



Country Fact Sheets

'Zurich' Facilities

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Compulsory Insurances

Workers' Compensation. Monopoly of the State Social Security Fund

Fire insurance. Obligatory for almost all corporate assets.

Inland Marine Insurance. For all property or merchandise shipped by road, river, rail or air within Brazil for values invoiced higher than the equivalent of U.S. \$ 2,000 per shipment

Automobile Bodily Injury Insurance: No-Fault principle, required for all vehicles

Truckers Liability Insurance. Must be taken out whenever the value of the goods transported in any one vehicle exceeds the equivalent of U.S. \$ 2,000 (Should not be confused with Inland Marine Insurance)

Major Insurance Laws

Decree No 60 459 of March 13, 1967
(Decreto-Regulamento da Lei No 73)

- regulates the legal Decree No. 73 with the modifications introduced by the legal decrees No 168 of February 14, 1967 and No 296 of February 28, 1968 (National Private Insurance System, Compulsory Insurance, National Insurance Council, SUSEP, insurance companies, brokers, etc.)

Legal Decree No 73 of November 21, 1966
(Decreto-Lei sobre o sistema nacional dos seguros privados)

- regulates the operations of direct insurance and reinsurance

Non-admitted Insurance

All insurance of risks in Brazil must be placed with underwriters licensed to operate in Brazil. These insurers can only reinsure with the Brazilian Reinsurance Institute (IRB) which by law can in exceptional cases grant permission that non-admitted insurance can be purchased outside Brazil (very rare)

A fine is levied against an insured who purchases non-admitted cover



**Premium Taxes, Stamp
Duties and Fees**

No premium tax is levied but for financial operations a tax on premiums paid of 2% or 4% is collected, depending on the class of insurance.

Policy fee is insignificant (maximum U S \$ 10); also payable for endorsements.

Exchange Controls

The Brazilian Cruzado is not freely convertible; purchase of foreign currencies is only possible with permission of the Central Bank. The export of Brazilian currency is generally forbidden.

Non-residents are not allowed to open accounts.

The financial market as a whole is rigidly controlled.

Other Information

Almost all classes of insurance are subject to uniform rating quoted by the IRB.

All insurance companies operating in Brazil are obliged to follow and observe these tariffs.

The insurance market is strictly supervised by the Federal Insurance Commissioner's Office SUSEP.

Direct insurers may not reinsure risks among themselves but coinsurance of risks is common.

By law almost all premiums must be paid through a bank collection system. Upon payment, the bank delivers the policy to the insured and credits the underwriter.

With the compliments of:

ZURICH INSURANCE GROUP
International Division Marketing & Information

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Latin American Presentation

Brazil

May/June 1989

Latin American Insurance Market Report Brazil

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1. General Country Information

1.1. History

Brazil was discovered by Pedro Alvares Cabral in 1500 and colonised by the Portuguese.

In 1807, Napoleon's armies invaded Portugal. King Joao VI fled to Brazil and established Rio de Janeiro as the new capital of the Portuguese Empire. When, in 1821, he was finally able to return to Portugal, he left his son as Regent. One year later, in 1822, his own son decided to declare Brazil's independence from Portugal and became its first Emperor. In 1889, a bloodless revolution established the Republic. Today, the Federal Republic of Brazil maintains strong cultural links with Portugal.

1.2. Geography and Climate

Brazil is the fifth largest country in the world occupying 8,511,965 sq km. It constitutes 47% of the South American subcontinent and borders all countries except Chile and Ecuador. Brazil's border to neighbouring countries covers 15,719 km, while its eastern boundary to the Atlantic coast, stretching from Guayana to Uruguay, is one of the longest in the world at 7,408 km.

The vast nature of this land can clearly be seen in the distances between the major cities. Boa Vista, capital of Roraima State is separated from Natal, capital of Rio Grande do Norte, by 6,770 km, a distance that is greater than Lisbon to Helsinki. Administration is consequently very difficult, a fact that does not facilitate the development of the lost cities of the interior.

Brazil has five clearly defined topographical areas:

The Amazon Basin in the north, occupying approximately one third of the country, is formed by the numerous tributaries of the Amazon River and the tropical forest. Hot temperatures, averaging 24C to 28C, and a humid tropical climate characterise the region.

The Brazilian Highlands lie to the south east of the Amazon and north east of the River Plate basin, forming a tableland of 300 to 900 metres high. Inland from the eastern edge of the plateau, a number of mountain peaks rise, including the Pico da Bandeira at 2,898 metres. The area is characterised by a summer which is warm and moist, and a winter that is somewhat cooler and drier. During these winter months almost no rainfall occurs, reducing the areas grazing value.

The Atlantic coastal plain is a narrow coastal lowland, cut off to the south by the projection of the Brazilian Highlands. It has a tropical rainy climate, whereby the relatively high humidity can often be uncomfortable to visitors.

The small portion of Brazil located in southwestern Mato Grosso and lying within the Basin of the Rio Paraguay is the Pantanal. Flooding during the rainy season alternates with drought in winter, so that only the most hardy breeds of cattle can graze in the area. Although the upland areas enjoy better natural grasslands, even these are unable to support higher grades of cattle. As such, the area has only limited economic importance.

Finally, the section of the Brazilian Highlands cut off from the main part by the Amazon River in the south, form what is called the Guiana Highlands. This range extends from the Amazon River northwards to Venezuela, and culminates in Mount Roraima. The climate is characterised by hot moist summers and cool dry winter, whereby the rain falls heaviest on those slopes facing the north-west winds.

Brazil has one of the most intricate river networks of the world. The Amazon River alone is 7,025 km long, being fed by approximately 1000 tributaries. Other important rivers are the Paraná (4,025 km), the Juruá (3,283 km), the Madeira (3,240 km), the Purus (3,210 km), the Sao Francisco (3,161 km), the Uruguay (2,078 km) and the Paraguay (2,020 km).

