

Q1 2020 Earnings Call

Company Participants

- Bernardo de Azevedo Silva Rothe, Chief Executive Officer
- Erik da Costa Breyer, Chief Financial Officer
- Rafael Sperendio, Head of IR

Other Participants

- Domingos Falavina
- Eduardo Nishio
- Mariana Taddeo
- Mario Pierry
- Thomas Peredo

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to BB Seguridade's First Quarter 2020 Earnings Conference Call. This event is being recorded, and all participants will be in a listen-only mode during the company's presentation. After this there will be a question and answer session. At that time further, instructions will be given. (Operator Instructions)

The presentation is available in the Financial Information presentation section of BBA -- BB Seguridade's RI website at www.bbseguridaderi.com.br/en.

Before proceeding, let me mention that forward-looking statements that may be made during this conference call regarding expectations, growth estimates projections and future strategies of BB Seguridade are based on management's current expectations. Projections of future events and financial trends that may be -- that may affect the business of the group and do not guarantee future performance since these projections involve risks and uncertainties that could extrapolate the control of management. For more information on the statements of the company, please check on the MD&A.

With us today are Mr. Bernard Rothe, BB Seguridade's CEO; Mr. Erik Breyer, BB Seguridade's CFO; and Mr. Rafael Sperendio, Head of Finance and IR. Please, Mr. Rothe, you may now begin.

Bernardo de Azevedo Silva Rothe {BIO 18059993 <GO>}

Good morning, everyone. First, I want to apologize for the delay. We experienced some technical problems today with the business that provides the teleconference for us. So again, I apologize for that delay.

I want to start with, if we can look at Page 2 of the presentation, where we have our action plan. Since the start of this whole problem, with the pandemic, the COVID-19, we start to look at what we should do to prepare ourselves for the worst, be ready for the better. And we have an action plan based on 4 pillars. The first one, of course, was to look at our employees and take care of them. So we put everyone in home office, 100% of them. We have, from time-to-time, people coming to the office, but always limit to 10% of the total workforce in each office that we have. So the idea is to protect our employees, not only in the whole company, but also in the insurance companies, where we went through the process of putting even call centers in home office.

Everything is working fine now. The level of service is okay, and we have our people working with some piece of mind. But to keep people working at home office is a tough job. And so we have -- in BB Seguridade, we do have every Monday a meeting, a virtual meeting with all the employees of BB Seguridade. And I personally talk to them, my managing directors talk to everyone. We're open for questions. We give directions. And our teams, they talk every day to make sure that everything that we have to do is being done. So things are moving forward the way we expect and things are working fine.

The second pillar is supporting clients and society. So we are looking at what the needs of our clients. So we have done what -- increasing our strategy of more contact with clients, providing them with services that can help them through the pandemic, like in Ciclic, they are offering IT services through -- digital services, right, to help clients go through their need in terms of putting together Wi-Fi, the computer working for home office, whatever the needs they have. We provide some vouchers for clients to have psychological help through the Internet and providing access to activities with children, so they can have things to do. Things like that. So to keep with the clients having some stuff to help them go through the social distance that we have in Brazil.

And also, we decide to pay all the cases related to COVID-19, although we had some pandemic clauses in our insurance policies but we decide to pay any claim on COVID-19 related to life insurance, right? And we did also a donation of BRL400 million to help people in need in Brazil. That money is direct to buy mostly food to help the most impacted people in the country through the social distant measures.

The third pillar is business sustainability. Of course, we have to think about our companies, how we are going to operate in the future. So we are prioritizing products that are more adherent to and less impacted by the pandemic, like rural insurance, that's performing pretty well. We are also looking at measures for retaining customers, especially in pension plans. So we are tracking cancellations, what is going on, why the client wants to cancel a product and give them some alternatives for them to keep the protection that they have.

