Q3 2014 Earnings Call

Company Participants

- Arthur Farme d'Amoed Neto, Vice President - Control and Investor Relations
- Gabriel Portella Fagundes Filho, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Francisco Kops, Analyst
- Gustavo Lobo, Analyst
- Unidentified Participant

Presentation

Operator

(Starts Abruptly) then we will start the Q&A session, when certain instructions will be provided. (Operator Instructions). The audio of this call will be available soon after its closure at the company's Investors Relations website. Today's live webcast both audio and slide show may also be accessed through the company's Investor Relations website at www.sulamerica.com.br/ir; banner 3Q13. The webcast presentation is also available to download on the webcast platform.

Before going on, we would like to mention that forward-looking statements made during this conference call are based on the beliefs and assumptions of SulAmerica's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of SulAmerica and lead to results that differ materially from those in such forward-looking statements.

Now, I will turn the conference over to Gabriel Portella, SulAmerica's CEO that will start the presentation. Mr. Portella, you may begin.

Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

Good morning, everyone. We are now releasing the earnings of SulAmerica for the third quarter 2014. (inaudible) here, we have with us all the company's Vice Presidents. And before going on with the presentation, I would like to highlight some points that I consider relevant. Even at a time that the company's economy is showing deceleration, we're able to keep a good pace of growth in our revenues, consistency reflects not only the resilience of our business units, but also a correct commercial strategy and search for continued enhancement of business relationship tolls what our sales channels. We continue to believe that our multi-line business model gives us opportunities to grow in product and regions that we believe have a high potential penetration. We continue confident that all markets in which we operate are very promising and that SulAmerica has a very positive outlook.

We are awaiting fruit in almost all our business lines, in which we would highlight a growth of more than 40% in pension, showing the success of our growing focus on enhancing commercial strategies for this area. Double digit growth, 15.9 of revenue in savings bonds, because of a successful strategy to integrate and broaden our distribution base. Thus, we prove that the differentials of our savings bonds private associated to a broader distribution channel will boost sales of our products.

Other business lines continue to show high levels of growth such as health in small and medium companies, administrative services in health, equity insurance, mass insurance that are in the segment of P&C. Talking about P&C, we had several launches as a new line of products for corporate SulAmerica product. We are giving product to beauty parlors, schools, pet shops, drug stores, clothing stores and others. Still in P&C, we already showing an improvement of some indicators be it by means of the growth of premiums in the quarter or a lower loss ratio in the year.

Likewise, in our area of life insurance, although the growth of premium is still impacted by our product repositioning actions, we can already perceive a relevant increase in gross margin with a reduction of 14 percentage points in loss ratios year-to-date. In our asset management area, although the results are still in the same level, we have an increase of 11.8% in the volume of the asset management. This growth is even more important if we consider the volatility of the past month. In other words, the market showed that it trusts the team of SulAmerica Investment, especially in a moment that high volatility is present in the Brazilian financial market.

Another highlight is maintenance of our admin expenses proved of a strict control of costs, but that still enables us to permanently invest in improving our services to our customers and to brokers.

Financial results again plays an important role with expressive increase in comparison to the year of 2013. Those results confirm the effectiveness of our multi-line model and leave us in a comfortable position to continue to invest in our sales strategies innovating in the developing of new projects, creating incentive target and capturing synergies of a multi-line model that enables us to offset the results of a business unit (inaudible) market condition is more unfavorable.

Now, I'm going to turn the floor to Arthur Farme, Vice President of Control and Investor Relations to talk on the results of each one of our operations. And then, as always, we are going to be ready for your questions. Thank you very much.

Arthur Farme d'Amoed Neto

Thank you, Gabriel. Good morning. On slide number two of the presentation, that's what was mentioned by Gabriel in the introduction. I think, we could now move on to slide number three since he already spoke about those data, that show the consolidated revenue that went to 10 billion -- 10.6 billion to 12.6 billion and it's a new balance of the portfolio with more savings bonds and a smaller share held in automobile insurance. I think this is the main message from the nine months of 2014. There was a decision to investment and diversification. Today, we can look in detail about this decision.