1.3. Population and Major Cities

The last population census made in 1980 established the total population at 119 million inhabitants. It is a very young population: approximately 65% of the total population is under 30, 50% is under 20, and 25% is under 10 years of age. Projections made on the basis of the 1980 census estimate that the population is now about 144.5 million and will be 180 million by the end of the century.

The annual growth rate has been declining in recent decades. It was 2.99 (5.15 urban, 1.55 rural) in the fifties, 2.89 (5.22 urban, 0.57 rural) in the sixties and 2.48 (4.44 urban, 0.62 rural) in the seventies.

Although the number of foreigners living in Brazil is not very large, they represent an important sector of the population. In 1980, there were 1.1 million foreigners registered in the country, 200,000 of which having already been naturalised in Brazil. The most important group of foreigners are the Portuguese (392,661), followed by the Japanese (139,480), the Italians (108,790) and the Spaniards (98,515).

There is a high concentration of population along the coast, especially in the south. The largest urban areas in the country are:

	Km Sq	Population (est. 1985)	Density (per km sq)
Metropolitan Sao Paulo	7,951	15,280,375	1,922
Sao Paulo	1,493	10,099,086	6,764
Metropolitan Rio de Janeiro	6,464	10,217,269	1,581
Rio de Janeiro	1,171	5,615,149	4,795
Metropolitan Belo Horizonte	3,670	3,059,727	884
Belo Horizonte	335	2,122,073	6,335
Metropolitan Porto Alegre	5,806	2,602,743	448
Porto Alegre	497	1,275,483	2,566
Metropolitan Recife	2,201	2,501,637	1,137
Recife	209	1,289,627	6,170
Metropolitan Salvador	2,183	2,125,792	974
Salvador	324	1,811,367	6,161

Brasilia, with a population of 1.7 million, has been the capital of the Brazilian Republic since 1960.

Today around 75% of total population live in urban areas.

The active population numbers over 50 million people and the unemployment rate just over 4%.

Brazil needs to create new jobs at a rate of 1.5 million per annum in order to absorb the mass of young people arriving new to the market.

The Gross National Product (GNP) has, however, been growing at the highest rate in the world since 1870.

The following figures show this clearly:

Long-Term Unemployment Indicators
(average rates 1870-1987)

Growth rate (%)

Country	GNP	Population	GNP per capita
USA	3.4	1.6	1.9
France	2.2	0.3	1.9
Germany	2.8	0.8	2.0
UK	1.9	0.6	1.3
Japan	3.9	1.1	2.7
Brazil	4.4	2.3	2.1
Mexico	3.2	1.9	1.4
India	1.7	1.1	0.5
China	2.5	1.0	1.5
USSR	2.9	1.1	1.8

Source: Angus Madison

1.4. Political Powers

On 5th October 1988, the new Constitution of Brazil was enacted, replacing the one drafted in 1967 and enacted in 1969.

The 1969 Constitution had increased restrictions to civil rights and strengthened the power of the acting president (General Geisel). The new Constitution, however, meant that the executive authority lost the prerogative it had formally enjoyed to govern by means of decree-laws, a privilege granted through the Institutional Act No. 5 enacted on December 13, 1968.

Many of the implications of the new Constitution still have to be regulated by ordinary laws before coming into force, although this is expected to occur by the end of the first session of 1989. It is of particular importance that future political and economic changes must first pass through Congress.

In 1985, a civilian, Mr Trancredo Neves, was elected President by an electoral college consisting of Congress and State Legislators. He succeeded General J.B. Figueiredo. However, Mr Neves sadly died before he was able to take over (March 15, 1985) and was immediately substituted by Mr José Sarney, his Vice-President, who will remain President until the 1989 presidential election.

In addition to the Government, which controls the executive power, there is a National Congress which was instituted by the 1824 Constitution and is responsible for legislative control. The National congress is formed by a Chamber of Deputies

(Camara dos Deputados - 487 members elected for a 4 year term) and the Federal Senate (Senado Federal - 72 members elected for an 8 year term).

A further change to have occurred in the political life of Brazil, is the nature of its party political system. This underwent significant alterations after the municipal elections of November 15, 1988.

The largest party of Brazil's 29 officially registered parties, the Partido do Movimento Democrático Brasileiro (P.M.D.B.), which lies to the centre of the political spectrum, weakened as some of its more influential members split to form the Partido Social Democrático Brasileira (P.S.B.) in August 1988.

The election also allowed two parties to rise in the Brazilian political scene: the Partido dos Trabalhadores (PT), the workers party, and the Partido Democrático Social (PDS), which is more conservative. The PT, in association with both Brazilian communist parties, was particularly successful and able to place mayors in a number of major Brazilian cities, including Sao Paulo.

These alterations in the balance of power may be taken as a consequence of the highly unpopular and ineffective economic administration of the government at that time.

Although these comments on Brazil's party political scene are valid at the time this report was written, it should be remembered that the country has a very unstable political climate.

Currently, it would appear that Mr. Leonel Brizola, former Governor of the State of Rio de Janeiro and President of the Partido da Frente Liberal (PFL), is leading the race for the presidential election, followed by Mr. José Ignácio Lula, President of the PT, and Mr. Silvio Santos, a Brazilian entrepreneur who owns one of the biggest national television channels.

After over 20 years of military control, Brazil is making its first steps towards democracy. However, the years of military presence were marked by economic stability and growth.

2. Economic Situation

In just over 20 years, Brazil has managed to develop from the 48th position in the rank listing of world economies, to 8th position today. It has already been mentioned that it has had the fastest growing GDP since 1870.

There have been clearly defined phases in Brazil's development:

Between 1870 and 1913 the GDP per year averaged 2.3%.

From 1913 to 1950, the average annual growth of the GDP rose to 4.9%.

From 1950 to the oil shock of 1973, the average yearly growth rate amounted to 7.5%.

Indeed, during this last period, between 1965 and 1973, the average rate of growth was even higher, attaining a level equivalent to 9.5% per annum. This was largely due to the developments in heavy industry.

