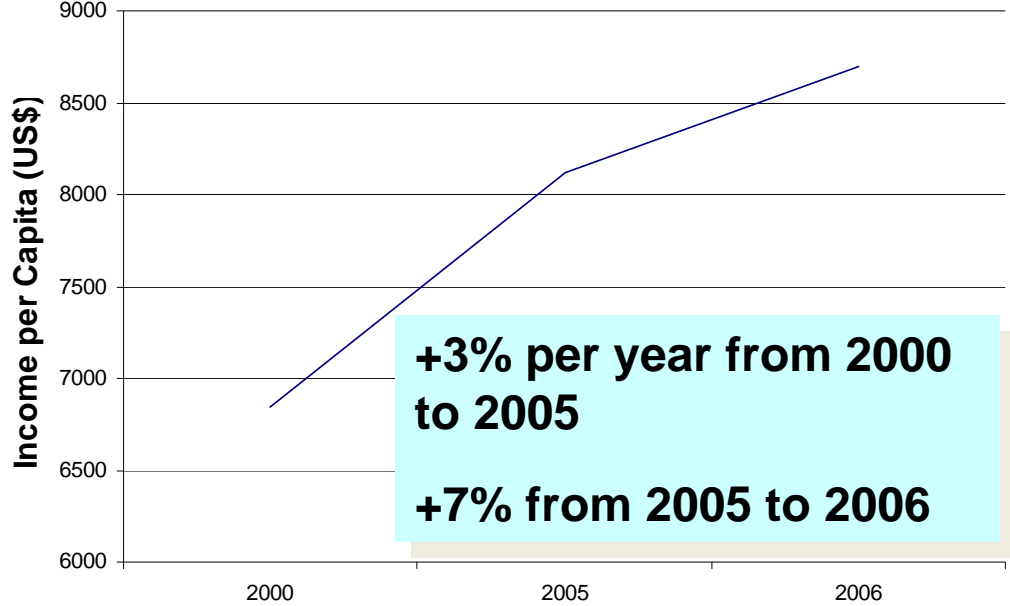
Now !



Overview

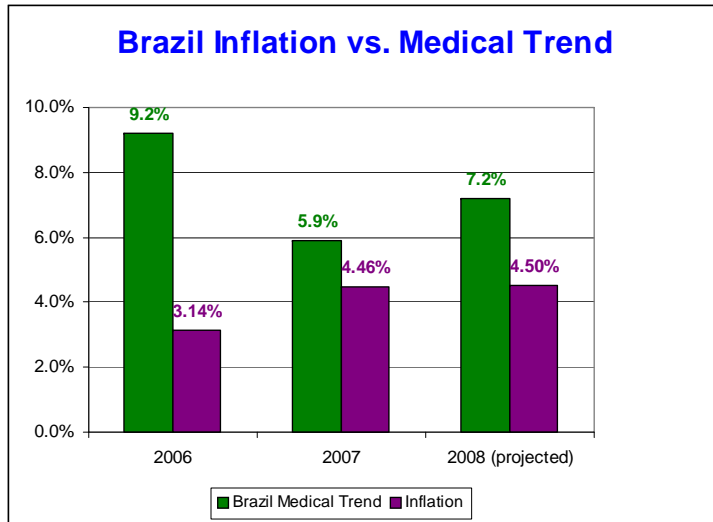


Source: US Census Bureau



Source: World Bank

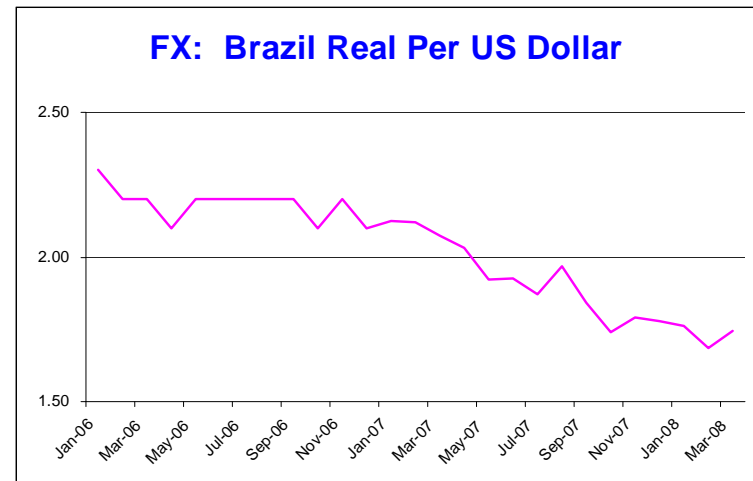
Inflation / Medical Trend / Foreign Exchange



Central Bank of Brazil & 2008 Watson Wyatt Survey

- ❖ Inflation in Brazil is kept within government target of 4.50% in 2007.
- ❖ Brazil is targeting 4.5% annual inflation for both 2008 and 2009.
- ❖ Medical trend decreased from 9.2% in 2006 to 5.9% in 2007.
- ❖ Most insurers forecast an increase in Medical trend in 2008.