On slide number four, that we're going on now, it highlights -- we have the main highlights of earnings in the third quarter. Insurance premiums consolidated is slightly below 10% in the semester, which is a good rate, and a bit higher than 10%, almost 11% when considered the period of nine months; 10 billion when compared to 9 billion in 2013. The loss ratio had a slight increase in total figures, 1 percentage point in the last three quarters and lower increase when we consider the period of nine months ended in September. Administrative expenses, these ratio increased slightly when compared to the last quarter. And it's important to highlight that when it compares expenses of all business units of the companies including savings bonds, there was consolidated in June last year, in addition to other expenses that are not in the numerator, if we were to exclude these expenses probably the ratio would be a bit better. But, this is considered a good ratio for our model of business.

The combined ratio is slightly above what we had last year at 101.8. And here, the loss ratio from several areas of the Group's portfolio explains part of this increase. In this quarter we had an increase in automobile as well which we'll comment further, but the auto portfolio has a great performance. Here we have anticipated the financial income and the exposure to a higher selic rate and some assets that are post-fixed which are major investment in our portfolio.

We have commented in the beginning that in the quarter was a bit lower, but it's mainly connected to index -- the asset index to inflation and that are basically covering the success of (inaudible) and there is a small exposure to the stock market, but our performance is still good. Net income is slightly under 120 million with a growth of 2.3% when compared to last year.

According to the reports of analysts of the company, they have highlighted the fact despite this year with a more volatile economic environment. I would like to highlight the fact that our behavior in the period of nine months with an increase of 32% in income, in the net income, which place us in the best position when compared to what happened last year, and also what we intend to provide for this year because we arrive in September in a better situation than we were last year.

Going back to the quarter results, it's important to highlight that in the third quarter of 2013, we mentioned that on the release there were significant upside regarding tax issues that didn't happen again.

We had the benefit between, quotes, of these exemptions that had helped in the results of the net income that the third quarter of 2013. This is a non-recurring item. And at that quarter, actually, there was a relevant contribution of this movement that happened when there's a provision for a lawsuit that happened this year, and the same thing happened again. I would like to highlight that it has grown by 33% in the nine months. So, the company has grown by 9% in the nine months, only insurance premiums, with 33% growth in net income. The ROAE in the quarter is in line with what we intend to deliver.

In the next slide, number five, we highlight the main elements that we chose in health and dental. The insurance premiums in health have grown by 12.5% and there is a difference in the portfolios of this area, for example, on the members on the lower right corner, an increase in 14%, which we consider a satisfactory considering the economic situation.

Loss ratio had an improvement when compared to the previous quarter that is expected from all of you who analyze the company and also by us. It's absolutely seasonal, it was not as good as it used to be in the second quarter of 2013 when we had a total loss ratio that was lower. When we compare quarter-to-quarter, it is better. In the year, there was a decrease of 1 percentage point in loss ratio, has dropped by 2.2 percentage points. In some of the portfolios, what we call corporate, the plans that have dropped a bit; small and medium sized companies have grown, SME has presented an important growth successively and dental has decreased when compared to the last quarter, but in line with nine months. And there were incoming and outgoing clients and a migration on health plan portfolio. There were only services and that impact no offset.

I will now move to slide number six, automobile portfolio that has increased by 5% in the quarter. We prefer to look at the nine months' figure that has grown more despite any questions you may have in terms of statistics this year, but this is a very good figure. And we expect this period to be -- I think that the loss ratio is worse than when compared to the second quarter of this year. It's also a bit lower when compared to the quarter out of the six month period and nine months period. We -- there are some explanations in the release, but we could go further into that in the Q&A session. But, it's closely related to the frequency of facts and some other partial figures that could be explained further when we start the Q&A session.