A high growth (6% and more) continued until the second oil shock in 1980. Recent GDP growth figures reflect this fact, and also show how fast an economy as diverse as the Brazilian can recover from an adverse situation.

Year (deflated)	GDP Growth ratio in real terms
--------------------	--------------------------------

1981	- 1.6%
1982	0.9%
1983	- 2.5%
1984	5.7%
1985	8.4%
1986	8.0%
1987	2.9%

Due to the dramatic collapse of the industrial production (October 1987 to October 1988, -7.9%; January 1988 to October 1988, -2.9%), the second time a situation of this kind has occurred in the last 14 years (the other was in 1982, when there was -2% growth between October 1981 to October 1982), and the fact that this has a major contribution to GDP performance, it is expected that GDP growth in 1988 will be something around 0% to 1% in real terms.

In 1989, it is expected that Brazil will start on a new phase of sustained growth rates of 4% and more.

3. Insurance Market

3.1. The Zurich in Brazil

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Equity : US\$ 10.000.000
Shareholders : 49.66% Zurich do Brasil
38.27% Banco Garantia
12.07% Haegler/Kiehl

The Zurich Group began its activities in the Brazilian market in 1980, by entering into a joint venture agreement with a Brazilian company.

During 1984, the "Zurich" decided to acquire Cia. Anglo Americana de Seguros Gerais (AA). On January 1st, 1985, operations were started using our own facilities.

The company is licensed to write all non-life lines and group life insurance.

Premium income in 1987 and 1988 was as follows:

1987	Cz\$ 240,624,185 (US\$ 5,896,000)
1988	Cz\$ 2,300,000,000 (US\$ 8,000,000)

Zurich-Anglo Seguradora S.A employs a total of 130 people.

3.2. Insurance Law/Regulations/Supervision

Insurance operations in Brazil are based on Decree Law No. 73 of November 21st, 1966, and later decrees in March 1967 and December 1970.

The insurance industry is closely supervised by the State, and the rules and regulations regarding insurance companies, solvency, investment and rating are very strict, allowing little flexibility.

The following organisations regulate and supervise the insurance market:

The "Conselho Nacional de Seguros Privados" (CNSP), establishes the policy regulations and directives on insurance and reinsurance. It is an inter-ministerial organisation, which generally supervises the operations of the insurance system. The CNSP is under the control of the Treasury Department.

The "Superintendencia de Seguros Privados" (SUSEP) is an autonomous organisation which supervises insurers and brokers. It also makes a contribution in fixing tariffs and policy wordings, and can impose penalties on companies infringing the rules. SUSEP is also under the control of the Treasury Department.

The "Instituto de Resseguros do Brasil" (IRB) controls reinsurance on a monopoly basis, accepting compulsory reinsurances in excess of insurers net retentions, redistributing the surplus within the local market. Any risk exceeding the national capacity is placed in the international reinsurance market.

Principal compulsory insurances according to Article 20 of Decree Law No. 73 are as follows:

1. Workers compensation insurance
2. Fire insurance for corporated assets

3. Inland transport insurance
4. Automobile bodily injury insurance
5. Truckers liability insurance
6. Civil liability of building constructors for bodily injury and property damage.
7. Personal injury to passengers on commercial aircraft and civil liability of air carriers.

3.3. Insurance Requirements

With effect from 4th October, 1988, the CNSP fixed new minimum requirements for companies wishing to write insurance dependent upon the type of business and region. These figures are expressed in US\$.

Companies who wish to write all lines in the whole territory are required to have a minimum capital of approximately US\$ 9.6 million. The minimum capital is divided into two parts, the first for type of business (A/B) and the other for every region of operation (C).

A. Property and casualty business: US\$ 692,000.

B. Life insurance, pecunia plans, pension fund: US\$ 692,000.

C. Regions	Federal Units	Type of Business	
		OTN A	B
1	AM, PA, AC, RO, AP	69,200	69,200
2	PI, MA, CE	69,200	69,200
3	PE, RN, PB, AL	103,800	103,800
4	SE, BA	103,800	103,800
5	MG, GO, DF, ES	346,000	346,000
6	RJ	1,038,000	1,038,000
7	SP, MT, MS, RD	1,384,000	1,384,000
8	PR, SC, RS	346,000	346,000
	Whole Territory	3,460,000	3,460,000

OTN-Bond (Obrigaçao do Tesouro Nacional)

The OTN is a bond of public debt issued by the Brazilian government and varies daily according to the Customer Price Index (IPC).

In order to minimise the effects of inflation, all policies are OTN-linked, i.e., that Cruzado amounts prevailing at the inception of policies will increase daily according to the variation of OTN. However, as the OTN is based on the Consumer Price Index, insured values - especially in property and automobile insurance - have to be checked periodically according to the variations of the cost of construction, machinery, etc..

In November, 1987, the OTN was valued at Cz\$ 463.48 and, in November 1988, at Cz\$ 3,774.73.

3.4. Market Statistics

The total premium income in 1987 was:

Cz\$ 109,144,153,000
(US\$ 2,425,000,000)

The loss ratios in 1987 were:

	Premiums Cz\$ (000)	Claims paid + outstanding Cz\$ (000)	Loss Ratio %
Fire	20,671,777	8,565,414	41.4
B.I.	1,115,705	525,270	51.5
G. Liab.	728,869	1,002,787	137.5
Motor	34,734,694	27,717,401	79.8
Transport	6,601,483	3,250,693	49.2
Life (Group)	15,366,302	6,886,226	44.8

3.5. Solvency and Financial Stability of Insurers

The companies are very carefully supervised by SUSEP and the IRB, regarding both technical and financial matters. They continue to flourish, despite the problems connected with inflation. Larger companies are very professionally run enterprises, but quite a number of small and middle-size organisations continue to live of the reinsurance commissions of the IRB.

3.6. Reinsurance

The "Instituto de Resseguros do Brasil" (IRB), which was formed in 1939, is the sole reinsurer in the country and is 51% owned by the State and 49% by the local insurance companies.