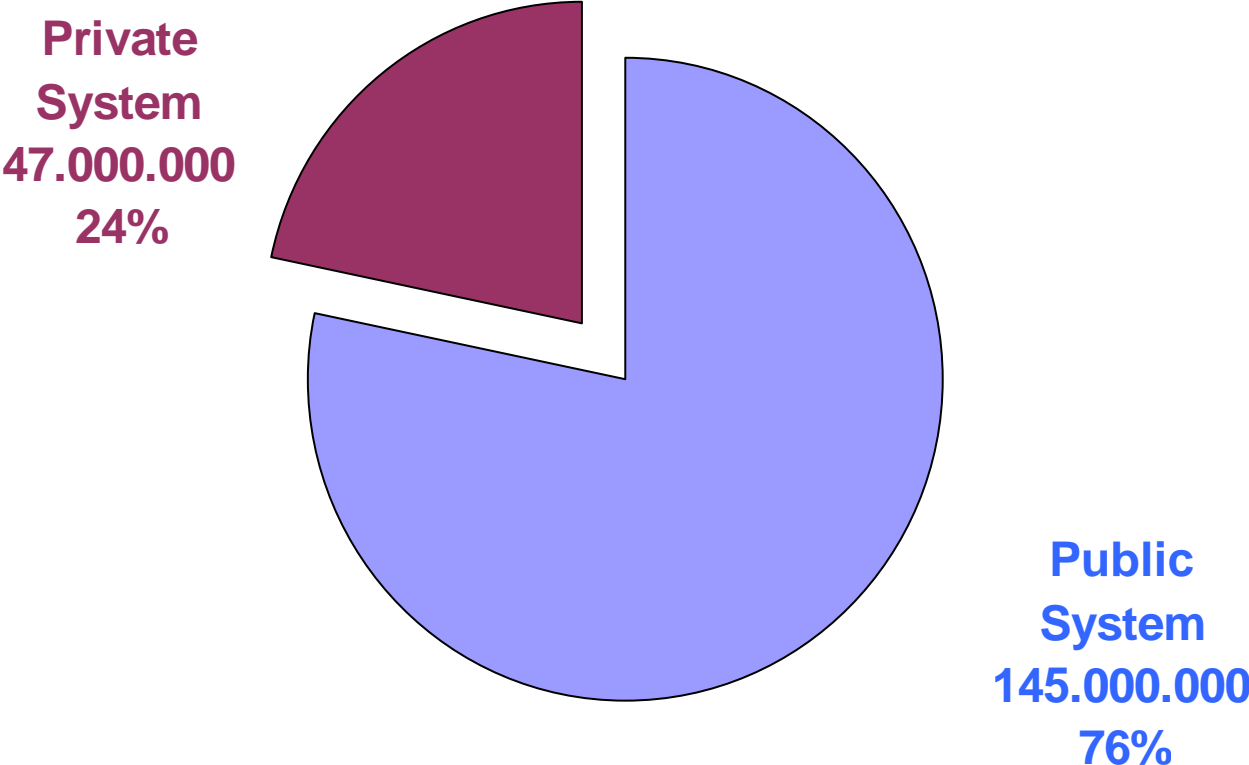
- ❖ Brazil Real stable around 2.20 per US\$ in 2006
- ❖ Brazil Real appreciated against US\$ in 2007.



