



Launching an Insurance Product in Brazil

February 21, 2020

TOPICS TO DISCUSS

- Market and Product Analysis: The Nubank Fit
- Business Model & Financial Projections
- Product Development and Implementation
- Recommended Next Steps

Executive Summary

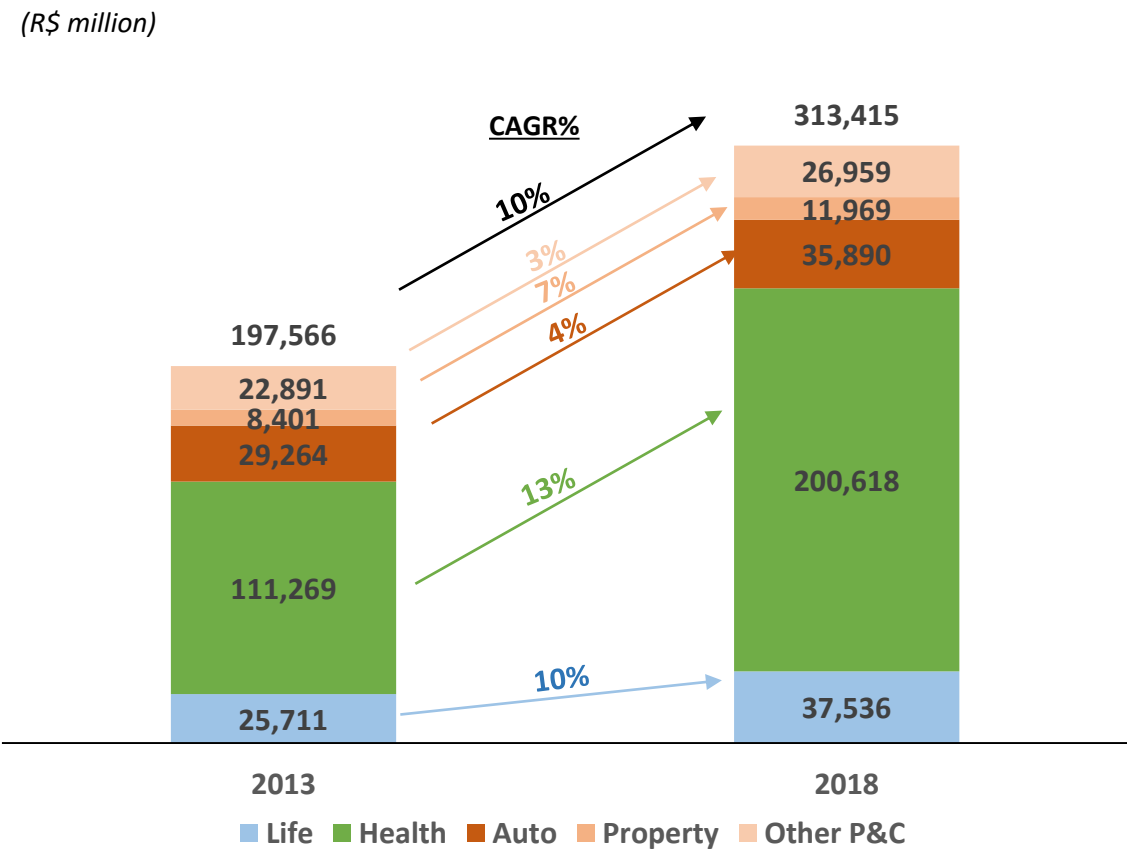
- The Brazilian insurance industry is a **R\$313 BN market** made up of a mix of insurance providers and banks. It is characterized by relatively low penetration and strong growth prospects:
 - From 2013-2018, the sector had a 10% CAGR while one subsegment, Travel (R\$443 MM market), had a CAGR of 71%
- **Travel is a fitting first move** into insurance given Nubank's market position, app as a distribution channel, and objectives:
 - Travel Insurance is a relatively inexpensive purchase that buyers would be comfortable making via an app, multiple times a year, thereby **encouraging engagement with the app**
 - Travel Insurance would **promote usage of the Nubank credit card**, the company's main driver of revenues
- There are existing foreign and non-bank players, but even so, the market has ample room to grow; Nubank is **well-positioned to benefit from a growing pie versus competing for existing market share**
 - Nubank is uniquely suited to play in this space as it has a captive target market, offers unrivaled service, can leverage its credit card and Nubank Rewards program, and enjoys a significant head start in the digital channel
- Under a **Broker Day-1 model** (i.e. Nubank creates a proprietary product while offloading the risk), a preliminary financial assessment forecasts that by 2029, the travel insurance product would have an **Enterprise Value of ~R\$ 530MM**
 - Travel Insurance will not be transformative for Nubank in terms of financial weight, but it nicely utilizes Nubank's existing capabilities, creates additional value for users, and allows Nubank to dab its toes into the insurance industry

Market and Product Analysis: The Nubank Fit

Brazilian Insurance Industry Overview

Insurance in Brazil is a R\$313 billion industry that has performed well in recent years