The gross margin and the behavior in the quarter, in the nine months is a consequence of what happened in the loss ratio, since we haven't had any change in the sales policy. Except for the fact that in some point in time, the CPC, we have some administrative expenses related to production for sales expenses as well and they are deferred against premium. So, in this sense -- excuse me, in this sense, they show a small increase. The insurance fleet had an increase of almost 2% compared to the previous quarter, almost 7% when we compare in the end of nine months closed in September 2013. So, the fleet is growing with the revenues growing by 7.6, so very much in line and later on if you want, we can comment on some effects connected to the change of mix in those markets.

Going to P&C, with the insurance premium growing by 2.5% in the quarter, a bit less than 2 in the nine months, you see in the portfolio that we worked with completely different segments. So, this movement is a bit irregular, we have been following that. And as we have been saying, the company has been trying to focus on massified products which should really show an outstanding performance, and we now have a better mix, loss ratio. We are minus 200 basis points. But again, if you compare in the nine months we are already better than the previous months. It's a very dynamic market. And gross margin, again, we have a difference related to our mix of products.

Life and personal accident, this is our next slide. You'll see a drop quarter-on-quarter of 9%, 7% in nine months. It's still related to repositioning of our purchase order. We have a very positive effect though in loss ratio. You see that loss ratio is better not only quarter-on-quarter, but particularly with the second half of the year and the nine months. So, we see that we are working very well with loss ratio going from above 50% to 44% despite a small drop in the volume of premiums. Margin, again, reflects what happened in loss ratio. And in this portfolio, we don't have any changes in terms of commercial policies. Basically, group life is the most -- the largest share of our portfolio as you can see.

Pension, good contributions with a growth of 44% quarter-on-quarter, a bit less than 20 compared to the nine months, but what is important is our pension reserves. And we see here a capacity of retention of contributions and very correct management of our assets in our pension funds.

Savings bonds, next slide, slide 10, the savings bonds has really been confirming our expectations with regard to acquisition of the business that completely profitable operation, the company has been able to explore its distribution networks really creating a very good reach for SulaCap's Estrada. We have been innovating in the market, we are an innovative savings bonds company with a completely differentiated positioning in terms of the products that we're bringing to the market and really ceasing the opportunity of specific product and incentive like we did with the World Cup. So, the structure of the savings bonds product is being used for different initiatives.

Now, we are showing a very good growth, there is a 107.8 is the effect that last year we didn't have the period of January to May. So, it is a growth that is not completely correct -- not correct, but it doesn't have the same number, but still you see that in the quarter we had growth of 15%, reserves growing almost by 20%. So we have products that have really unique contributions here, very much in line with what we have trying. We have the rental product that has been very successful and is one of these innovative products we talked about.

Operating income, again, thinking of nine months, shows the diversification of products and results that we have. Again, savings bonds, assets, everything that we have been working with. We are working with the diversification of revenues and in this quarters we can see that very clearly and we have a very good combined ratio about 100 in this operation we have that with results.

As for asset management, slide 11, we have an increase of 11% in assets under management and 16% specifically with third parties, which is a very satisfactory performance of this segment. We have 10.2 of profit carry funds or assets. We have a very good assets allocations with a bit of decrease of variable income products compared to fixed income because of what is happening in the macroeconomic scenario on interest rates that we have in the country. So, equities and investments are accounted for 11%. As for fixed income, 51%.

As for admin expenses, we have a difference of 9%, an increase in expenses, basically because here we have BE [ph] teams that were incorporated to SulAmerica, the whole structure of savings bonds. So, this is an increase that is not because of salary readjustment or contract readjustments, but rather addition of the company. We are really working with the capability of SulAmerica, but still, if you go to the chart on your right, we have an index that improved from 9 to 8.9. So, if you think of really the administrative expense ratios as a percentage of retained premiums, we do have an improvement in admin expenses.