The aim of the IRB is to regulate coinsurance, reinsurance and retrocessions, in order to keep most of the premiums written by direct insurers within Brazil. It accepts reinsurance from the local market and abroad, and distributes the amount exceeding its retention to the domestic market. Local companies are obliged to cede all business exceeding their retention to the IRB, who pays a commission to the cedent. Risks which exceed national retention levels are ceded abroad. However, this represents a very small premium share, in 1987 totalling approximately 3%.

3.7. Pools

With the intention to become more independent from the IRB, most of the companies participate in a pool, ceding the amounts above their retention into that pool instead of the IRB. Some of these pools, especially those which are limited to small risks (US\$ 24 million), are administered by the IRB, which charges a commission of 2%. They offer various advantages, for example, higher commissions for the ceding company and more flexibility with regard to special conditions and discounts.

3.8. Non-Admitted Insurance

Non-admitted insurance (placing of risks abroad without intervention of the IRB) is not allowed and subject to heavy penalties.

3.9. Insurance Associations

"Associação Nacional das Companhias de Seguros"
(National Association of Insurance Companies)

The objective of this organisation is the development of insurance activities and furtherance of the interest of its members.

"Federação Nacional das Empresas de Seguros Privados e de Capitalização" -
FENASEG
(National Federation of Insurance and Capital Investment Companies)

The aim is to study and coordinate insurance matters, in addition to the representation and defence of insurance institutions.

"Federação Nacional dos Corretores de Seguros" - FENACOR
(National Union of Insurance Brokers)

The objective of this association is to defend the interests of brokers and clients.

3.10. Intermediaries

Brazil is a typical broker market, whereby all business has to be placed through intermediaries. There are hundreds of brokers operating, although the majority are very small enterprises. They have to provide a small nominal capital and must be registered with SUSEP.

Brokers are responsible for approximately half the business written; the remaining business is divided into "in-house" brokering operations from insurance companies and captive brokers from large industries. In fact, due to the need for credit from customers and the sophisticated banking network, a large section of the risks is covered by the financial institutions, which operate as both a bank and insurer with their own in-house broker facility. The strong position of the banks is also reflected in the fact that 70% of total premiums are written by companies linked to banks.

As a measure to try and limit the strength of financial institutions in favour of independent brokers and insurance companies, the new constitution included an article limiting the activities of banks in the insurance sector. As yet, it has not been defined to what extent the banks will be prohibited from being involved in insurance business.

The leading local brokers are listed below:

Local Name	International Group
Adams & Porter	
Alexander & MacFarlane	Alexander & Alexander
Alvorada	Cecar (France)
	Fingeco (Italy)
Frank B.Hall	
Hellner	
Jauch & Hubener	
Johnson & Higgins	
Porto, Nazareth	Sedgwick Group
Power	Reed Stenhouse
These/Jocatec	
Tudor-Marsh & McLennan	
VVD Pallas	Gradmann & Holler
Weichert	
Wood Macrae	
York	Willis Faber

With a Directive passed on 31st of December, 1985, SUSEP liberated the commission levels to be paid to brokers. Compared to other markets, commissions in Brazil are high. Moreover, fire and business interruption rates have been reduced substantially due to the introduction of premium discounts. The total of brokerage and discount granted to the customer often exceeds the reinsurance commission paid by the IRB, leaving the insurance company with its investment income.

All insurance premiums have to be paid with the banks. Premiums can be paid in full at inception or in two to ten installments. Taking into account the dimensions of the Brazilian territory and the relationship between banks and insurance companies, this system is the only really effective solution.

4. Underwriting Per Line of Business

4.1. Fire

Fire business is one of the most important lines in the Brazilian market. As mentioned under 3.4, the loss ratio amounts to 41.4%, allowing the insurer to compensate losses in other lines. During the last 40 years, there has been little alteration in the tariff. Rates are substantially higher than in Europe and the United States (an average industrial rate would be around 3.0 per mille - 3.5 per mille).

With the intention to partially liberate the market and give more underwriting responsibility to insurers, SUSEP issued, in November 1987, a Directive allowing insurers to give discounts on fire and business interruption. However, the discounts are not taken into account by the IRB, i.e. reinsurance cessions are calculated on 100% of the premium.

In addition to the discount mentioned above, the tariff permits discounts for existing loss prevention devices installed on the premises:

Fire-extinguishers	5%
Hydrants	5-20%
Fire Engine	10%
Alarm System/Smoke Detector	10%
Automatic Sprinkler System	20-60%
Mobile Pump	10%

As per December 1st, 1988, SUSEP issued a new Directive which, bearing in mind the good claims experience, gives some more flexibility to the rating system by applying the following measures:

1. A 10% bonus ("bonificação") can be granted by the leading insurer if the insured meets the following requirements:
 - activity exceeding 5 years
 - loss ratio lower than 10%
 - sums insured not lower than US\$ 1 million (approximate)
2. A discount ("desconto") between 5% and 25% fixed and approved by the IRB on proposal of the leading insurer under condition of the following requirements:
 - minimum activity of 3 - 5 years
 - loss ratio between 10-30%
 - sums insured not lower than US\$ 2 million (approximate)
3. A single average rate ("taxa única") for the whole plant. The normal tariff underwriting requires a break-down of a plant in various units according to their hazard exposure and respective fire protection in order to apply the corresponding rate on the respective values. Besides the reduced amount of underwriting work necessary, the single average rate usually also represents a premium saving. IRB will, however, grant this advantage only for industries active for more than one year and in cases of total sums insured of more than US\$ 10 million (approximate).
4. Furthermore, the Directive foresees a special rate allowance ("taxa especial") for very large risks (total sum insured higher than US\$ 20 million (approximate)), where the application of the normal tariff would create distortions to the final premium if compared to regular risks. This special rate is also subject to claims experience and has to be agreed by SUSEP.