Premium Growth by Product

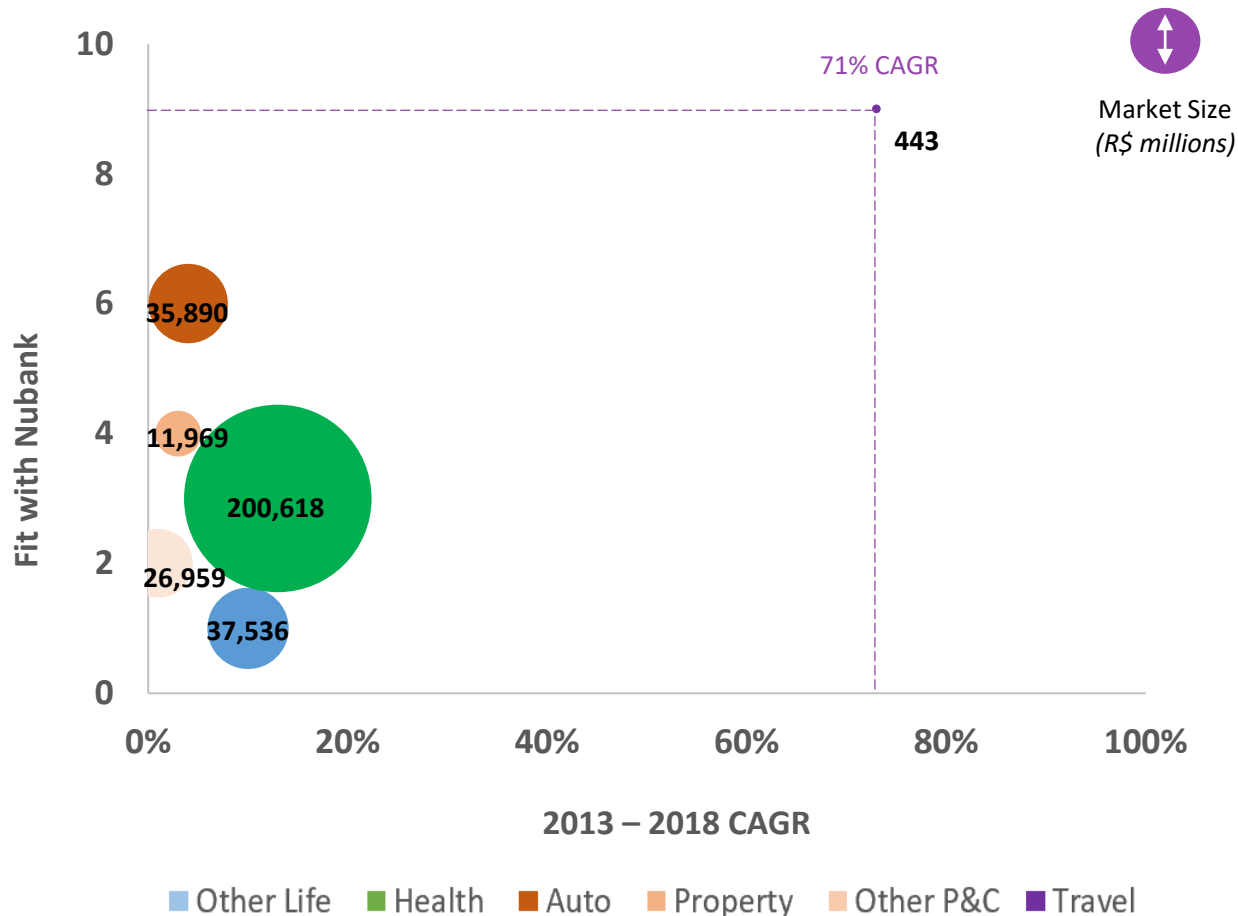


Insurance Premiums Market Share

(R\$ million)	2018	% Total
1 Bradesco	36,030	11%
2 Sul América	21,807	7%
3 Amil	20,671	7%
4 BB Seguridade	16,544	5%
5 Porto Seguro	13,448	4%
6 Caixa Seguridade	6,615	2%
7 Notre Dame	5,622	2%
8 Tokio Marine	5,117	2%
9 Itaú	5,054	2%
10 Santander	5,040	2%
Others	177,467	57%
Total	313,415	100%
Bank Owned	70,173	22%
Foreign Owned	58,748	19%

