FLASH NOTE

11.10.2016

FOCUS ONE: BRAZIL'S GROWING INSURANCE PENETRATION

Digging deeper into emerging economies

11.10.2016

Less than a third of Brazil's cars are insured

The Brazilian insurance sector has enjoyed solid growth in recent years, posting a 16% average annual growth rate in insurance premiums over the last five years.

Yet, in the 9th largest economy globally in terms of gross domestic product (GDP), insurance penetration is still among the lowest compared to international standards and other emerging countries. In 2014, Brazil's insurance premiums accounted for only 1.8% of the world's total premium volume, compared with 27% for the US, 10% for Japan and 7% for the UK[1].

We believe the ongoing improvements of real wages, as well as the continued growth of Brazil's middle class, will keep driving demand for savings-oriented insurance products in Brazil.

LIFE INSURANCE

Penetration particularly low in Brazil, at 0.5% of GDP

CAR INSURANCE

Less than a third of Brazil's cars are insured

HOUSE INSURANCE

Only 14% of Brazilian residential houses are insured

Source: Swiss Re data, 2014

BB Seguridade

To benefit from this trend, we bought the insurance company BB Seguridade in Carmignac Portfolio Emergents, which is the insurance arm of Brazil's largest bank, Banco do Brasil.

In most of its activities, the firm is market leader, benefiting from the exclusive access of its parent company's distribution network (around 62 million clients and 5,500 branches[2]). The firm has a capital-light business model and is one of Latin America's fastest-growing large-cap financial companies, with earnings growth at 31% per annum (on average over 2013-15) and a return on equity (ROE) rising from 32% in 2012 to 51% in 2015[3].

PAR Corretora

We also own PAR Corretora in Carmignac Portfolio Emerging Discovery, an insurance brokerage company poised to cash-in on the huge growth potential of Brazil's market without putting its balance sheet at risk.

It has exclusive distribution agreements with a number of insurance companies, including a subsidiary of Brazil's second biggest bank. The brokerage business, which by definition offers high margins and operational gearing, has brought the company a free cash flow yield in excess of 10% and an 8% dividend yield[4].

NEXT

Focus two: Building on Asia's economic development

Carmignac Emergents

Carmignac Portfolio Emerging Discovery

Carmignac Portfolio Emerging Patrimoine

Promotional material

(1) Source: Swiss Re Data, 2015. (2) Source: BoA Merrill Lynch, August 2015. (3) Source: Carmignac, Company data, Deutsche Bank, 31/12/2015. (4) Source: Swiss Re Data 2014; Company data, Carmignac, 30/06/2016.