Well combined and operating ratios I already talked about that. I don't want to repetitive, but we are in the period of nine months above 100% investment income. I think, this is very interesting to talk about that. This is slide 14. We have no changes compared to the previous quarter in terms of allocation of our investment strategy. Part of the yield is connected to our strategies and you see private securities and IPCA showing this allocation, and to the right we see our allocation that are mostly located in government securities, a bit of private securities and equities with a bit less than 1%, that's about 108 billion that are in this allocation. The bottom part of the slide talk -- also incorporates the pension funds and then you see that we have diversification of operations.

Well, with that, we completed the first part of our presentation. And as of now, we are going to open for questions-and-answers. Thank you very much.

Questions And Answers

Operator

We will now start the Q&A session. (Operator Instructions). Our first question comes from Mr. Gustavo from Bank of America. Mr. Gustavo, you may proceed.

Q - Unidentified Participant

Good morning, everyone. Thank you for giving me this opportunity. I have two questions. First, regarding demonstration of combined ratio. Despite increase you had recently in the beginning of the year like you usually do and these price adjustments have been one of the highest when compared to other years, so the loss ratio in health as well as the company in general is still above or higher when we compare it annually; when we compare to the previous quarter of course it improves.

So, my question is, is there any expectation from now on to be able to reduce the loss ratio, any point in time of the health as well as any of the company in general when comparing year-to-year in terms of price increase or maybe an improvement coming from medical use that's also very high from some time. There's been some time since this combined ratio is near 100%. So, do you foresee at any point in time in 2015 to decrease the combined ratio to a level below and a percent in 2015? That's my first question, then I'll ask the second one.

A - Unidentified Speaker

Thank you, Gustavo. No, actually we're not happy with this rate, the combined ratio. The loss ratio, it has to do with the loss ratio of health, there are also other concerns as well that would be not ideal. So, in the structure of a combined ratio, that has a lot to do with the loss ratio of health and also a bit of reduction in automobile portfolio, but the main point is health.

So, answering you question, it will improve when the health environment as a whole improves. It's not something that applies only to SulAmerica. As I mentioned before, it's an industry issue. We have discussed that, about the frequency of use of our services, we have discussed that. We are doing the necessary adjustment to the portfolio, but there is a limit to the price adjustments we can enforce. And we hope that all these actions were implemented can have the necessary results.

In terms of health, we are improving the number of actions not only in terms of price, but the company has become a leader in terms of health management, well-being and all the actions that improve the quality of risk. And we have been investing in technology, software, models that will lead to an improvement in the loss ratio. For example, we try to enter into the area of supply of goods and materials to hospitals, so we enter into the chain reducing our exposure to prices in this area. So, I'll ask (inaudible) to mention, to comment specifically how they are working on the portfolios that they are in charge of.

Hello, this is (inaudible). What we are finding according to what we commented on the last call is that although they're higher-than-expected and we used to have in the past, they are not lowering substantially. There are one or other contract that we can exclude from the portfolio, but we have relevant sales -- new sales that offset this reduction in contract. Until now, we have sold 250,000 lives, which is a good figure added to our portfolio.

In terms of frequency of use, there is a structural issue that we are aware of, but the volume of actions that we have implemented lately, especially in the last year -- since last year that are starting to give results are quite good and exciting. It's a long process, it takes long to mature, but for example, these issue about materials to hospitals, chemotherapy, oral chemotherapy for example, are given directly to the insured and to the mechanism of relationship with the network that is more sustainable to both parts.

We're trying to develop this topic and -- in addition to being a structural issue that is complex, we are implementing the necessary tools to have a health management, a loss management and the pricing management much better. So, we continue to work in a dynamic way to try to implement changes in this area in the short and medium term.

Now, I'll pass the floor to him to talk about this partnership.