As a general rule, all reductions granted including those for loss prevention devices (but excluding the discount for sprinkler systems) cannot exceed 50% of the usual tariff rate which, in turn, cannot be lower than 1 per mille (absolute minimum rate).

Basic coverage

The standard fire policy provides cover against fire, lightning and explosion of gas used for domestic purposes.

Perils such as windstorm, hail, falling aircraft, vehicle impact and smoke can be included in the fire policy.

Direct damage resulting from explosion other than of gas used for domestic purposes may also be included (explosion of pressure vessels or other equipment and explosion of hazardous substances).

The same applies to electrical damage caused by overheating, short-circuit, defective insulation etc. if not followed by fire and material loss or damage caused by spillage or overflow of molten substances.

The following perils cannot be included in the fire policy but may be covered by other policies:

Earthquake

Flood

Volcanic eruption and other natural phenomena

Bush fires in rural areas

Strike, riot, civil commotion and malicious damage

Sprinkler leakage

Sums insured and indemnification:

The standard wording provides loss settlement on the basis of Actual Cash Value (ACV) at the date of loss. However, the insured may receive a settlement up to "new for old" replacement for buildings and machinery. This situation occurs when the insured value exceeds the verified ACV on the date of loss. However, the amount payable over and above ACV is limited to 100% of the ACV, and is payable only once the replacement is made.

For stock, the valuation is the replacement cost or selling price, whichever is lower. It is not possible to follow the normal U.S. practice of insuring the selling price only. The normal difference between replacement value and selling price is an element of a business interruption policy.

Provided the amounts insured in the fire policy are sufficient, the cost of debris removal is covered. However, the insured should establish a specific sub-limit for debris removal to prevent underinsurance.

Coinsurance clause:

The standard policy form contains a 100% coinsurance requirement. This requirement essentially applies to the basic perils of fire, lightning and the explosion of domestic gas.

Cautious insurance buyers can reduce the effect of coinsurance requirements by purchasing:

70% Partial coinsurance clause at a 15% premium surcharge

80% Partial coinsurance clause at a 10% premium surcharge

90% Partial coinsurance clause at a 5% premium surcharge

Insurance Period

The policy period is one year (no renewal endorsement) .

4.2. Transport Insurance

Import

Insurance on imports is not compulsory. However, should an importer decide to insure, Brazilian law requires that insurance be placed with Brazilian underwriters.

General conditions of Marine Insurance on Goods (GCMi 1988) or conditions as per Institute Cargo clauses apply.

Rates are determined by tariff and normally higher than those used internationally.

Open covers concluded for an unlimited period may be cancelled by both parties subject to one month notice.

Export

General Conditions of Marine Insurance on Goods (GCMi 1988) or conditions as per Institute Cargo Clauses apply.

Rates are fixed by the IRB on a case by case basis.

Inland Transport

Compulsory coverage (force majeure) is required for all property or merchandise shipped by road, river, rail or air within Brazil, for values which are invoiced higher than the equivalent of US\$ 2,000 per shipment .

Coverage usually follows London clauses. However, there are clauses specially applicable to the Brazilian market.

Truckers Liability

Coverage is mandatory and required by Brazilian law (this should not be confused with inland marine insurance). Tariff rates are binding.

4.3. Business Interruption

Due to the complexity of this form of coverage and the high cost, business interruption insurance represents only 1.4% of total gross premiums written in Brazil.

Coverage is usually written on a gross profit basis, i.e. net profit and standing charges. However, the market also offers the possibility to cover only Net Profit or specified standing charges.

A business interruption policy can only be concluded in addition to a standard fire policy.

Coverage is generally granted for fire and lightning. By paying an additional premium, coverage is also possible for explosion, electrical damage, earthquake, flood etc.. Extensions for contingent coverage for key suppliers or customers can be made.

Indemnity periods vary from 1 to 36 months, and the sums insured vary with the indemnity period. Cover continues until the insured has recovered forecasted sales and profitability levels, or the indemnity period has expired, whichever occurs first.

Rating is based on the average content rates (not building rates) for the perils insured. Fire protection credits on the basic policies are taken into account in this calculation. Added to this, a coefficient is applied according to the indemnity period. For reference, sample coefficients follow:

1 month indemnity period:	320%
3 month indemnity period:	188%
6 month indemnity period:	148%
12 month indemnity period:	100%
18 month indemnity period:	92%
24 month indemnity period:	84%
36 month indemnity period:	68%

The sum insured is based on the full value. There is the option for a 1% deductible which will lower premiums by 12.5%.

Similar to fire insurance, partial coinsurance is available (70%, 80%, 90%).

4.4. Motor Vehicle

Compulsory insurance based on no fault principle

Payment of claims is made against simple proof of injury, independent of legal liability.

Coverage is limited to bodily injury, including driver, passengers and pedestrians.

Limits:

Death/permanent disability	US\$ 1650 approx.
Med. costs	US\$ 350 approx.

The tariff structure was recently annulled.

There are discounts for fleets.

Policy wordings are the same for all types of vehicles, with no special features and extensions available.

Facultative third part liability:

Optional third party liability insurance is essential, as the obligatory insurance is not a third party cover. Separate limits are available for property damage and bodily injury.

Automobile own damage is available in three main forms:

- a) comprehensive cover (certain minor exclusions)
- b) fire, explosion, lightning and theft
- c) fire, explosion and lightning only

Deductibles are compulsory for coverages a) and b).

4.5. General and Product Liability

This class of business has a small share of the total market premium income, mostly due to mentality and a lack of public awareness as to legal rights of recourse. Usually, most of the foreign companies buy a liability cover, but it is generally limited to small insured sums, i.e. US\$ 100,000 - 2,000,000.

Until September 1988, the market only offered wordings on an occurrence basis. Nowadays, the exporter may buy a cover on a claims made basis, but limited to products sold domestically. Policies written in foreign currencies are not permitted.

General and products liability is also tariff rated and closely supervised by the IRB.

Deductibles are not common, except for products liability, and they are quite low, i.e. a few hundred US\$.

