CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

THOMAS J. DONOHUE
PRESIDENT AND
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August 3, 2011

Mr. Robson Braga de Andrade
President
National Confederation of Industry (CNI)
SBN – Quadra 01 – Bloco C – Ed. Roberto Simonsen
Brasília/DF – CEP 70040-903

Dear Robson:

I am writing to thank you for your partnership with the Brazil-U.S. Business Council and to congratulate you on your leadership in the advocacy of pro-business policies in the country. As does CNI, the U.S. Chamber of Commerce has a longstanding commitment to job creation, including through the growth of international trade and investment.

In that context, I'd like to call your attention to restrictions imposed by the Brazilian National Council of Private Insurance (CNSP) on foreign reinsurance companies operating in Brazil. These restrictions are limiting business opportunities for U.S. companies invested in the country and harming Brazilian companies in insurance-intensive sectors, such as manufacturing, construction, and energy.

For three years following the Brazilian National Congress's decision in 2007 to open the reinsurance market and end the Instituto de Resseguros do Brasil (IRB) monopoly, the local reinsurance market thrived. However, CNSP, which is chaired by the Ministry of Finance, enacted a series of resolutions in the last few months that discriminate against local insurers with foreign capital and foreign reinsurance companies and substantially closing the market again.

According to these resolutions, foreign reinsurance companies can only cede risk to affiliated companies outside of Brazil up to 20% of their risk premium; however, IRB, which is now co-owned by the Brazilian Treasury and local private banks, is not affected by this limit. In practice, this restriction makes it very difficult for U.S. reinsurance companies operating in Brazil to follow global market practice by ceding risk to affiliated companies in the same business group. Since they cannot rely on affiliated reinsurance support, they will have to replace that with more expensive capital or other forms of reinsurance. As a result, their costs of doing business will rise and the capacity they can make available to Brazil will be reduced. There are a few exceptions to this rule, but the end result is constrained capacity and increased costs for Brazilian consumers.

In addition to this restriction, CNSP also determined that 40% of all risk premiums must be sold to local reinsurance companies, thus creating a market reserve that concentrates risk in Brazil while raising insurance and reinsurance prices at a time when the country needs substantial new investments in infrastructure.

The Ministry of Finance has argued that the restrictions are a response to market abuses in which some insurers attempted to circumvent existing regulatory requirements. If this is the true objective, it is our view that the government should investigate the suspected activities of those few specific companies but not change the business framework of the entire sector, penalizing law-abiding enterprises.

Our perception, however, is that a major reason behind the new CNSP restrictions is a desire to raise the IRB's market value in conjunction with a sale of shares by the Brazilian Treasury to Banco do Brasil. Our understanding is that there are other ways to keep IRB competitive that do not involve discriminating against local insurance companies with foreign capital and foreign reinsurance companies.

I would like to ask for your help in removing these restrictions that negatively affect members of both CNI and the U.S. Chamber of Commerce. At a minimum, I hope we can advocate to suspend their implementation by the Ministry of Finance while calling for a dialogue with the Brazilian government, foreign and domestic reinsurance companies, and major Brazilian companies that are adversely affected by the regulations.

Thank you, and I look forward to working with you.

~~Sincerely,~~

Tom

Thomas J. Donohue

cc: Mr. John V. Faraci
The Honorable Anthony S. Harrington