Hi, Gustavo. I was talking about auto a bit. I think that we saw in our slides that we are decreasing loss ratio. This is a result of the cycle of prices that the industry is going to that automobile is cyclic in terms of prices. And this year together with the process of prices, there was an increase in the frequent subset. This really shocked the market a bit, especially in the first half of the year where we had a very high frequency of subset in the first quarter, a bit mild in the second quarter, a bit mild yet in the third quarter in terms of frequency. But, still not even close to what we had in 2013 or in 2012, which were much better in terms of loss ratio.

In this environment of automobile, we also have a price movement in the second half of the year that is already being detected by you in terms of decrease of prices of some companies. And also, there is a very specific movement in the segment of trucks and our position was not to follow this movement downwards to the limit possible. We went to preserve the results of the company thinking of 2015, because whatever we do today will reflect in 2015. We want to protect our portfolio and we want to protect the company's results.

There is a typical dynamic in this segment of auto. And probably, in 2015, we are going to witness the changes, because those that were too aggressive will pay the price in the future. Anyhow, the fluctuation of our loss ratio is not that relevant in the quarter and we're still maintaining a good return ration of gross margin. Our challenge is therefore stay at our traditional levels, which really appeal to us.

As for P&C, I think that we should talk about the loss ratio as well, because we were able to get the portfolio at a very good position whether good strategy with massified products, the line of consortium is very well established. And then, equity is showing very good results, very much in line with reinsurance. So, we are at 55% of loss ratio with a generation of gross margin above 20%. And this is what we wanted to have. We want to improve the loss ratio more and more, we are going towards that; and massified portfolio is very relevant for that.

And it's important to show that this fluctuation of rates also has to do with the seasonality of each portfolios in transportation. When it rains more, you have more accidents with equipments -- I don't know, farming equipment when there is the drought, you also have more problems. So, each portfolio has its own dynamics that cause those fluctuation, but we believe the range is very positive and we are going to continue improving.

And finally, as we are talking about loss ratio, we have to talk about life that really is stable in terms of 40% to 50%. And again, our expectation is that, as of now, as the fourth quarter, the portfolio will show rates of growth because the less rearrangement of the portfolio was made in October last year. So, as of now, we are going to show positive growth and keeping this level of loss ratio with the generation of gross margin of 20%. So, I think loss ratio (inaudible) company as a whole is doing well with auto suffering a movement of the market very, very pressured prices since June.

Q - Unidentified Participant

Okay. I think this is very clear, but trying to be a bit more objective, so you believe that at some point in 2015 we will see the company's loss ratio overall decrease to -- if you think of the whole of the year just not to think of any seasonal effect, do you think that at some point next year this loss ratio is going to decrease when we compare year-on-year or do you think that there is a structural problem that especially in life will continue to pressure loss ratios and we are going to be 1, 2 percentage points above the year before?

A - Arthur Farme d'Amoed Neto

Gustavo, this is Arthur. It is a bit hard to give you a guideline for 2015. What I can say is the following. The actions that we have implemented are aiming at decreasing loss ratio (inaudible) that the company is not deteriorating its pricing policy, it's looking towards the future. This means that we expect 2015 to behave in line with what we expect in terms of loss ratio. And it is what Mauricio mentioned in terms of actions in the area of health. All the actions we have been enforcing aim at decreasing loss ratios. And again, we don't want to have prices that will offset operational losses; this is not something that we want. So, the idea is to have a reasonable loss ratio in auto, in health, but with good financial income because of our management's actions and strategies.

Q - Unidentified Participant

Okay. Thank you very much. I am going to the second question. I would like to talk about your savings bonds product SulaCap. Savings bonds collection grew 16% year-on-year. And if you go to the previous quarter, it is a lesser growth. But, I think there is a base effect. What would you consider a reasonable level of growth for savings bonds collections from here on, given the fact that it will reach a certain maturity? And also, in SulaCap, what has been your main distribution channel for the products?