Market Segments for Nubank to Consider

Insurance Products Fit vs. Growth



Fit with Nubank

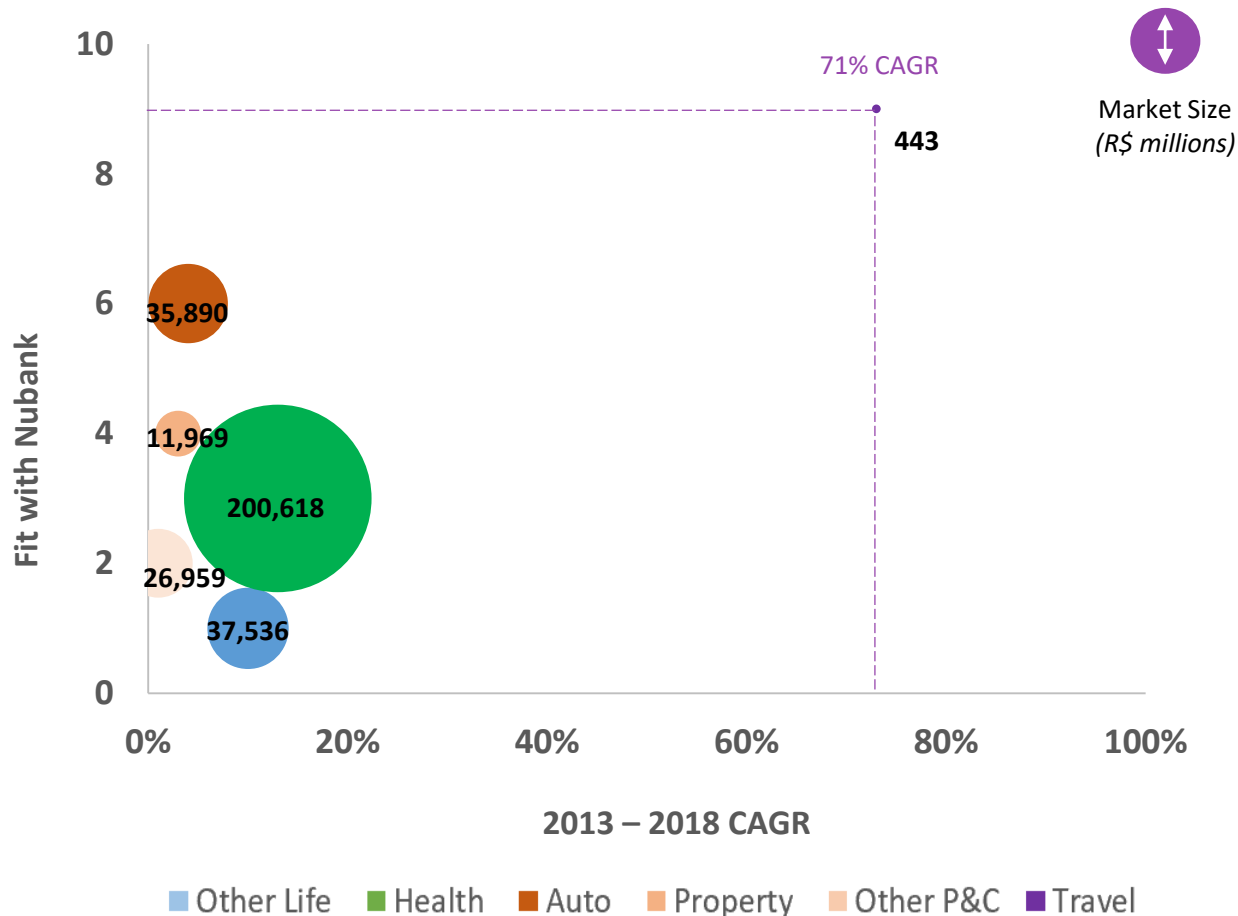
- The insurance product that Nubank chooses to launch will need to align with certain fundamentals of Nubank's present day operation:
 - The credit card is the core business and will continue to be a major focus
 - User engagement with the app should be maximized
 - This is a B2C business

One segment that has both strong growth prospects and fits Nubank's profile is

TRAVEL INSURANCE

Market Segments for Nubank to Consider

Insurance Products Fit vs. Growth



Growth Characteristics of Travel Insurance

The travel insurance market has enjoyed a 71% CAGR between 2013-2018

This is attributed to:

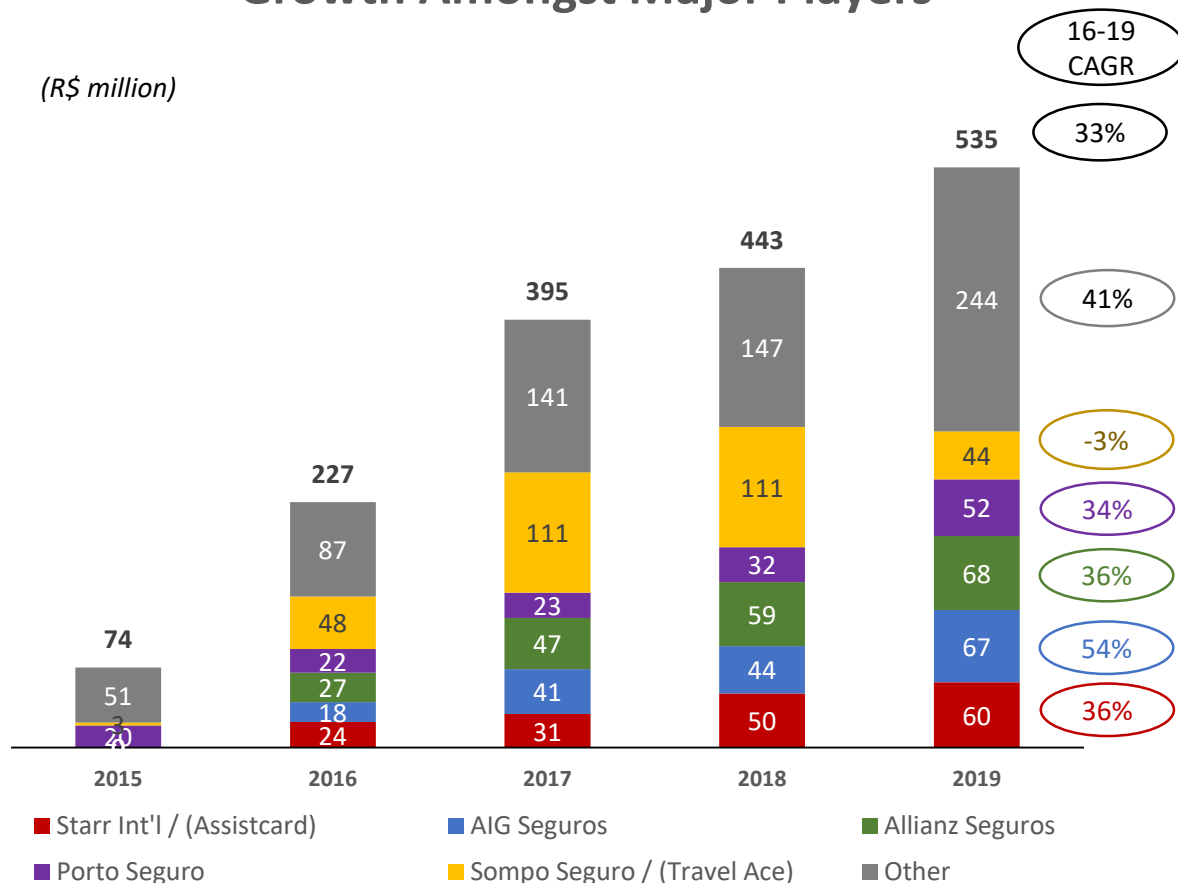
- ✓ Positive growth characteristics benefitting the insurance industry at large
- ✓ Greater awareness of accidents and illnesses that can occur and costs of even simple medical consultations abroad
- ✓ Downgrades made to health insurance plans as a result of financial crisis, increasing exposure to medical costs when traveling