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And lastly, but not least, preparing the company for after the crisis. So we believe we can go through this whole situation in a good way. And -- but we have to prepare ourselves to be even stronger afterwards. So we are accelerating projects that can capture market opportunities because we believe we are going to have some market opportunities in the near future. And we are always enriching the action plan with data to move the company in the right direction. So we are preparing ourselves for being even stronger after this whole situation ends. We don't know how long it's going to take. But for sure, it's not going to move fast to a new normal, but we have to be ready for this new normal that we have after the pandemic. And I'm quite sure that the company and our companies are going to be prepared and ready.

Now we announced last Thursday that we have a new CFO, Erik Breyer. He is with us in this call. So he is already working for us finally, after a long time that we had to go through the process of all the approvals needed. But he's now in the call with us.

And I just want him to talk about himself a little bit for you guys. Thank you. Erik?

Erik da Costa Breyer {BIO 3589933 <GO>}

Thank you, Bernardo. I'm glad to be part of the BB Seguridade team from now on. I was a CFO for Neoenergia Group for 15 years and then CFO and CEO of the Invepar Group for four years. Since last year, I was Head of Investment Bank in Banco do Brasil. And I have a long extensive experience in corporate governance, having been a member of the Board of Directors of AES Tiete, Eletropaulo, Cremer and some dozen other companies. So from now on, I'm here. I hope to be able to contribute to the growth or in development of the business that BB Seguridade is involved in.

So thank you, Bernard. And let's go on.

Bernardo de Azevedo Silva Rothe {BIO 18059993 <GO>}

Okay. Rafael now is going to complete the presentation for you.

Rafael Sperendio {BIO 18963159 <GO>}

Thank you, Bernardo. Good morning, everyone. Flipping to Page number 3, where we have here the key metrics of our business. So in the first quarter 2020 compared to the same period a year ago. As you may see, net income fell 13% year-over-year to BRL883 million, dragged by financial results that accounted for 5.5% of earnings. Operating results did well but financial results fell by 84%. So I'm going to cover it in deeper details on next page. For sure, this was the main negative highlight of our performance in the first quarter.

Insurance business, well, our premiums grew 16%, led by a solid performance in rural and in credit life, while the combined ratio improved by 4.5 percentage points on the back of a lower loss ratio. In terms of our performance in the pension business, contributions rose by 25%, while the redemption ratio increased by 2.4 percentage points as clients feared

somewhat the market volatility and decided to build liquidity in this very uncertain environment. And as a result of mainly this increase in premiums written and in contributions in pension inflows, commissions were up by nearly 16%, while the net margin fell by 40 bps at the broker. And this was totally driven by lower financial results as a result of the reduction in the Selic rate.

As you can see here on Page number 4, we have the macro context and how this impacted our financial results. As you may see, we were hit by several negative events. The average Selic rate that's dropped from 6.4% in the first quarter last year to 4.2% in the first quarter 2020. On the upper right-hand side, we can see that the increase in the slope of the forward yield curve helped somewhat a Brazil cap that's more exposed to the shorter-term rates, but hurt Brasilprev and not really this nominal yield curve as we are seeing here, but the real forward yield curve as Brasilprev has a large exposure to these more long-term inflation protected securities. And some part of it is classified as the trading portfolio. And then by the way, Brasilprev's financial results was hit twice, not only because of mark-to-market losses, but also because of the increase in the cost of liabilities of the defined benefit pension plans as we already anticipated in our last earnings call. Just to put everyone here on the same page on the asset side, most of the securities are pegged to the IGPM and IPCA, and the current inflation rate is used as the accrual rate for the investments.

On the flip side, liabilities are mostly pegged to the IGPM. And in this case, the accrual rate is lagged by one month on average. And for those who listened our last earnings call, we remember that we comment that the spike in the IGPM in December last year that boosted financial income in the fourth quarter would come back now in the form of a negative hit on the cost of liabilities early this year. There is no secret. That's what really happened. Nearly half of these temporary gains in Q4 were reversed now in Q1. So it's -- when you look at the table on the lower left-hand side, it becomes more clear. So the first two lines, they represent the current inflation rates, which are the ones that accrue some assets and both declined year-over-year. While the last line represents the IGPM lagged by one month. And this is the main rate that affected the cost of liabilities.