A - Arthur Farme d'Amoed Neto

Well, this is Arthur again. It's very hard to give you guidance in terms of level of growth up savings bonds. First, numbers still this mark encompass the whole potential over the company, this is something that I can tell. But, as of then, materials and other VPs can comment on the channels that we have been using in the distribution of this product.

A - Unidentified Speaker

Hi, Gustavo. This is Portella [ph] speaking. We have been using the whole distribution network of the company. We have 89 branches and 20 commercial managers throughout Brazil. The trends of SulAmerica of being a multi-line company with 30,000 brokers, 28,000 assets really enable us to transfer the trends to savings bonds, especially with the rental guarantee products.

As for incentives and our so-called popular product, we have been using our own distribution network for this product. And with that, we have been growing a lot. We are very active in the market in savings bonds. The company has a very important range of products and the transfer from SulaCap, SulAmerica enabled the company to use all the network of distribution.

Q - Unidentified Participant

Okay, very well then.

A - Unidentified Speaker

Just to complete, I would like to what -- this is (inaudible) talking to comment on savings bonds. It's important to understand that the growth in collection has been quite significant. SulAmerica growth by 24% -- 24.5% a year according to that data considering year-to-date until August, and when the market growth by 5%. So, that shows the strength of our sales team of SulAmerica.

Having said that, revenue from savings bonds accounts for 13% of the total revenues of SulAmerica. So, today, this is an important segment. The capillarity will cause this growth to increase. And let's not forget that the acquisition happened in last -- in April last year and the physical movement in the -- at the end of June, so we're talking of little more than a year. So, there is still a lot to be done and to achieve.

Q - Unidentified Participant

I think it's interesting. It's just my concerns regarding any comparison to other players that have a bank assurance model and maybe they have higher acquisition model or potential and could offer other things in terms of savings bonds. That's why I would like to understand what is the distribution channel that you're using to face the competition from bank assurance models.

A - Unidentified Speaker

That's true. You have a point there. I think, we are positioned with a system of products in a differentiated way in terms of distribution channel. We have created the rental guarantee, it has innovated, SulAmerica has an important innovation spirit. We know that according to the traditional bank assurance model, it's not where we are going to compete. The market in these other segments bit, Mathias talked about our branches, we still have a lot to work on, on the SulAmerica structure.

It's a diversified structure with specific products. It's also important to remind you that the traditional products not close to the company, this throws us an opportunity to us through the financial channels with whom we have a financial agreement. So, that gives us an opportunity to enter those markets as well. There's no conflict of interest, it is an important partner; that way we can save the bank assurance competition.

Q - Unidentified Participant

Thank you very much. It's very clear. Thank you for your answers.

Operator

Next question from Francisco from Safra.

Q - Francisco Kops {BIO 17215088 <GO>}

Good morning, Gabriel and Arthur. Actually my question is about health and automobile. We see differences both in health, the growth in the premiums come from prices, where in automobile comes from the fleet. So, I would like to understand, in health, what was the difference to grow in the figures of lives, in the number of lives. It's been the third consecutive year of high price adjustments you are implementing. So, the company is having a hard time to continue with that or is that much more of a economic issues in terms of employment rates and stuff? And in terms of automobile, what is the difficulty in transferring prices or price increases? So, could you comment on that please?

A - Unidentified Speaker

Good morning. In terms of health, we don't see a sales dynamic decreasing, we see sale dynamics changing; we see a change in that. We're trying to sell to small companies and it's an important issue. It's an important issue and we have good sales to these types of companies. In terms of the portfolio, it had a price adjustment volumes, that's high but it's smaller than this year than given the -- what we plan to do this churn. So it's not a decrease in sales, but it's the difference in the portfolio, a change in the portfolio that's happening more markedly in the last two to three years. I'll bet everything we're working on is because we believe that with these new tools that are being developed, we can find a better profitability way. We can work on prices more effectively and working on claims as well more effectively.

