Q2 2014 Earnings Call

Company Participants

- Marcelo Augusto Dutra Labuto, Chief Executive Officer
- Rafael Augusto Sperendio, Head of Investor Relations
- Werner Suffert, Chief Financial Officer

Other Participants

- Carlos Macedo, Analyst
- Eduardo Nishio, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to BBC Seguridade Second Quarter 2014 Earnings Conference Call. This event is being recorded and all participants will be in a listen-only mode during this company's presentation. After this, there will be a question and answer session. At that time further instructions will be given. (Operator Instructions). This event is being also broadcast live via webcast and through BB Seguridade's website at www.bancodobrasilseguridade.com.br.

The presentation is also available in the financial information section. Participants may view the slides in any order they wish. Before proceeding, let me mention that forward-looking statements that may be made during this conference call regarding expectations, growth estimates and projections and future strategies of BB Seguridade are based on the management's current expectations and projections of future events and financial trends 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.

The information presented follows the consolidated and combined and financial statements in accordance with IFRS principles, except when otherwise indicated source. For more information on the statements of the company, please check the MD&A.

With us today are Mr. Marcelo Labuto, BB Seguridade's CEO; Mr. Werner Suffert, CFO; and Mr. Rafael Sperendio, Head of Investor Relations. Please Mr. Labuto, you may now begin.

Marcelo Augusto Dutra Labuto {BIO 18015082 <GO>}

Good morning, everyone. SUSEP, the insurance regulator in Brazil has just released the market data for June and I believe our company has many reasons to celebrate. For the first time in its history Brasilprev our company dedicated to pension plans was ranked the second largest player in the industry in terms of assets under management. We have been working to grab this position for such a long time. Brasilprev has been the market leader in terms of net interest over the last 6 years. Following our very challenging scenario in this first quarter, we received many questions from the market about the feasibility of our guidance for our pension plans. However, in the second quarter contributions grew sharply 59% on a year-over-year basis, which allowed us to reaffirm our guidance for 2014.

The first half of this year showed once again the potential of Banco do Brasil distribution network and its customer base. And most important, our capacity to induct the (inaudible) are a strategic mix of products. Back to the beginning of this year when the pension plan industry was still being affected by the upward (inaudible) in the forward wealth growth that occurred throughout 2013, we increased our focus on monthly plans further exploring long-term attributes of the product. We assured our healthy expansion of reserves. We have a sustainable mix of sales and lower redemptions rate. When the markets recovered in the second quarter, our strategy was quickly adjusted, which allowed us to capture this recovery in a more efficient and effective way.

The mix that we have in (inaudible) not only in pension plans is behind the earnings growth and is driven by our efforts to build a more stable revenues and earnings streams going forward. We are emphasizing products that fit the customers' need while providing higher margins and much recurrent as possible. We are working hard to constantly improve the understanding of our customers' needs and (inaudible) the operating profit. That is our core competence and what makes our company unique in this market.

In the next channel, we have many initiatives to keep improving our CRM. In the second half of this year we expect to launch new models that should enhance our capacity to evaluate the consumption propensity of our customers, bringing more effectiveness to the operating profit. We are also looking for alternatives to diversify the distribution channels, aiming to reduce the dependence of the bancassurance. In this front, I would highlight the Postal Bank. We are studying opportunities and products that would benefit this channel in the case of an event or partnership. All these efforts carries out with our affiliates in Banco do Brasil reflecting our growth rate that are on average well above those of the industry.

The second quarter '14, bottom line is aligned with the initiatives we are putting in place. Both in terms of the distribution and in the cost side. Net income reached BRL845 million, recording a growth of 54% year-over-year. I would highlight that that cost control and the decrease in claim and our company dedicated to (inaudible). For the coming quarters, I would highlight two initiatives that should support the pace of growth. We have just received the regulatory approval to start the operations at (inaudible). Finally, I would emphasize the performance of credit life insurance for (technical difficulty), which surpassed 150 million in retained premiums only in June. Thank you all for being with us. Now, our Head of Investor Relations, Rafael Sperendio will guide you through the presentation.

Rafael Augusto Sperendio {BIO 18963159 <GO>}

Thank you Labuto, thank you all for joining our conference call. So moving to page 3, we present some highlights for this quarter. The first one, our net income of BRL845 million, equivalent to a growth of 54% year-over-year and a return on average equity of 64.9%. Based on the earnings achieved in this first semester our Board of Directors has approved the distribution that's nearly BRL1.2 billion of dividends which represents nearly 80% payout.

In this quarter, total revenues including premiums, pension plans contributions and premium bonds collections, total revenues reached BRL15.7 billion, 37% up year-over-year. Another point to be highlighted is the strong improvement in the operating performance, meaning our company dedicated to life, mortgage life and rural, our combined ratio for the segment dropped by 60.8 [ph] percentage points year-over-year.

Contributions in the pension plan segment reached BRL9.3 billion, 58.6% higher than the figure reported for the second quarter last year, which shows a recovery in the -- of the industry after a very (inaudible) contributions. In this first semester, Brasilprev's (inaudible) nearly 66% of the total net inflows in the industry. In premium bonds, Brasilcap reached a net income more than three times higher than the net income reported for the second quarter of 2013, driven mainly by better financial margin and higher reserves.