And you may see that the spike in December last year, drove the cost of liabilities up in the first quarter this year. So as a result of these movements, Brasilprev reported a net financial loss of BRL113 million in Q1. And all these events combined that we are showing this page, led the financial results of the group to drop 84% year-on-year to BRL49 million, post taxes, accounting for 5.5% of the net income, the lowest ever contribution to the results of BB Seguridade.

Moving now to our main business lines and starting now on Page 5 that is talking about insurance. Premiums, as I just mentioned, were up by 16%. Credit life and rural were the bright spots here by growing around 30% year-over-year each.

On Page number 6, we have the key performance metrics for insurance. So the loss ratio stood at 29.7%, well below the 37.2% reported on the same period last year. And here, thanks to the lower loss ratio in rural despite the drought that affected the South region in the last crop cycle, the impact was much lower than the one caused by the El Nino last year. So it was one of the main events that supported this decline in the loss ratio on a

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year-on-year basis. But it's also noteworthy that the performance seen in term life and in credit life on lower frequency of claims and also lower provisions for judicial claims to be settled also helped a lot by profit on average 7 point -- 7 percentage points on a year-on-year basis.

The commission ratios went up by 2.7 percentage points to 35%, here on the back of higher expenses with the performance bonus. And here, just to remember, last year we -- at the end of last year, actually, we changed the framework a little bit. So until 2019, the performance bonus was tied to the performance of credit life and credit life for farmers, mostly. And from this year, it's -- onwards and for the next three years, it's going to be tied to the performance of term life and credit life. And as a result of this increase, mainly in credit life, we saw some increase in the performance bonus in the Q1.

G&A ratio remained virtually flat. And as a result of the decline in the loss ratio, mainly, the combined ratio improved 4.5 percentage points year-over-year. With an addition to the 11% increase in our net premiums, it drove operating results up by 42%. It was a very good performance operationally.

Financial results dropped by 56% year-over-year. Here, the main explanation for this performance is the lower Selic rate and lower gains on trading. You may remember that in Q1 last year, we had some gains in trading available for sale of securities that helped somewhat the first quarter last year. But this year, the contribution of those ratings were much lower. And as a result here of all these moving parts, the net income increased by 7% and reached BRL328 million in the quarter.

Going on to pensions on Slide number 7. Contributions amounted to BRL10 billion in Q1, up 25% compared to the same period a year ago. While the redemption ratio, as I mentioned in the very beginning of the presentation, jumped by 230 basis points to 9.4%, as clients are still very risk adverse. But anyway, in the first quarter, we kept seeing net inflows. There, we saw this spike in redemptions. Net inflows amounted to BRL2 billion in Q1, up 72% year-over-year.

Reserves grew 9% over the last 12 months amounted to BRL286 billion. Quarter-on-quarter, reserves fell 1% on lower returns of the investment funds as the stock market tanked and the real, both real and nominal yield curves steepened. So it had a negative hit on the return for the investment funds that these reserves they are invested and led to this reduction on the asset balance on quarter-on-quarter comparison.

On the lower left-hand side here, we can see management fees were up by 9% year-over-year. Pretty much in line with the pace of growth in reserves. The average management fee fell 4 basis points to 1% per year. And as you may see here, it even increased 1 bp on a quarter-on-quarter comparison. This was totally the outcome of the strategy that we have been running, with shifting our client funds to a more sophisticated investments. But unfortunately, due to the pandemic, we had to step these -- step back a while until we have a more clear scenario and clients become less risk averse. Now we are going in the opposite direction trying to convince clients to stay, avoiding redemptions by moving their investments into more conservative vehicles.

Net investment income reported a loss of BRL113 million, given this time mismatch of the interest accrual period, as I covered earlier. And net income amounted to BRL164 million, down 57% compared to the same period last year, driven by this negative print on financial results.