Legally, liability is based on the fault principle and limited to the following periods for action:

- 20 years: Third party against insured

(Civil Code Art. 177)

- 1 year: Insured against insurer (within national territory and according to Civil Code 178/6)
- 2 years: Insured against insurer (outside Brazil and according to Civil Code 178/7)

5. Claims Handling

The IRB also supervises the accuracy of the claims settlement and, theoretically, has the right to interfere in each and every case. In practice, however, insurers handle most claims without such interference. As for industrial risks, companies can handle claims independently up to a defined limit; for fire insurance, this limit represents, for example, 10 times the net retention for small risks and 2 times for large risks, whereby only the net retention of the leading insurer is taken into account.

With Resolution No. 5/85 of 5th September, 1985, the Insurance Council introduced an index for claims settlement, taking into account inflation from the date of notification to date of settlement of a claim.

6. Future

Since the IRB was founded in 1939, the Brazilian insurance market remained closed with regard to financial transactions with international insurance carriers. The aim was, and is, to cede as little money as possible abroad as this represents an important means of investment for domestic purposes. For a fast growing economy such as Brazil, it is understandable that they wish to keep such a secure source of income. Therefore, Brazil has undertaken the necessary steps to broaden the national capacity in a way that most risks can be placed within the country.

There are only some 3% of total gross premiums ceded abroad, and these through treaties written by the IRB which guarantee compensation business, thus an additional source of income.

Due to the prevailing situation, a drastic change to this philosophy cannot be expected in the near future.

On the other hand, a certain adaption with regard to the range of products, tariff flexibility and the underwriting techniques has taken place in recent times. Underwriters can qualify different risk exposures by granting premium reductions in the fire business and, for automobile own damage insurance, the tariff has even been annulled so that quotes can be made at the insurer's own discretion. It can be expected that this trend will continue, which, in turn, might lead to greater liberalisation and an opening up of the international market. The potential of the Brazilian market is still enormous. Further growth will, however, not only depend on the development of insurance industry, but also on the nature of the economic, political and environmental scene.

Overview of Perils Insured Against in Basic Fire Policy

Brazil

a	Fire	b	Collapse
a	Lightning	b	Smoke
a	Explosion	c	Sonic Boom
b	Aircraft	b	Molten Material
b	Windstorm	c	Radioactive Contamination
b	Hail	b	Earthquake
b	Vehicle Impact	c	Volcanic Eruption
b	Strike	b	Flood
b	Riot	c	Snow Pressure
b	Civil Commotion	b	Landslide
b	Malicious Damage	b	Tenants & Neighbours Liability
b	Vandalism	b	Water Damage
b	Sabotage	c	Tsunami
c	Terrorism	c	Leakage
b	Sprinkler Leakage	b	All Risks

- a Perils covered in a standard policy
- b Perils can be added by endorsement
- c Perils cannot be added by endorsement

Comparison Tables

Brazil

Spain

May/June 1989

Comparison of Fire Insurance Coverage

BRAZIL

Fire

Excludes loss or damage to property caused by:

- a) Heat or fermentation
- b) Electrical disturbance
- c) Theft during and after Fire
- d) Burning by public authority
- e) War, riot, civil commotion, strike
- f) Bush fire in rural areas
- g) Radioactive contamination
- h) Earthquake
- i) Flood
- j) Volcanic eruption and/or other natural phenomena

Lightning

Covered by standard policy

Explosion

Standard coverage includes explosion by domestic gas.

Full explosion coverage can be added at the appropriate tariff rate, and is available on the "First Loss" basis or on a 100% coinsurance value basis.

Aircraft

By extension. (Part of extended coverage). Aircraft or other aerial devices or articles dropped therefrom.

Windstorm

By extension. (Part of extended coverage).
- damage by wind of at least 15 m/p.s.
- hurricane, cyclone, tornado

Hail

By extension. (Part of extended coverage)

Vehicle Impact

By extension. (Part of extended coverage). Damage caused to property insured by vehicle impact.

SPAIN

Fire

Excludes loss or damage to property caused by:

- a) Heat or fermentation
- b) Electrical disturbance
- c) Spontaneous combustion

(However, a fire following the above-mentioned accidents would be covered)

Lightning

Covered by standard policy

Explosion

Covered by standard policy

Aircraft

Damage by falling aircraft or parts thereof covered by "Extended Coverage".

Windstorm

Covered as an extension to the Fire Policy "Extended Coverage"

Hail

Part of "Extended Coverage".

Vehicle Impact

Damage caused by physical contact of road and rail vehicles. Exclusions:
- Damage caused by vehicles of the insured, the user of the insured premises or their employees.

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Strike

See riot cover.

Riot

By separate policy (Riscos Diversos). Material damage caused by riot, strike (lock-out) and civil commotion caused by unlawful assembly of more than three people.

Excluded: war, civil war, insurrection or rebellion, revolution, conspiracy, terrorism, subversion or any kind of persons acting behind an organisation with the objective of destruction.

Civil Commotion

See "Riot".

Malicious Damage

Coverage within policy condition for riot strike and civil commotion.

Vandalism

Coverage within policy conditions for riot, strike and civil commotion.

Sabotage

Not named but covered within "Malicious Damage".
See "Riot".

Terrorism

Coverage not available

Sprinkler Leakage

By separate policy (Riscos Diversos). Coverage in respect of accidental leakage of sprinkler installations.

Collapse

By separate policy (Riscos Diversos). Collapse caused by any kind of event except fire, lightning and explosion unless fire and explosion are a direct or indirect result of hurricane, cyclone, tornado, windstorm, volcanic eruption or any other natural phenomena.

SPAIN

Strike

Part of "Extended Coverage" if it is an illegal strike. Legal strike covered by the "Consortio". See note 1).

Riot

Covered by the "Consortio". See note 1).

Civil Commotion

Covered by the "Consortio". See note 1)

Malicious Damage

Part of "Extended Coverage"

Vandalism

Part of "Extended Coverage". Can be added by endorsement.