And lastly, brokerage revenues rose by 36% year-over-year, amounted to BRL610 million, mainly boosted by Brasilprev and (inaudible) commissions were the main drivers of this growth.

Page four, we show our performance compared to the market. As you may see considering year-to-date data until June our performance was much better than the industry in almost all segments. In that comparative analysis considering the performance of the market (inaudible) Seguridade a more fair comparison, our growth in premiums written reached 9.1% in life, while the industry will only 1.2%. When we look at rural segment, rural issuance grew by 66% while the industry grew by 7% only.

In pension plans, total contributions rose 20.7% while the industry contracted 13.8%. In first half our net inflows grew by 22% while the industry net inflows dropped by 39%. And then premium bonds collections rose by 6.9% while the industry grew only 4.2%.

Moving forward on slide number five, we can see the extraordinary events. So in 2014 we had no extraordinary events until June this year. This is just to provide you a much more comparable base. So we are providing non-recurring events of 2013. Next page, page six, we have an overview of our performance revenues including three most recent pension plans contributions and that collection in premium bond, total revenues amounted to 16.7 billion in the quarter, a growth of 58% quarter-on-quarter and 37% year-over-year, driven mainly by higher volume and contributions in pension plans and (technical difficulty) in the life, mortgage life and rural insurance.

Year to date total revenues grew by 19% as compared to the first semester of 2013. On the lower left hand side we can see our profitability in a rising trend, better [ph] income of BRL1.5 billion for the first half 2014 and (inaudible) to a return on average equity of 53.3% surpassing our guidance that ranges from 44% to 49% for the year, a performance driven mainly by a stronger net investment income and the excellent operating performance in our company dedicated to life, mortgage life and rural, those were the main drivers for this growth and they were responsible for surpassing the guidance that we have for this year in terms of ROE.

Page seven, we have the contributions of the net investment income to BB Seguridade's net income. As you may see in this quarter there was a downward shift -- movement in the forward yield curve, a trend that we had already seen in this last quarter. The difference setting this quarter the long end part of the forward yield curve shifted down significantly compared to the movement that we had in the first quarter this year. And so this movement in the forward yield curve allowed to higher average SELIC rate in quarter (inaudible) some gains to the net investment income in almost all of our affiliates. And then in this quarter the combined financial results of our company grew by 25% quarter on quarter.

And I would like to emphasize here that even when there is strong growth on a quarterly basis the contribution for the financial result to the net income dropped by 100 basis points quarter on quarter. So, we can see that the improvement in the operating side was even better than the improvement in the financial side. So year-to-date, the net investment income was two times higher than the one for the same period last year, accounting for 25.5% of BB Seguridade's net income and now coming back to more normalized levels in terms of contributions of the financial results through the net income of the company.

On the following pages, we are going to cover the performance of each company in more detail. So in the life, mortgage life and rural segments considering the premium driven net of premium (inaudible) we can see a growth of 16% year-over-year. Year-to-date, we think the premiums grew by 21% due to mainly by premiums in rurals and in credit rise. It's worth mentioning that the improvement in the underwriting results in the company which considers the core operating results, some insurance company excluding the financial components. So underwriting grew by 43% quarter on quarter and 65% year-over-year.

The net investment income also improved in this quarter keeping the trend observed in the last quarter and as a result, we had a net income for this company of BRL567 million in the first semester of 2014, 51% higher compared to the same period of 2013 and equivalent to an annualized return on average equity of 40.6%.

On next page, we cover the main performance ratios. Every segment, net of the insurance effect, as you can see this quarter we had an improvement in all performance ratios, especially in the loss ratios and then related to lower claims with the overall improvement in the loss ratio and commission ratio, G&A ratio, the combined ratio for this company end the semester at 64.8%, 2.7 percentage points better than in 2013. Moving to P&C now on page 10, retained premiums grew by 9% year-over-year, on a year-to-date basis, the growth was of 7% driven by an overall growth in all segments. On the operating side, there was an increase in claims in auto and in casualty, leading to negative underwriting result and started affecting the net income for the P&C segment, which was lower both on a quarter-on-quarter and in the year-over-year comparison.

But on the other hand, the net investment income kept this increasing trend and drove the 27% increase in the net income when we look at the year-over-year on a year-to-date comparison.

On page 11, we have the performance ratios for SH2 net of the insurance effect. As I have already mentioned the loss ratio reached 60% this quarter. We have higher claims in auto and in casualty. Commission ratio dropped by 1 percentage points quarter-over-quarter, mainly due to sales mix more concentrated in the auto segment, which has a lower commission ratio.

The G&A ratio grew in both quarter-on-quarter and on a year-over-year basis. But in this case it's important to emphasize that the first quarter was favored by the reversal of provisions (inaudible) insurance service and so this is not good base we have a strong (inaudible). The G&A ratio for the first half 2014 was around 18.1%, an improvement of 0.6 percentage points compared to the same period last year.