Market Sizing & Competitive Landscape

With growing demand for travel insurance, Nubank will benefit primarily from a growing pie

Growth Amongst Major Players

(R\$ million)



Competitor Analysis



- Suisse, part of STARR Companies group. International presence and expertise in cross-border flights. Strong relationships with travel agents



- Brazilian distribution partner of Sompso Seguro. Strong in executive travel. Underwrote riskiest products in the segment and has recently suffered significant losses



- Brazilian, offers a range of products (healthcare, dental, homeowners, auto etc.). Travel not a focus area



- American, offers a range of products. International presence. Can leverage history and depth of expertise but not a focus area



- European, offers range of products. International presence. Can leverage history and depth of expertise, but not a focus area

The Nubank Edge in Travel Insurance

	RATIONALE	NUBANK FEATURES TO DEPLOY THE EDGE
Captive Target Market	<ul style="list-style-type: none">Insurance is still a semi-luxury product, pushing toward middle class and above; a relevant piece of Nubank's client base	<ul style="list-style-type: none">Initial push notification to all those pre-approvedPre-approval notification upon input of travel datesTile at bottom of app for "Travel Insurance"
Service as a Differentiator	<ul style="list-style-type: none">Capitalize on brand of ease of use, transparency and customer service in a space that is not well regarded	<ul style="list-style-type: none">Easy photo processing of claimsCustomer service to address issuesBlog to educate on need and breakdown coverage
Product Extension of Credit Card and Overlap w/ Nubank Rewards	<ul style="list-style-type: none">Linking insurance will increase usage of credit card and benefits associated with rewards program	<ul style="list-style-type: none">Purchase of coverage ad-hoc with cardCoverage linked to card usage (e.g. auto)Nubank Rewards can pay for travel insurance
A Head Start in the Digital Channel	<ul style="list-style-type: none">Digital is key to lowering costs and increasing penetration; companies are investing heavily but are in early stages	<ul style="list-style-type: none">Nubank has a head start on competition, able to relatively quickly build out back end of insurance feature within the app

Product Positioning Statement

For Nubank credit card holders who engage in personal travel domestically and internationally,

Target Market

Nubank Travel Insurance is the transparent, low cost, headache-free, travel insurance available

Our Product / Brand

Point of Difference

in your Nubank app exactly when you need it versus what typical travel insurance providers offer

Frame of Reference

because We provide the most competitively priced, peace of mind protection for your travels.