We've been talking a lot about health plans, but these programs are being put to operation quickly and we expect that in the near future we're able to show you some results. Just to give you some figures, having more lots of people in releasing chronic and complex diseases. We don't have this culture in Brazil, many of these specific tools, we had to import from the -- from abroad, because we don't have in Brazil. So we're now implementing these tools, its healthy partnerships. And then we have more consistent maintenance figures to show you.

Q - Francisco Kops {BIO 17215088 <GO>}

Okay. I'm sure (inaudible)?

A - Unidentified Speaker

Okay. In terms of these prices and our numbers are different from the market and sometimes we don't have the perception of what's happened in the different categories that you have. You have new cars, you have used cars, pick-up trucks, light trucks, heavy trucks, so what we can see here and I did mention the issue of trucks for instance what happened is that the trucks that didn't follow the market movement. One company, the market was extremely aggressive towards prices in trucks, with that we decrease our growth, we decrease our amount of premiums, but does not show that we lost capacity to transfer prices.

We are growing well with cars and we're growing average premium with cars and there is another thing that has to be taken into consideration, which is the drop in sales for new cars, and this is something that we have been worth missing. And a very strong sale with used cars. This is something that you can read in the papers, 20% increase year-on-year in the sale of used cars. So, again, there is a migration because of economic issues. So, consumers of new cars are going to used cars. And that also has an impact in our portfolio.

And used cars also have to do with an impact in our loss ratio, because you have partial losses with the price of parts, which are different from the prices of original parts. So, you increase the amount of total losses and you also temper a bit with the loss ratio, you have 1 percentage points in the period that is connected to this effect. So, there is a whole dynamics of the market, but we have been able to price the categories that we are focused on.

And the interesting to mention in terms of prices that's what's really supports our volume is the work of our sales area, that really has been increasing the volumes and this is very important. So, sometimes, we lose competitiveness because of this aggressiveness in the market, but still we have a very high volume and that gives some confidence. So, sometimes the market thinks that we are not being able to pass on prices, but that's not quite right. We are passing on prices in the segment in which should we are being able to advance and those segments that have been very aggressive, then we would just held dollar prices.

Q - Francisco Kops {BIO 17215088 <GO>}

Okay. So in automobile, it's much more of a mix effect you would say. So, it is a strategy of your portfolio mix and in health you have lots of new sales, but you also have lots of churn. So this is what I understood in summary of what you said. Is that correct?

A - Unidentified Speaker

That's perfect. But, remember, this is not easy. We do not have more churn, we have the same churn that we had in the past. If you go back in past, we are maintaining the volume of sales on average, we go up in some lines, we go down some line, but we are more or less stable for some time now. And also you have to take into consideration that we have a reduction of our (inaudible) product that today accounts for less than 8% of lives and less than 18% in terms of premium. So we are stable, the churn is maintained although our individual portfolio is going down. So we do not have an acceleration of churn, there is a maintenance of churn. Is it clear now.

Q - Francisco Kops {BIO 17215088 <GO>}

It is. It is. Thank you, very much.

Operator

Our next question comes from Gustavo Lobo from BTG Pactual. Please Gustavo, you may go on.

Q - Gustavo Lobo {BIO 18719996 <GO>}

I have two questions. Admin expenses as you very well said in the comparison nine months against nine months, you have the consolidation of SulaCap is just part of it in 2013. But if you think of what's next, what can we expect in terms of admin expenses for the fourth quarter and 2015. Where do you see room more or more efficiency?

A - Arthur Farme d'Amoed Neto

Gustavo, this is Arthur. So again, we have a hard time talking about the future because, but I can say right now is that the company had developing a procedure of high controlling terms of administrative expenses, optimizing whatever is possible. Example of SulaCap, we have 5,000 employees and out of those 130 were brought to the structure of SulaCap. So the levels we have so far are adequate, from now on you can think of things that you find adequate for labor costs and updating of contract as a whole. There is no relevant impact that may affect the level of our administrative expenses.