Sabotage

Term "Sabotage" as such not used for coverages, but in certain circumstances coverage exists.

Terrorism

Covered by the "Consortio". See note 1)

Sprinkler Leakage

Part of "Extended Coverage"

Collapse

Coverage not available

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Smoke

Damage by sudden and unforeseen influence caused by apparatus as a part of heating/ calefaction/warming system or industrial kitchen and only if they are connected to a chimney by a tube conductor.

Excludes smoke damage caused by industrial ovens of apparatus.

Sonic Boom

Coverage not available.

Molten Material

By extension (Riscos Diversos).
Coverage in respect of damage or destruction caused by sudden and unexpected escape of molten material including loss or destruction of the actual escaping material.

Radioactive Contamination

Coverage not available.

Earthquake

By separate policy (Riscos Diversos).
Coverage in respect of property damage directly caused by earth-/seaquake.
Coverage excludes fire, lightning and explosion following earth-/seaquake.

Volcanic Eruption

See "Earthquake" above.

Flood

By separate policy (Riscos Diversos).
Coverage for damage caused exclusively and directly by rising water of "navigable rivers" and channels thereof.

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Smoke

Covered if sudden and accidental escape from a heating/boiling unit, furnace or drying

Sonic Boom

Coverage in respect of damage caused directly by sonic boom resulting from sonic boom waves of an aircraft. Part of "Extended Coverage".

Molten Material

Coverage in respect of damage of destruction caused by sudden and unexpected escape of molten material.

Exclusions:

- Damage, destruction or loss of the actual escaping material
- Costs incurred in the discovery of the point of escape.

Part of "Extended Coverage". Can be added by endorsement.

Radioactive Contamination

Coverage not generally available.

If atomic reactor or nuclear material is used coverage is available by the Atomic Pool.

Earthquake

Covered by the "Consortio". See Note 1).

Volcanic Eruption

Covered by the "Consortio". See Note 1)

Flood

Covered by the "Consortio". See Note 1)

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Snow Pressure

Coverage not available

Landslide

Not named but covered within conditions for "Collapse"

Tenants' and Neighbors' Liability

Available under a separate liability policy.

Water Damage

Covered by separate policy (Riscos Diversos):

- water entering into buildings caused by rain shower independent if in consequence of insufficiency of sewerage or similar reasons
- flood/high water as long as not caused by rising water of "navigable rivers" or channels (see item "flood")
- rupture of pipe systems, canalization, water mains, reservoirs or tanks, as long as they do not belong to the insured building or to the building where the insured location is a part thereof.

Tsunami

Coverage not available

Leakage

Coverage not available

SPAIN

Snow Pressure

Coverage not available

Landslide

Coverage not available

Tenants' and Neighbours' Liability

Coverage available.

Water Damage

Coverage available under the "Extended Coverage" endorsement.

Tsunami

Coverage not available.

Leakage

Coverage available by special endorsement.

Coverage in respect of damage or destruction caused by sudden and unexpected leakage of the contents of pipes, tanks and containers.

Exclusions:

- Damage caused by the leakage of water or heating oil.
- Damage to pipes, tanks and containers caused by wear, tear, gradual deterioration, rust and corrosion.
- Costs incurred in discovery of the point of leakage.

Sprinkler leakage part of "Extended Coverage".

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Deductibles/Limits of Indemnity

Limits of indemnity do not apply as the sum insured is the limit for individual policies

1. Fire/B.I

No deductibles applicable.
(Even on clients request tariff does not allow)

2. Extended coverage

Aircraft windstorm, hail, vehicle impact, smoke

- 1% of sum insured:
 - . min. approx US\$ 30.-
 - . max. approx. US\$ 500.-

3. Miscellaneous (Riscos Diversos) Coverage

- sprinkler leakage, earthquake, flood
- 1% of sum insured:
 - . min. approx. US\$ 80.-
 - . max. approx. US\$ 800.-
- electrical damage/molten material
- 10% of loss limited to approx. US\$ 200.-
- flood/high water as described under item "water damage"
- 1% of sum insured:
 - . min. approx. US\$ 80.-
 - . max. approx. US\$ 800.-
- In addition the insured participates with 20% on the indemnization after the 1% has been deducted.

Taxes and Fees

- Premium Tax 4%
- Policy tax up to approx. US\$ 2.- depending on premium amount.

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Deductibles/Limits of Indemnity

1. Fire/B.I.

Generally no deductibles or limits of indemnity (can be agreed individually).

2. Extended Coverage

Generally 10 % of damages minimum Ptas. 25.000, maximum Ptas. 250.000

Note 1) - Consorcio

Government pool covering special risks. Must be included in fire policies by adding a special rate to be paid by the insured.

Taxes and Fees

Additional surcharge 9,30 % plus 3.650 Ptas.
Fire brigade 5,00 % on premium
D.G.S. 0,50 % on premium
Consorcio - Rate range from 0,092 o/oo to 0,25o/oo applicable on amounts insured.

Whenever the risk is located close to a water source there are specially increased rates for Consorcio .

Comparison of General Liability Insurance Coverage

BRAZIL

Structure

Policy contains preamble, operative clause, jurisdiction clause, exception, definitions, conditions and schedule.

Coverage

Standard coverage is public liability. Only legal liability for compensation of:

- Bodily Damage
- Property Damage
- Financial Loss arising directly from bodily injury and property damage occurring

during the period of insurance within the geographical limits arising out of the business.

(Claims made wording is available within the Product Liability for exports abroad)

Schedule

Attached to and forming part of the policy. States Insured's name, address, business, period of insurance, premium, limits of indemnity, deductibles and policy territory.

Definitions

There are definitions of Geographical Limits. Extent of cover, obligations of the insured, premium payment, claims handling, other insurances, policy period and cancellation, consequences of breach of policy conditions, prescription.

Supplementary Payments

Not available.