Central Bank of Brazil

Brazilian Health Market

Regulatory Department
ANS: Agência Nacional de Saúde Suplementar



Brazilian Health Market – Coverage Definition

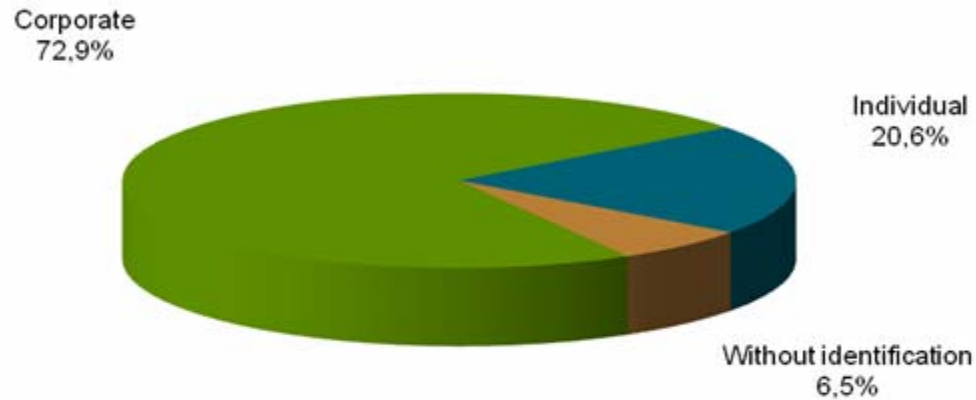
**COMPULSORY
COVERAGE**

**All coverages have no
financial limits**

L A W 9 6 5 6 / 9 8	▶	Exams	▶	Medical Appointments
	▶	Treatments Chemotherapy Physical Therapy	▶	Acupuncture (accredited professional)
	▶	Hemodialysis	▶	Psychiatric Treatments
	▶	Treatments of pre-existing conditions	▶	Hospitalization
	▶	Organ Transplant – Kidney and Cornea	▶	Laser eye corrective surgery
	▶	Prosthesis and Orthesis	▶	Vasectomy, Sterilization, Placement of DIU
	▶	Psychotherapy – 12 sessions per year	▶	Phonoaudiology – 6 sessions per year
	▶		▶	Nutritionist – 6 sessions per year