Reason to Believe

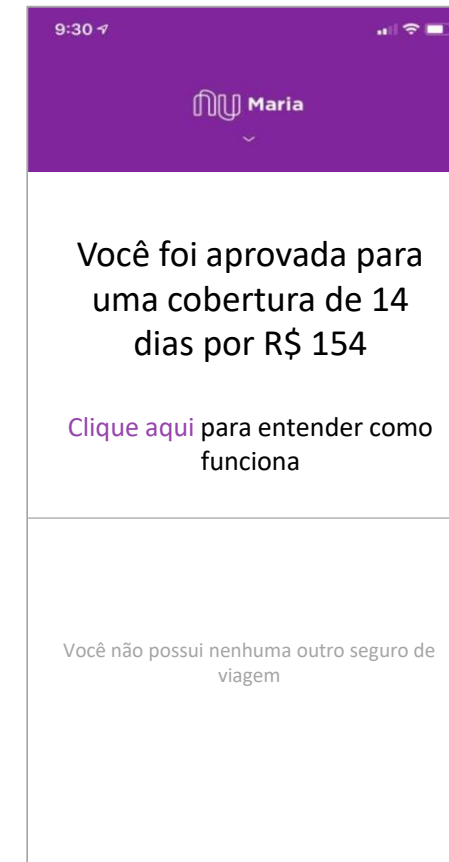
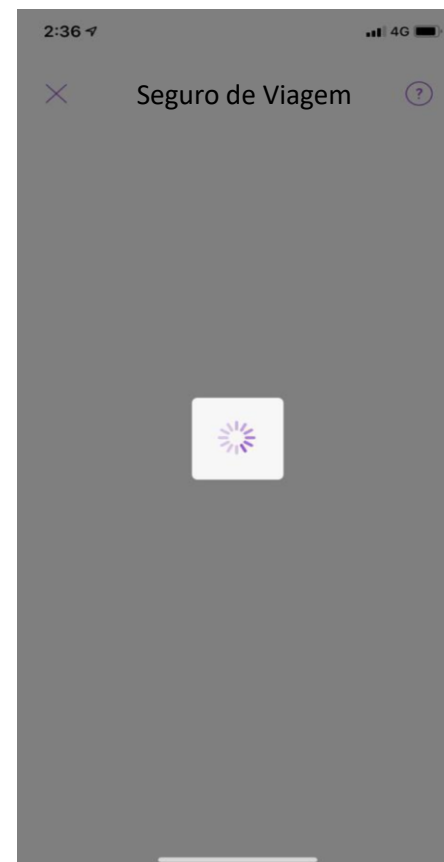
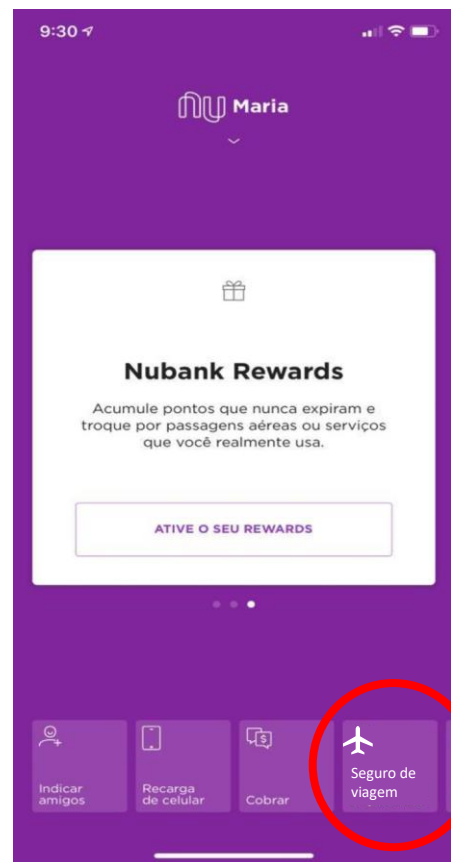
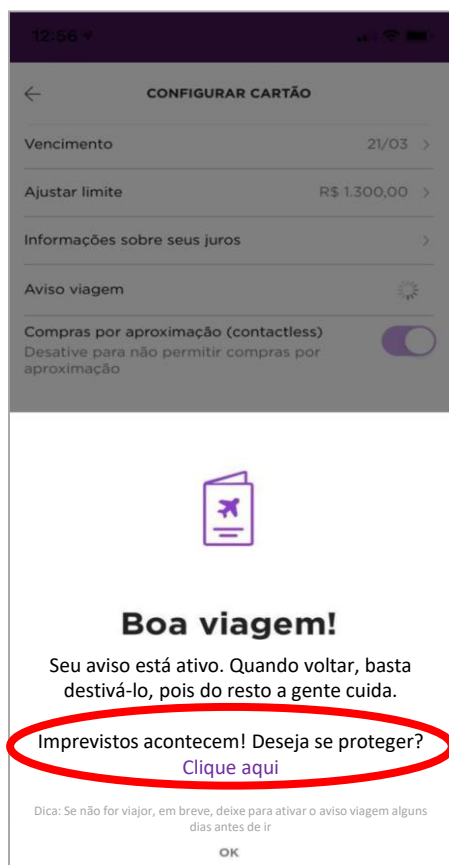
Client Acquisition Strategy

Deploy Arsenal of Features to Target Pre-Approved Users

User Selects Travel Insurance Tile & Inputs: Origin, Destination & Travel Dates

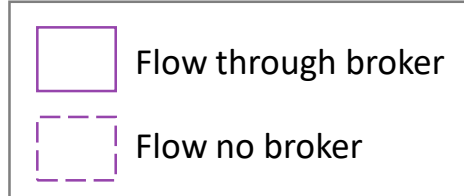
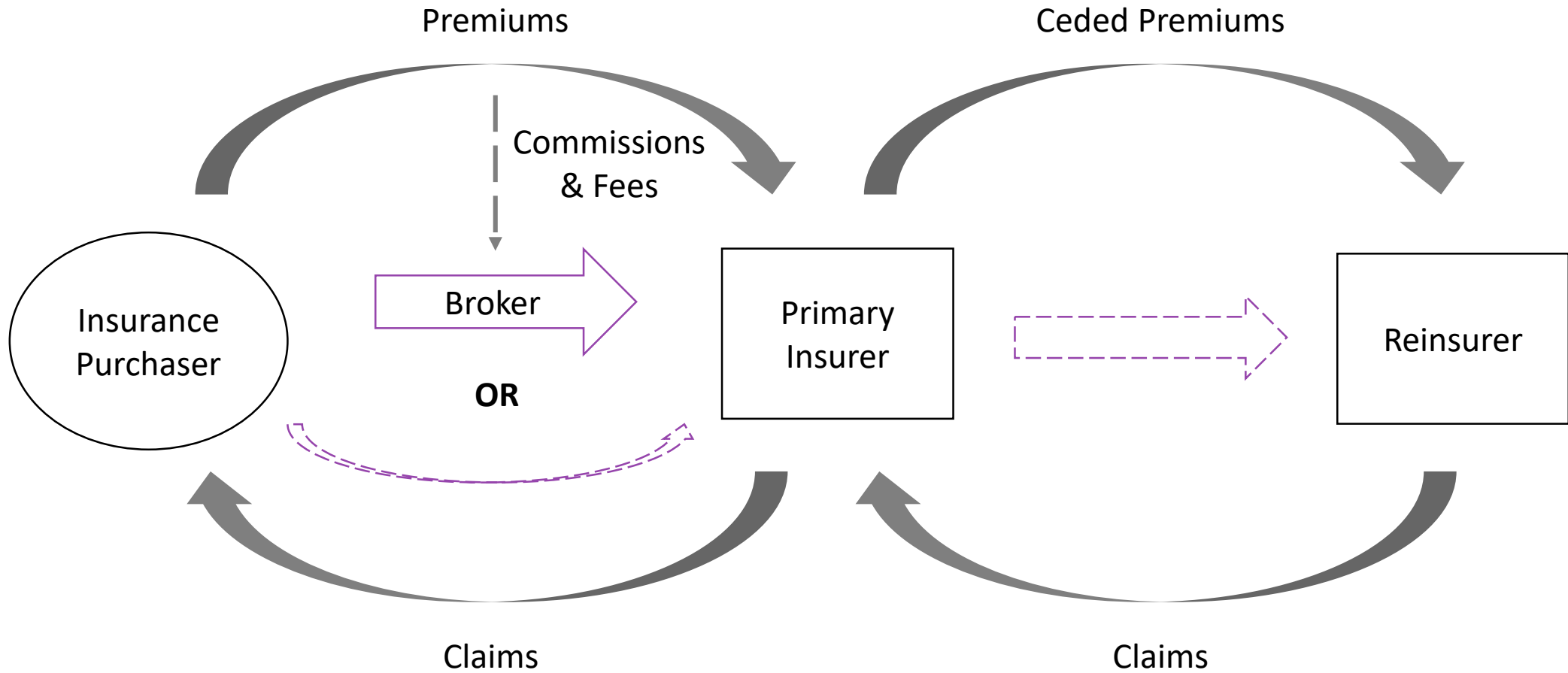
Analysis of Request Performed based on:
Age, Riskiness of Destination, Duration, Credit Card History