Moving to premium bonds on Page number 8. Collections dropped by 16% year-over-year. We -- of course, we were already expecting some decline for this year as we have been changing the duration of our products. So they become slightly harder to sell. But given the crisis, the number came even below what we were expecting. But this was partially offset by this increase in the financial results that were up by 7% with -- on the back of a lower management fees paid for the asset management. But the net interest income that considers only the financial income and financial expenses here was down by 35%. Well, this was totally explained by this decline in the net interest margin that narrowed by 110 basis points and totally explained by the lower Selic rate and the lower mark-to-market gains in the first quarter this year.

As a result, despite this decline in top line, the net income increased by 18% on better financial results and lower admin expenses.

On Slide number 9, we have a snapshot of our performance of our insurance brokers. So commissions rose 16% year-over-year. Thanks to a very solid performance in credit life, rural and pensions, as we just saw. And in addition to the accruals from past sales, we have been doing really well. Despite all these difficult environment, we have been seeing a very favorable dynamic in terms of our cancellations, mainly in insurance. They have been stable or even declining, which has been helping the broker to sustain these -- all these commissions or net commissions that's going to accrue to the P&L over time.

On the lower left-hand side, we can see that the EBIT margin improved by 130 basis points and a lower number of products sold, and also an improvement in the average ticket and more accruals that helps the improvement in the EBIT margin. And net income, as a result, increased by 15% year-over-year. Just -- the only negative impact here was the lower financial results, as I explained in the beginning of the presentation, that was impacted by the lower Selic rate.

And finally, to wrap up this presentation on Slide number 10, we have our guidance monitor. Well, we overcame our expectations of growth in non-interest operating results. Our guidance range was from 7% to 13% and we delivered 19.6%, thanks to the lower loss ratio and improved EBIT margin, as I just explained, and a very solid commercial performance in insurance and in pension. So all these factors, they had a very positive contribution to the increase in the operating result. Well, we also beat our premiums written guidance, expected range was 5% to 10%, and we grew 17% year-to-date, supported by credit life, given lower cancellations and an increase in credit origination. And rural also did well as a result of the early release of working capital loans to finance the next round cycle. So these were the main factors that drove the increase in premiums written to be above the target range.

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On the negative side, we missed our guidance of growth in pension reserve as lower returns on investment funds impacted a little bit here the growth in the AUM. And also the increase in redemptions, mainly in the last two weeks of March also had a negative impact on the variation of the AUM on a year-on-year basis. So overall, we had a very good quarter in summary, with somewhat limited impact from the outbreak. It reinforces the defensive nature of our business. The main drawback was the financial results at Brasilprev. The same time mismatch of the accrual rates that added roughly BRL90 million to the net income in Q1 last year, reduced our bottom line by BRL35 million this quarter.

So if we were just to set apart this event, it's temporary and it's neutral actually over time, net income would be almost flat. Not to mention the actual income from IRB that added BRL49 million to the net income in Q1 last year, lower Selic rate, mark-to-market losses. So these were just the main drivers for this declining earnings on a year-over-year basis. Operationally, we are still doing really well.

But anyway, by being a limited doesn't mean that we were not affected by the COVID outbreak. Of course, we were. Just to provide you some color on the last few weeks of March, average daily sales dropped to a third of what we had been doing year-to-date February. So this was the worst period. In April, we started already to see some rebound in sales, very gradual, of course, but they are improving. Redemptions already stabilized and cancellations capturing good trends, which are very good signs going forward. But the main thing that we would like to emphasize here is that all the assumptions used to support our 2020 guidance, they have changed, and will keep changing over the near term. So as of now, we are not comfortable enough to maintain our guidance in a scenario like this. That's why we decided to withdraw. And as soon as we have a less uncertain scenario and a more clear impact of this outbreak, we will come back with our new estimates for the year.