Brazilian Health Market

Lives by type of plan



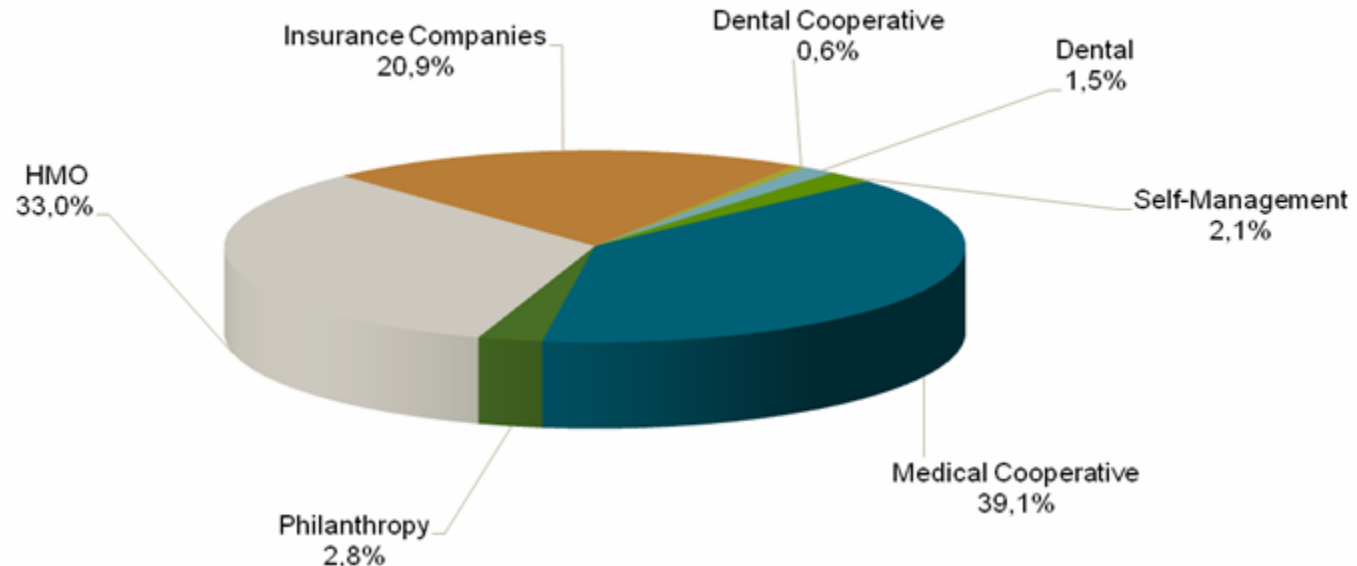
Fonte: ANS/MS - 09/2007

Brazilian Health Market

GPW by Operators Groups

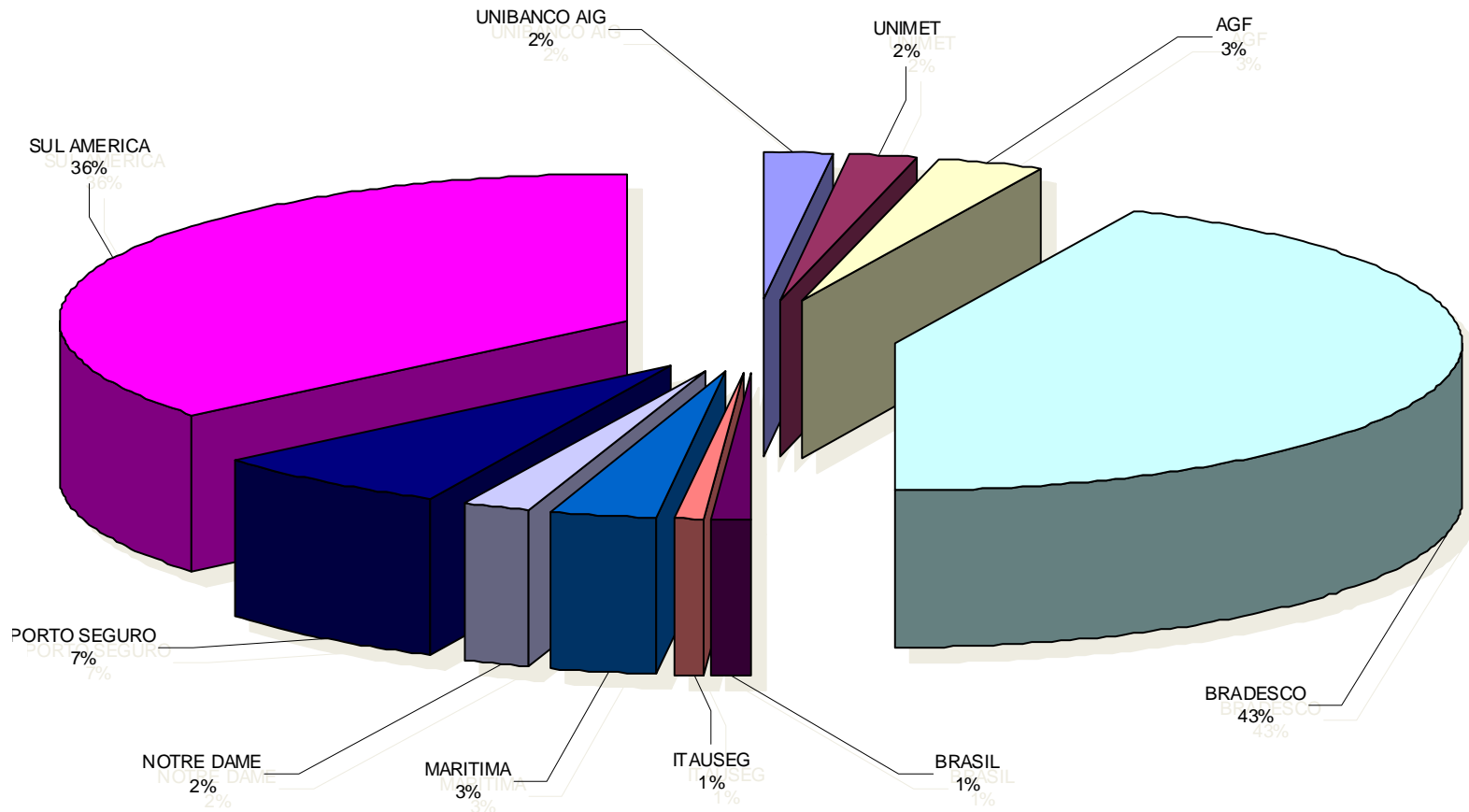
Group	2001	2002	2003	2004	2005	2006
Total	22.025.119.122	25.626.726.871	28.386.021.698	32.107.424.293	36.828.912.283	41.803.662.522
Medical Operators	21.679.591.693	25.225.363.112	27.914.710.247	31.512.988.984	36.087.473.688	40.932.683.840
Self-Management	425.533.661	469.158.330	537.039.874	657.619.014	761.585.235	873.041.433
Medical Cooperative	8.178.807.918	9.190.241.301	10.550.800.060	12.096.846.025	13.854.975.462	16.334.036.550
Philanthropy	1.101.589.812	1.289.392.840	851.693.942	857.679.717	1.052.981.817	1.174.150.588
HMO	6.575.462.465	8.063.589.888	9.273.871.293	10.378.294.147	12.505.441.790	13.801.515.704
Insurance Companies	5.398.197.838	6.212.980.754	6.701.305.077	7.522.550.081	7.912.489.383	8.749.939.565
Dental Operators	345.527.429	401.363.759	471.311.452	594.435.309	741.438.595	870.978.682
Dental Cooperative	127.541.135	146.517.327	153.760.104	211.717.782	245.665.779	248.075.096
Dental	217.986.294	254.846.432	317.551.348	382.717.527	495.772.817	622.903.586