Insurance Coverage Policy Offered












Business Model & Financial Projections

Insurance Industry Supply Chain



Insurer Business Models

	Broker / Captive Agent <i>(sells existing products)</i>	Primary Insurer <i>(maintains risk on book)</i>	Likely Best Model for Nubank Broker Day-1 <i>(creates product, offloads risk)</i>
Implications of model	<div> Commissions (10-15%) and fees without the risk</div> <div> Requirements to become a broker not complex</div> <div> Cede most of premium</div>	<div> Keep premium minus portion ceded to reinsurer</div> <div> Maintain equity per premium on balance sheet</div> <div> Insurance is highly regulated</div>	<div> Create propriety product and offload risk</div> <div> Gain insight from primary insurer partnership</div> <div> Still cedes large portion of premium (to start)</div>
Fit for Nubank	<ul style="list-style-type: none"> Forfeits premium though client data available to ascertain risk and determine coverage Would leave users with a suboptimal experience 	<ul style="list-style-type: none"> Keeps the premium and control the product But requires significant cash on hand to cover future losses; may impede growth 	<ul style="list-style-type: none"> Can utilize client data to develop product while keeping capital off the books Option to increase equity balance as leverage capacity grows

Primary Insurer Interest in the Broker Day-1 Model

Why would a primary insurer want to partner for a travel insurance product?

2018-2019 Travel Insurance Industry Combined Ratios

2019	Sterr Int'l / (Assistcard)	AIG Seguros	Allianz Seguros	Porto Seguro	Sompo Seguro / (Travel Ace)	Industry
GPW	60	67	68	52	44	535
NPE	59	57	66	51	50	514
Claims	44	41	38	2	94	366
Admin costs	11	0	1	11	3	53
Combined ratio	93%	73%	61%	25%	192%	81%
Underwriting income	4.2	15.6	25.8	38.4	-46.3	95.5
2018	Sterr Int'l / (Assistcard)	AIG Seguros	Allianz Seguros	Porto Seguro	Sompo Seguro / (Travel Ace)	Industry
GPW	50	44	59	32	111	443
NPE	43	27	55	31	101	406
Claims	33	36	-8	1	94	229
Admin costs	10	0	1	11	24	71
Combined ratio	102%	138%	-14%	37%	117%	74%
Underwriting income	-0.66	-10.23	63.02	19.46	-16.76	105.77

Financial Model Output (1/2)

By 2029, Nubank's Travel Insurance is forecasted to generate ~R\$70MM in commissions

Revenue Build-Up

- Travel spend has historically grown at a multiple of GDP (**5.5x average since 2016**)
- Travel insurance market penetration** as a % of travel spend is low but has been increasing **5-10 bps per annum**
- At **20% market share** by 2029, this product would generate R\$474MM in premiums and **R\$71MM in commissions**
- Does not assume change in monetization from Broker Day-1 model to Primary Insurer, where the share of premiums/profits is greater