Q - Gustavo Lobo {BIO 18719996 <GO>}

So, possibly it will be the current levels will be maintained in nominal terms, but as the company grows the gains grow, the results grow and there is room for the administrative expenses to remained at the same level there today or not in terms of the ratio or do you think that expenses will grow as the company growth?

A - Arthur Farme d'Amoed Neto

I think it's more like you said at the end, as the company grows the expenses will grow and then the growth our partner companies also don't follow that trend. We make some investments, we -- also we represent the brand, we investment in IT, so there is several expenses regarding the amortization of these investments. There are under expenses, and the levels are satisfactory.

Q - Gustavo Lobo {BIO 18719996 <GO>}

Okay. This is clear. Thank you. My second question. What we have seen lately is a high concentration of earnings in the fourth quarter different from premium and claims costs, is there anything that the company can do to make these results more smooth to smoothen that more towards the long run and I'm thinking about 2015. Is there anything you could do to smoothen the earnings in the sense to avoid this concentration at the end of the year?

A - Arthur Farme d'Amoed Neto

Well, yes, there is. Not only about the technical topics relating to the processes that lead to this volatility at the end of the year, but also the diversification of the source of earnings. As savings bonds and assets increase the volume in the pre-tax before in the results earnings before taxes which is less affected by this volatility we have today.

So the behavior of net income is still related to what happens in the loss ratio held and the ratio of use et cetera, but the diversification of the base of assets of the company and the different portfolios will lead to a leveling of that and the dynamics of price and all that, but will lead us to a lower dependency on the fourth quarter. In the nine months, we are comparatively better than we did last year and the impact on the overall net income for the year is different.

Q - Gustavo Lobo {BIO 18719996 <GO>}

Thank you, that's clear.

Operator

(Operator Instructions) There are no further questions, I'll go back to Mr. Portella for his final consideration.

A - Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

Well, there is the question of an analysts. I don't know if he is still in line from JPMorgan. You have a question. You can ask a question, its okay.

Operator

Okay. You can proceed with your question. We are opening the question for JP Morgan with Purdy [ph]. Once again we are opening the line for JP Morgan.

Q - Unidentified Participant

This is Purdy, I'm online. Good morning, Arthur, Gabriel I just would like to ask a question about loss ratio in your individual portfolio, year-on-year, we see the Group is a bit worst although you had a higher readjustment and individual you have basically the same. Would there be an effect for the next quarter that is not reflected in this quarter but could be better reflected in the fourth quarter. And if an individual you had -- there is a bit more positive result because of the maturity of the portfolio?

A - Unidentified Speaker

You were correct, the individual portfolio as you know is not regimented -- not regulated I'm sorry and because it is a portfolio that dates back 1999, it has a concentration of maturities in July every year. So you have a concentration of maturities, therefore renewals of contract and therefore you have a more relevant growth this quarter. Let's remember that this individual portfolio accounts for less than 8% of our portfolio, but it is where our pricing has a major change in this quarter. As for Group, we have to do with readjustment inclusion of new lives, the departure of some product and that changes the mix of the product and therefore a change in loss ratio. We see that whenever we lose a major contract which is what happened. We still have a one of relevant portfolio that in a way hurts the quarter especially when you have any kind of loss in the middle of the quarter. So therefore, we can see some effect of the loss ratio as a whole.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

And there are no further questions. I get back to Mr. Portella for his final considerations.

A - Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

Well, thank you very much. I finally would just like to bring forth the invitation for you to be part of our Analyst Day on November 25th, this is going to be a very innovative event, access the web sites of Investor Relations and be part of this event. Have a good day.

Operator

SulAmerica's conference call is now closed. We thank you for your participation and wish you a good day.