Source: ANS 01/11/2007



Joint Colloquium of the IACA, PBSS and IAAHS Sections
 Westin Copley Place Hotel, Boston, U.S.A. – 4-7 May 2008

Market Share – Insurance Companies



Joint Colloquium of the IACA, PBSS and IAAHS Sections
Westin Copley Place Hotel, Boston, U.S.A. – 4-7 May 2008

Brazilian Health Market

Health Insurance Companies Result

	Lives Aug 2005	Lives Dec 2005	2005 January - December						
			GPW	Earned Premium	Claims	Benefit Ratio	Combined	Acquisiton Cost	Operating Expense
AGF	119.004	131.671	222.659	222.596	159.577	71,69%	0,87	7,30%	7,80%
Bradesco	2.548.580	2.561.494	3.589.210	3.103.864	3.244.027	104,52%	1,15	3,28%	7,24%
Brasil Saúde	85.960	76.374	147.350	146.554	109.395	74,64%	0,89	5,75%	8,68%
Maritima	141.082	139.349	232.051	230.138	170.028	73,88%	0,98	6,53%	17,64%
Notre Dame	73.218	80.281	119.685	119.645	107.995	90,26%	1,03	3,29%	9,55%
Porto Seguro	365.287	390.068	536.750	531.526	378.814	71,27%	0,92	7,27%	13,53%
Sul América (ind.)	1.175.809	441.062	1.350.470	1.349.157	1.175.025	87,09%	0,95	0,69%	7,31%
Sul América (empr.)		722.996	1.854.648	1.852.955	1.431.032	77,23%	0,92	7,30%	7,18%
Unibanco AIG	61.389	61.723	148.337	146.782	111.959	76,28%	0,87	8,07%	2,50%
Unimed	107.229	114.995	147.028	146.851	101.574	69,17%	0,90	4,45%	16,42%
Total			8.348.188	7.850.068	6.989.426	89,04%			

Health Insurance Market Trends and Issues

Regulatory	Market/Product	Underwriting
<ul style="list-style-type: none"> • New Economic Capital Requirements across product lines – pending. 	<ul style="list-style-type: none"> • Small Group Market – Clube Plans for groups < 200 lives. 	<ul style="list-style-type: none"> • Underwriting discipline in the market.
<ul style="list-style-type: none"> • Opening of The Reinsurance Market Beyond the IRB 	<ul style="list-style-type: none"> • Managed Care Sophistication rising. • LCM. No Max. Limits. 	<ul style="list-style-type: none"> • Small Group Renewals • Medical Trend Pricing.
<ul style="list-style-type: none"> • New Reserving Requirements. 	<ul style="list-style-type: none"> • Provider Network structure. • Regional Plans to compete with HMO's. 	<ul style="list-style-type: none"> • Coverage of Parents / Retirees (Agregados). • Age Limits.
	<ul style="list-style-type: none"> • ASO/Loss Free Plans • Dental Plans. 	<ul style="list-style-type: none"> • Commission Levels. • Agenciamiento

Market / Products / Underwriting

- Product design varies by group size - Small groups (up to 100 lives); Medium groups (101 to 1,000 lives); and Large groups (more than 1,000 lives).
- Small Group Products (Clube Structure)
 - Standardized packaged benefits; member co-insurance required.
 - Manually rated – Clube Structure.
 - Renewal by loss ratio band. Anti-selective Lapsation Risk.
- Ancillary benefits – vaccination; speech therapy; mental health; dental.
- Coverage to parents and retirees. Agregados. Age Limits.
- Bundling of other (eg. Life/AD&D) products barriers.
- ASO and Loss free Option – right to recover deficit.

Market / Products / Underwriting

Managed Care and Provider Network Management & Development

- Cost containment through effective contract negotiations.
- Tier structure; low cost network to high-end network.
- Direct billing an advantage to insurers, providers, and members.
- Large Case Management given unlimited benefits structure.

Underwriting

- Underwriting/Pricing Discipline Challenge in the market historically.
- Small group renewals based on loss ratio approach – cases are grouped into loss ratio bands and rate increases developed by band.
- Broker Commission Levels And Agenciamento on Large Accounts.
- Reinsurance protection to mitigate large claim risks (unlimited benefits)?