So that's pretty much all we would like to emphasize and we can now move to the Q&A session.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer section. (Operator Instructions) Our first question comes from Eduardo Nishio from Banco Plural.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Hi, Erik. Two questions. First one is related to sales. I think, the main impact you have in the short-term in sales with the COVID-19. Any plans to boost sales again on the branches, I guess, insurance and pension are parts you have to push enough to call clients. And I think that the -- probably the number one priority is not that at this point. So I'm just wondering if you have any initiatives to improve sales in the short-term?

And then the second question is related to the opportunities you've had. You said that we have initiatives, if you could tell us what are the initiatives and the market opportunities you are looking with the end of the COVID-19? Thank you.

A - Bernardo de Azevedo Silva Rothe {BIO 18059993 <GO>}

Thank you, Nishio for the question. First, in terms of sales, as Rafael already mentioned, the worst so far was the last few weeks of March. So looking at what's happening right now, I would say that was the worse of sales so far. And in terms of consolidation as well. The first two weeks of April, we start to see some improvements. The last two weeks of April, we improved by -- a lot compared to the end of March.

So far, we are seeing improvements in sales going on. We have to see how May is going to behave, right? Because we have -- our sales force is still working. They are doing their job, they have a lot of stuff to do, of course, that the branches that serve the clients, they have other priorities. But most of all, what we do is through our offices that have no client-facing type of contract. So we have to see how May is going to behave, beginning of June, but sales are improving so far. Seems the worst of the impact that we had that was in the second to -- the last two weeks of March.

In terms of market opportunities, we are looking at everything, anything that can add value to our business that can add value to what we do, right? We are not going to invest in -- that has nothing to do with our core business. But we can look at opportunities in things related to our core business and that somehow can improve products and services that we provide to our clients.

So we are looking at what's going to happen in the market and opportunities to improve product base, improve the quality of service provided and so on.

Operator

(Operator Instructions) Our next question comes from Mariana Taddeo from the UBS.

Q - Mariana Taddeo {BIO 15009172 <GO>}

Hi, hello, everyone. Thanks for the opportunity. My question is related to dividend payout. I want to understand, even with the guidance withdraw, if you could expect the company to keep the regular level of dividend payout excluding the one-offs that we observed in the past couple of years or if there is any risk of a reduction on payouts? Thank you.

A - Bernardo de Azevedo Silva Rothe {BIO 18059993 <GO>}

Thank you, Mariana. Well, we don't have any decision on payout. So far, I can tell you that we don't need to make any big change. We are still waiting for -- having more data on the behavior of the -- operation moving forward. So there is no decision to keep or to reduce the payout. I would say, we are not going to increase it, for sure, but we don't have any decision to change the payout at this point in time.

It's a possibility, but we have to wait a little bit to have more information, more data points on the behavior of our operations moving forward. What I can tell you is that we have a very good capital and equity position that can allow us to keep the payout as it is right now.

Operator

Our next question comes from Thomas Peredo from BTG Pactual.

Q - Thomas Peredo {BIO 21712295 <GO>}

Hi, everyone. I have two questions, if I may. The first one is regarding the COVID-19 cases that you mentioned including you will consider? Does this include only the term life or also credit life and other insurance segments that have a life clause included in the contract? And if, given that you expect the higher claims from COVID-19 to compensate an eventual decrease in the overall claims due to the lockdown?

And the second question is regarding your digital strategy. If you could provide us an update how sales through digital channels are evolving and how representative they're becoming of the total sales? Thank you.

A - Rafael Sperendio {BIO 18963159 <GO>}

Hi, Thomas, it's Rafael speaking. Thanks for the question. I'm going to cover the first one and then Bernardo is going to answer the second one. Well, with regards to the COVID coverage, well, we decided to -- all our products then somewhat covers life risk, we will also offer coverage to any claims regarding the COVID disease. So it's including credit life, term life and even mortgage life.

So all life risks, credit life for farmers as well. So there are no exclusions. With regards to the impact in loss ratios, of course, we have been seeing declining in frequency of claims mainly the ones related to accident, specifically in our life insurance portfolio. So just remember that we just did not cover only -- we also cover injuries, we also cover death caused by accidents and death caused by natural reasons.