(\$R in Million)	2019	2020F	2021F	2022F	2023F	2024F	2025F	2029F
Brazil GDP Growth (%)	1.00%	2.1%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
GDP Elasticity (x)	5.5x	4.0x	3.5x	3.0x	2.5x	2.5x	2.5x	2.5x
Brazil travel spend	137,728	149,297	162,360	174,537	185,446	197,036	209,351	266,803
Growth (%)	5.52%	8.4%	8.8%	7.5%	6.3%	6.3%	6.3%	6.3%
Travel insurance penetration	0.39%	0.4%	0.5%	0.5%	0.6%	0.6%	0.7%	0.9%
Travel insurance market premiums	535	655	794	940	1,092	1,259	1,442	2,371
Growth (%)	20.99%	22.3%	21.1%	18.5%	16.1%	15.3%	14.6%	12.6%
Nubank market share (%)		0.0%	2.2%	4.4%	6.7%	8.9%	11.1%	20.0%
Nubank premiums		-	18	42	73	112	160	474
Premium on an average policy (R\$)		154	160	167	173	180	187	219
# of policies (k)		-	111	251	421	622	856	2,164
Nubank comissions (15%)		-	3	6	11	17	24	71
Expenses		(2)	(13)	(16)	(15)	(13)	(15)	(36)
Product Development		(1)	(1)	-	-	-	-	-
Marketing (CAC) R\$m		-	(11)	(14)	(14)	(11)	(13)	(33)
# of policies (k)		-	111	251	421	622	856	2,164
In-app		-	83	201	358	560	770	1,948
Out-of-app		-	28	50	63	62	86	216
Conversion		0.0%	2.5%	3.5%	4.5%	5.5%	6.5%	6.5%
Impressions (k)		-	1,110	1,434	1,403	1,131	1,317	3,329
G&A		(1)	(1)	(1)	(1)	(2)	(2)	(3)
Business Development Team		(1)	(1)	(1)	(1)	(1)	(1)	(2)
Customer Service Team (R\$m)		-	(0)	(0)	(0)	(0)	(0)	(1)
Claims per Year #		-	5,550	12,550	21,050	31,100	42,800	108,200
Claims per Day #		-	15	34	58	85	117	296
Customer service HC #		-	1	2	3	4	5	13
Operating Profit		(2)	(11)	(9)	(5)	4	9	35
Profit Margin			-404%	-149%	-41%	24%	38%	50%

(1) Assumes 15.0x multiple

Financial Model Output (2/2)

By 2029, Nubank's Travel Insurance is forecasted to have an Enterprise Value of ~R\$ 530MM⁽¹⁾

Expenses/Profitability

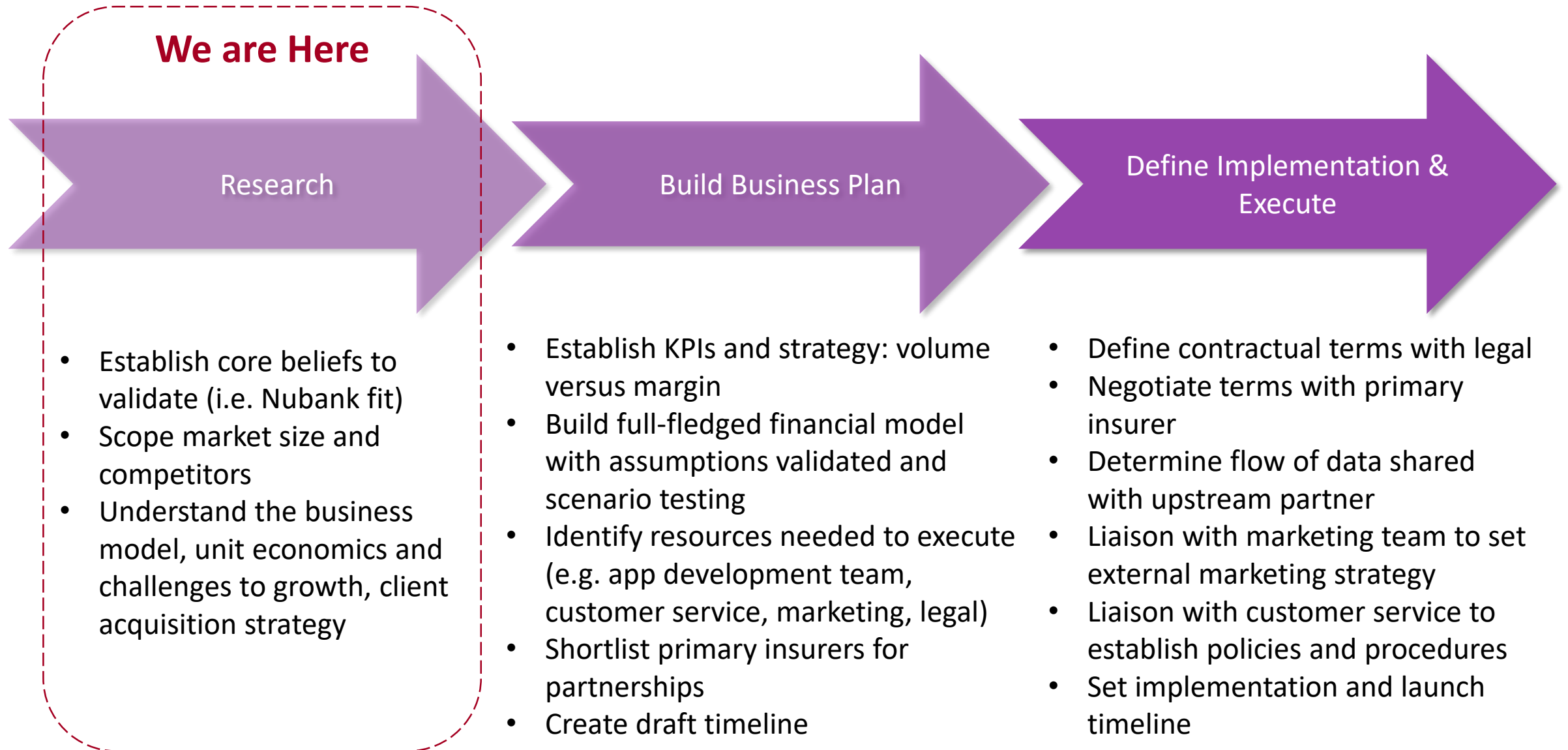
- Upfront costs are primarily for team leading product development and launch (engineers, product manager)
- Post-launch the majority of expenses will be marketing followed by claims servicing (customer service personnel)
- The majority of clients (75% initially increasing to 90% over time) will be acquired through the app
 - Client acquisition outside the app can be done through a mix of search, social media, DOOH, etc.
- By 2029, business generates an operating profit of **R\$35 MM with a 50% profit margin**
 - Product will be sub-scale until Year 5

