

Regulatory Revamp Boosts Insurance Opportunities in Brazil

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It's 2021 and the potential for the insurance industry in the vast Brazilian market is still largely untapped, despite the resilience of the industry even during the recent economic recession and a gradually maturing insurance culture – penetration is still low, given the size of the economy when compared to other countries. This growth potential has been in the sights of local and foreign investors alike, from consolidated players to newcomers, as can be seen from the numerous transactions and transformational changes currently underway.

Aside from an active M&A scene with a considerable volume of transactions (many of which BMA is proud to have been a part of), there has been a surprising number of new insurance operations launched in the last five years, either with financial backing of known international players, or raised from the ground up with local expertise and funding. Adding to the list, in 2020 more than 10 new insurance startups were authorized by SUSEP (Brazil's insurance regulator) to begin operations under the newly-created sandbox model, recently adopted by Brazilian regulators to allow.

Many rules governing insurance products are also being revisited. Historically, the Brazilian insurance regulatory framework has a tradition of prescribing in detail the mandatory terms and conditions of insurance products.

The creation of cost-light projects based on innovative technology, launching Brazil further into fintech and insurtech territory. Although SUSEP's first foray was confined to a limited number of selected projects, the initiative caught the attention of many investors eager to ride the "new insurance wave", prompting SUSEP to announce a potential new sandbox round for 2021.

Briefly, the sandbox environment allows for an overall reduction of the regulatory burden by mitigating capital and solvency requirements, making reporting obligations and mandatory internal controls consistent with startup enterprises, and stripping down regulatory costs to the basics. Although a sandbox license has a limited duration, it serves as the ideal launching pad for pioneering projects which otherwise would face the usual go-to-market hurdles to get up and running.

But the regulatory sandbox is only one piece of a larger plan by regulators to modernize and, to a certain extent, deregulate the Brazilian insurance market. A new set of regulations has classified insurance companies into segments, according to the size and complexity of their operations, in a further effort to loosen the regulatory constraints on younger or smaller insurance businesses. Insurers at the bottom end of this range, for example, are subject to lower regulatory capital requirements when compared to those at the top end, so as to level the playing field and boost competitiveness.

Many rules governing insurance products are also being revisited. Historically, the Brazilian insurance regulatory framework has a tradition of prescribing in detail the mandatory terms and conditions of insurance products, restricting innovation and differentiation of available policies. SUSEP's new approach is to make product regulation more flexible, providing insurers with greater freedom to develop products and solutions best tailored to their clients, including usage-based insurance for certain risks. In particular, policies aimed at sophisticated customers seeking to insure large risks will be almost totally customizable.

Supported by a more business-friendly legal environment and a rapidly evolving digital economy, local insurers, reinsurers and brokers have been driving innovation by actively developing new products, new ways of selling insurance and working on improving customer experience in an increasingly competitive market.

In this dynamic context, our Insurance Desk is ready to provide specialized support to clientes who wish to seize opportunities in the Brazilian market.

**This content is part of the e-book "A Post-Covid World, the ESG Agenda and Other Trends in 2021: Insights for Foreign Investors in Brazil". [Click here to view all the articles.](#)*

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