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Coverage

Covers the legal liability of the insured arising out of the operation products, can also be included designated in the policy for:

- Bodily Injury including death and other impairment of health (bodily injury)
- Damage, destruction or loss of property (property damage)

Unless otherwise agreed, the General Liability Insurance shall also cover the liability of the insured:

- 1) As owner, lessee or tenant of building which are part of the insured's enterprise.
- 2) Arising out of use of motor vehicles and cycles provided that they are used in the insured's business (only subsidiary liability complementary to motor insurance).
- 3) Pollution only if sudden and accidental.

Schedule

Essential part is the exact and comprehensive description of the activities and the manufacturing programmes of the insured enterprise.

Definitions

There are definitions of persons insure, obligations of the insured during the policy period, bases for the premium calculations, consequences of breach of policy conditions, claims, handling etc.

Supplementary Payments

Expenses of the insurer for costs (e.g. lawyers' and experts' fees and court costs) shall not be counted as indemnities in respect of the sum insured. If liability claims exceed the sum insured, the costs shall be divided proportionally.

For a claim occurring in the United States or Canada, all costs, however, shall be taken into account within the limit of indemnity.

BRAZIL

Limits of Indemnity

Within the limits of indemnity the policy will pay legal costs and lawyers' fees.

No claim payable after the exhaustion of policy limits. All occurrences resulting from a single cause are deemed one occurrence.

Limits per occurrence and in the aggregate and period of insurance (see also extensions).

Period of Insurance

Twelve months without tacit renewal.

Policy Territory

Standard coverage is limited to Brazil. Worldwide coverage can be included by payment of an additional premium.

Deductibles

Depending on activities of insured following deductibles apply (only Product Liability):

Deductibles

- . US\$ 400
- . 10% maximum US\$ 8.000

Higher deductibles are not available.

Cancellation

Policy may be cancelled by the Insurer by registered letter subject to pro rata return of premium. In the case of cancellation by the insured, the insurer returns the premium applying an increased pro rata tariff.

Available Extensions of Cover

(subject to the payment of additional premium)

- 1) Premises and Operations. Limit of indemnity 1,5 times the sum insured in the aggregate per year.
- 2) Product Liability. Limit of Indemnity one time the sum insured in the aggregate per year.
- 3) Contingent Motor Vehicle Liability (non-owned vehicles used for and on behalf of the

SPAIN

Limits of Indemnity

Within the limits of indemnity, legal costs and lawyers' fees are not included. These costs are paid additionally.

No claim payable after the exhaustion of policy limits. All occurrences resulting from a single cause are deemed one occurrence.

Period of Insurance

Twelve months with tacit renewal.

Policy Territory

Standard coverage is limited to Spain. Worldwide coverage can be included by payment of an additional premium.

Deductibles

On property damage claims a deductible is generally applied.
(Minimum Ptas. 10.000).

Cancellation

A policy may be cancelled by either party following each claim covered under the policy.

Coverage shall close 15 days after receipt of the cancellation notice.

Available Extensions of Cover

Special risks subject to the payment of additional premium:

- 1) Product Liability - Bodily Injury or Property Damage occurring within the geographical limits and caused by the insured's products. Limit of Indemnity per occurrence and in the aggregate any period of insurance.
- 2) Tenant Legal Liability.
- 3) Contractual Liability (written contracts).
- 4) Contingent Motor Vehicle liability (non-owned vehicles used for and on behalf of the

BRAZIL

Available Extensions of Cover (cont'd)

- business). Limit of Indemnity 1,5 times the sum insured in the aggregate per year.
- 4) Employer's Liability. Only in excess of government workers compensation. Limit of indemnity one time the sum insured in the aggregate per year.
 - 5) Liability for activities in Third Parties' premises. Limit of Indemnity 1,5 times the sum insured in the aggregate per year.
 - 6) Claims made wording for Product Liability limited for exportations abroad.

Exclusions

- 1) Property in the care, custody and control of the Insured other than visitors' or employees' personal effects.
- 2) Nonperformance of contract.
- 3) Contractual liability
- 4) Liability of vehicles owned, rented or controlled by the insured in transit outside of the premises and liability of aircraft.
- 5) Radioactive contamination and nuclear fusion.
- 6) War, civil war, etc.
- 7) Fraudulent act or other acts under influence of physical decease, alcohol or drugs.
- 8) Claims caused to third parties' property which is object of treatment.
- 9) Punitive Damages
- 10) Liability for claims caused by continuous action of temperature, vapour, humidity, infiltration gas, smoke and vibration.
- 11) Pollution, contamination, leakage unless the occurrence is sudden, unexpected and non-intentional.
- 12) Financial loss and loss of profit which do not result directly from bodily injury of property damage covered by the policy.
- 13) Loss, theft or robbery.
- 14) Claims by the insured or his family members.
- 15) Claims caused by construction work etc. within the premises.
- 16) Claims caused by vessels.
- 17) Liability arising out of existence of harbours, wharfs etc.

For Product Liability only

- 18) Illegal distribution and commercialization of products.
- 19) Product recall.
- 20) Components of aircraft industry.
- 21) Products destined for competition.
- 22) Liability arising out of products during test phase.

SPAIN

Available Extensions of Cover (cont'd)

- business).
- 5) Employer's liability.

Exclusions

- 1) Liability claims arising from damage due to risks not corresponding to the activities described.
- 2) Property in care, custody and control of the insured.
- 3) Performance of contract.
- 4) Non-accidental pollution contamination.
- 5) Radioactive contamination and nuclear assemblies.
- 6) Financial loss not directly resulting from bodily injury or property damage covered by the policy.

Product liability

- 7) Illegal distribution or marketing of products.
- 8) Products recall (can be included by endorsement).
- 9) Product guaranty.
- 10) Claims due to genetical alterations.
- 11) Liability arising out of products during test phase.

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SPAIN

Exclusions (cont'd)

- 23) Claims caused by products due to improper publicity, recommendation or erroneous information.
- 24) Claims originating out of defective product due to error in plan, design, formula and project.
- 25) Claims due to genetical alterations.
- 26) Product guarantee.