(\$R in Million)	2019	2020F	2021F	2022F	2023F	2024F	2025F	2029F
Brazil GDP Growth (%)	1.00%	2.1%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
GDP Elasticity (x)	5.5x	4.0x	3.5x	3.0x	2.5x	2.5x	2.5x	2.5x
Brazil travel spend	137,728	149,297	162,360	174,537	185,446	197,036	209,351	266,803
Growth (%)	5.52%	8.4%	8.8%	7.5%	6.3%	6.3%	6.3%	6.3%
Travel insurance penetration	0.39%	0.4%	0.5%	0.5%	0.6%	0.6%	0.7%	0.9%
Travel insurance market premiums	535	655	794	940	1,092	1,259	1,442	2,371
Growth (%)	20.99%	22.3%	21.1%	18.5%	16.1%	15.3%	14.6%	12.6%
Nubank market share (%)		0.0%	2.2%	4.4%	6.7%	8.9%	11.1%	20.0%
Nubank premiums		-	18	42	73	112	160	474
Premium on an average policy (R\$)		154	160	167	173	180	187	219
# of policies (k)		-	111	251	421	622	856	2,164
Nubank comissions (15%)		-	3	6	11	17	24	71
Expenses		(2)	(13)	(16)	(15)	(13)	(15)	(36)
Product Development		(1)	(1)	-	-	-	-	-
Marketing (CAC) R\$m		-	(11)	(14)	(14)	(11)	(13)	(33)
# of policies (k)		-	111	251	421	622	856	2,164
In-app		-	83	201	358	560	770	1,948
Out-of-app		-	28	50	63	62	86	216
Conversion		0.0%	2.5%	3.5%	4.5%	5.5%	6.5%	6.5%
Impressions (k)		-	1,110	1,434	1,403	1,131	1,317	3,329
G&A		(1)	(1)	(1)	(1)	(2)	(2)	(3)
Business Development Team		(1)	(1)	(1)	(1)	(1)	(1)	(2)
Customer Service Team (R\$m)		-	(0)	(0)	(0)	(0)	(0)	(1)
Claims per Year #		-	5,550	12,550	21,050	31,100	42,800	108,200
Claims per Day #		-	15	34	58	85	117	296
Customer service HC #		-	1	2	3	4	5	13
Operating Profit		(2)	(11)	(9)	(5)	4	9	35
Profit Margin			-404%	-149%	-41%	24%	38%	50%

(1) Assumes 15.0x multiple

Product Development and Implementation

Three-Phase Process to Validate & Execute



Recommended Next Steps

Travel as Nubank's First Foray into Insurance

- In this presentation, we have seen that travel insurance is a small yet rapidly growing segment that is a best fit as Nubank's first insurance product as it:
 - Is relatively inexpensive, lends itself to being purchased through an app and may be purchased multiple times in a year
 - Capitalizes on Nubank differentiators: captive target market, unrivaled service, credit card and Nubank Rewards, digital channel
 - Promotes usage of the credit card and can support the rewards program
 - Is financially viable with an Enterprise Value of \$R 530MM by 2029
- We recommend proceeding with Phase 2 to validate what was discussed today

END

Obrigada!

Appendix

<https://exame.abril.com.br/seu-dinheiro/seguradora-lanca-seguro-viagem-ate-40-mais-barato/>

<https://www.terra.com.br/noticias/dino/brasil-sera-o-8-mercado-segurador-do-mundo-em-2020,48c4aa6db9c6ed30398f1e35c5bde6496s1lzwc7.html>

<http://www.susep.gov.br/setores-susep/noticias/noticias/seguro-viagem-passa-a-ter-mais-coberturas>

<https://www.terra.com.br/noticias/dino/contratacao-de-seguro-viagem-cresce-19-em-2019,6fd8355b98836740eed9b71698cd123121r06156.html>

https://www.correiobraziliense.com.br/app/noticia/economia/2019/07/26/internas_economia,773853/com-reaquecimento-da-industria-do-turismo-seguro-viagem-dispara.shtml

<http://panoramaseguro.com.br/noticias/assist-card-lidera-o-segmento-de-seguro-viagem-no-brasil/>

<http://fenaprevi.org.br/data/files/92/94/1A/64/25DCF6100FC9FAF63A8AA8A8/CADERNO%20DE%20COBERTURA%20DE%20PESSOAS%20-%20PLANOS%20DE%20RISCO%20-%202011.2019.pdf>

<http://fenaprevi.org.br/data/files/A0/C5/35/DA/7A55A6103088F4A63A8AA8A8/Caderno%20de%20Cobertura%20de%20Pessoas%20-%20Planos%20de%20Risco%20-%20Dez.18.pdf>

<https://www.midiamax.com.br/cotidiano/consumidor/2019/o-crescimento-da-industria-de-seguros-e-assistencia-de-viagens-no-brasil>