So the component of death caused by accidents that we saw very, very significant decline. But anyway, it's too soon now to say whether the impact in the -- coming from these lower frequency of claims will offset completely the increase in claims related to COVID. Well, it's just -- our first impression is that it can be possible, but that's too early to make this -- to make sure about it.

A - Bernardo de Azevedo Silva Rothe {BIO 18059993 <GO>}

Okay. So about digital, Thomas, I would say, we -- we've been investing for a long time, of course, in digital to improve the -- how we communicate with clients, how they serve themselves through our digital offering. So we have several initiatives in that space. We invest in a broker that's totally digital, that's Ciclic. So it's pretty much our laboratory to test things and see how they respond.

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So we are doing different things in the digital channels in Banco do Brasil as well. We are going to announce new products in the digital that should come out in the next month. So looking at customer experience, looking at ease of use and to make it more, I would say more user-friendly and allowing them to choose what type of protection they need and with the right information, improving the conversion in digital -- in our digital channels.

We are investing, of course, in marketing for digital channels as well. And things are moving in the right direction. So that's something that as we start investing way before the pandemic, now we can see some results coming in the next months. But in BB Seguridade, we rely on Banco do Brasil sales force, right? That's -- it's one of our main strengths. So digital is not going to replace what Banco do Brasil provide us in terms of reach to clients and ability to sell products.

But it's improving. We should see digital growing a little bit over time during this pandemic, of course, is more important. But we still have a very strong sales force working for us that adds a lot of value to our business. I would say digital sale nowadays runs around 10%. Rafael can confirm to you the number afterwards. But we should -- we can see some increase after -- during the pandemic. But over time, I believe that the Banco do Brasil sales force is still going to be the main channel to sell our products.

Operator

The next question comes from Domingos Falavina from JPMorgan.

Q - Domingos Falavina {BIO 16313407 <GO>}

Thank you, Rafael and Bernardo. And welcome, Erik, to BB Seguridade. My question -- and I'm sorry, I had some connection problems, so I'm not sure if you addressed this. But my question is regarding your incentives from the broker. You have been delivering very strong results and this incentives that you have been earning have nearly -- around BRL800 million and came down to BRL50 million, but you're still earning it.

My question is even though you don't have a guidance, given COVID and how you're seeing things evolve, do you see a risk that this BRL50 million are not going to be earned from Europe to year-end on a per quarter basis? Or do you see more risk only in the second Q, like just if you could explain a little bit how that works. And what are your expectations as far as earning those incentives?

A - Rafael Sperendio {BIO 18963159 <GO>}

Hi, Domingos, this is Rafael. Thanks for the question. Well, with regards to the performance bonus of just in the first quarter, we recognized like BRL116 million, more or less. And we, of course, this is -- we do this like a calculation is just an estimate of how much we expect to book for the full year. But the cash settlement is always down in the end of the year, the beginning of the next fiscal year.

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Considering the main -- these main drivers that have been enabling us to put these performance bonus, we do not foresee as of now, according to the current data that we have any big possibility that it might be reversed, at least in the shorter-term because most part of it has been coming from credit life. And we are still seeing some favorable dynamics for credit life this year.

It's also worth mentioning that we are about to launch a new product that's going to be now in this month. Also to be more competitive in this lower interest rate environment -- we'll also be an important driver to sustain these sales. Term life is also one driver of performance bonus. I just mentioned this in the presentation, we make -- made a shift from credit life for farmers to term life this year.

Despite being showing a very modest performance year-to-date, we believe that this product is very promising in the environment that we're having now with all this threat caused by the COVID. And -- by somewhat taking an advantage of this environment, we are launching a new term life portfolio, more simple that's going to make easier -- of not only the customer but also the seller, with fewer opportunities and with more tangible benefits of life insurance.

So we are testing, we are about to end the testing period and also this month, it's going to be launched for the whole workforce of Banco do Brasil and it's also an important source for the performance bonus throughout this year.

Operator

The next question comes from Mario Pierry from Bank of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, everybody. Just one question. I understand riding through -- you moved your guidance given the different environment. But I would like to get some color on what are you thinking about for the remainder of the year already, you got about BRL1 billion in the last few quarters or if lower, but what -- if you can give us any color on what you're thinking for remainder of the year, it will be very much appreciated?

A - Bernardo de Azevedo Silva Rothe {BIO 18059993 <GO>}

Thank you, Mario. Bernardo, I'm going to answer your question. Of course, we work with scenarios, right? We work with optimistic scenarios, pessimistic scenarios, base case scenarios. These scenarios are changing over time. So that's why we cannot clearly have a guidance for the year because of the changes that we are seeing, expectations and so on and how sales are behaving and so forth.

So but given the -- our current base case scenario, I would say the first quarter was the worst quarter of the year. So based on our projections, we can expect better quarters moving forward even with a reduction in sales compared to the first two months of this year. Because we have low impact from the financial side and so on. And we still have things performing well.

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So -- but I cannot write that on stone. I don't want anyone telling me three months from now that you told us that it could -- the worst one was the first quarter because this is the scenario that is changing every week. I would say that our scenario two weeks ago was worse than the one that I have today, but we cannot be sure that things are not going to move down again in the near future.

But again, this is not a guidance. Just to give you an idea how we are seeing things from now on with the current data that we have, right? And we -- I really expect to have a guidance back for everyone, as soon as we can maybe by the end of this semester. I don't want to keep the market without something to rely on. But guidance at this point in time would be difficult to sustain based on projections, given that they are changing. It could be too conservative or too optimist. So I prefer to give you a guidance that you can really rely on that. But again, based on our base case scenario, today, I would say the first quarter was the worst for -- of the year.

Operator

(Operator Instructions) Our next question comes from Eduardo Nishio from Brasil Plural.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Thank you for additional question. Just wondering any color on loss ratio for the Brasil Seguros. If you can give us some color on how you see the products moving during COVID-19? I'd appreciate it. Any cause for unemployment and overall, how do you see loss ratio evolving during the COVID-19?

A - Rafael Sperendio {BIO 18963159 <GO>}

Nishio, it's Rafael speaking. Well, as I mentioned earlier, it's still too soon to make any kind of forecast about the impact on the loss ratio. What I can tell you is that as we did here a stress test and this was what supported our decision to extend coverage of the COVID-19 for all our clients that have term life, credit life or mortgage life and have any product that covers life risk.

Well, even being even more strict than what the statistics are showing us and in what happened in China, in Europe, well, if we apply all these statistics to the Brazilian reality, we haven't found any sign that the company could be in trouble when extending this coverage of COVID-19 to all our clients. We don't have any sign that -- of any negative impact in liquidity, neither in capital. So the company can support.

Even in earnings, we believe that after taxes, the impact is somewhat limited. Unless these statistics they change dramatically, which doesn't seem to be the case as of now. So we have several other mitigators. As I mentioned earlier, lower frequency of claims related to accidents. We also have lower claims in the rural sector regarding to the climate event. So that -- this provides us some confidence that we will not see a big impact in loss ratios. But it's very hard to make any kind of projection as of now. But we do not foresee any big spike in loss ratios because of the COVID-19, right? That's what I can tell you now.

Operator

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr.Sperendio to proceed with his closing statements. Please, Mr.Sperendio, go ahead.

A - Rafael Sperendio {BIO 18963159 <GO>}

I would like to thank you all, for joining our conference call. I apologize again for this technical issue we had with the conference call operator. We wish everyone to be safe, and we hope that as soon as possible we get rid of this crisis and back to normal life. Thank you. Myself and the Investor Relations team, we are all available in case you have any further doubt. Thanks, and have a good day.

Operator

With this, we conclude BB Seguridade's conference call for today. As a reminder, the material used in this conference call is available on BB Seguridade Investor Relations website. Thank you very much for your participation, and have a nice day. You may now disconnect.

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