And as a result, the combined ratio is driven mainly by the deterioration in the loss ratio reached 101.5% and so it worsened 5.4 percentage points quarter-on-quarter and 7.6 percentage points in the year-over-year comparison. Pension plans on the next slide, we can see a stronger recovery of segment this quarter. Contributions grew by 85% quarter-on-quarter and 69% year-over-year. Redemption ratio dropped sharply to 8.9%, returning to the same levels that we had in 2012. The highlight here was the net inflow, one of the main drivers of Brasilprev's earnings growing at a 23% base year-over-year on a year-to-date basis. And as a result of lower redemption ratio and increasing contributions we see an AUM increasing by 30% year-over-year and reaching BRL97 billion. Management fee growing both quarter-on-quarter and on a year-over-year basis, reflecting our increase in volumes, (inaudible) management.

And net income increased by 15% year-over-year, 25% when you compare to the first half 2013, boosted mainly by the growth in revenues with management fees and as a result of the increase in AUM and also the improvement in net investment income has helped to this growth in net income.

Moving to page 13, we improved our comparison between the performance of Seguridade and the industry. As you may see while our net inflows grew by 22% year to date, the industry excluding the performance of Brasilprev it is still showing contraction. And we can say as a result Brasilprev accounted for 65.7% of the total market net inflows in the first six months of 2014.

The chart at the bottom, we show the year-to-date performance from January to June. In terms of contributions we have indicated that after our week was started from (inaudible) and on a year-to-date basis better contribution were 21% higher compared to the last year. And it's important to note that the industry is also recording at a lower base compared to ours but this is a good sign (inaudible) as we are going to cover later. That's why we are keeping our guidance for the year.

On page 14, we show our performance in premium bonds. On a year-over-year basis, collections were stable and in this case it's worth mentioning that the hard comp that we have with a very different sales mix the second quarter 2013 the very hard comp. Last year we focused in unique payment bonds while in 2014 we are emphasizing the monthly payment bonds which have an average ticket nearly 10 times lower.

When we look at the net investment income, an important source of revenue for this company, it (technical difficulty) improving its trend so 50% higher quarter-on-quarter and would only from a negative result recorded in the second quarter last year. And these results reflect the growth in terms of reserves as an improving financial margin as a result of also higher SELIC rate and downward shift movement of the forward yield curve.

And among our affiliate, we see that Brasilcap is the one that benefits the most from downward shift movement of the forward yield curve and this is mostly due to the characteristics of the business as predominantly fixed rate liability by requiring asset also more concentrated in fixed rate this year. That's why we have a benefit of no more shift movement in the forward yield curve and a positive mark to market effect. And this improvement in the net investment income was the main driver that contributed to the significant increase in Brasilcap's net income. As you can see in the second quarter it was more than three times higher year-over-year and grew by 183% when we compare the first half 2014 with the first half 2013.

Moving to the Corretora on next page, the brokerage revenues grew a 25% quarter-on-quarter and 36% year-over-year and are boosted mainly by the increase in pension plan contributions. When we look at the year-to-date basis, brokerage revenues increased by 32% driven mainly by the life, mortgage life, and rural segment which increased its share in total revenues by 4.4 percentage points. As you can see in the chart on the upper right hand side. Net income reached BRL342 million in the quarter, growing 33% quarter-on-quarter and 48% year-over-year, on back of higher revenues and an improved net investment income.

And finally to wrap up this presentation on page 16, we have our guidance for 2014. The first one we have the return on average equity we (technical difficulty) the range with 63.3%. Also mainly the result of the higher than expected improvement in both net investment income and operating performance ratios mainly in the company that was dedicated to life, mortgage life and rural insurance here. Both effect led us to surpass the guidance. But by the end of this year we estimate that this ratio will be within the range and that's why we are not changing it. We are keeping the guidance for the year. In terms of (inaudible) and SH1, life, mortgage life and rural insurance we came within the guidance with 34 -- sorry 24.1% growth. In SH2 our company dedicated to P&C (technical difficulty) and grew by 16.8%, increasing the pace compared to the growth that we have 10.6% to March but it's still below the range that we have on 19% to 26%.

This was mainly due to a lower-than-expected performance in the auto insurance mainly in the first part. But considering the strong recovery that we had in the second quarter it's increasing pace of growth in this segment, specifically we are keeping the guidance for the year. So we are not changing the range. In (inaudible) strong recovery this quarter posting a growth of 59% year-over-year.

And here it's worth noting that the beginning of the year was challenging for the pension plan industry as a whole. And in addition we adopted a sales mix strategy that's more focused on periodic contribution plans which have a lower tickets and for this year -- and considering the strong performance in the second quarter we expect that (inaudible) range by the end of year. So we are maintaining the guidance of 33% to 47% growth for 2014.

In premium bonds collections we have this the guidance explained by the headcount that we have in the second quarter of 2013, and our sales mix for this year much more concentrated on bonds with monthly payments, which has a lower average ticket that for the coming quarters we believe that the premium bonds collections will be within the range of the guidance so for this reason we are not changing our estimates of 10% to 15% growth for this year. Thank you all and now we can move to the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen we will now begin the question-and-answer session. (Operator Instructions). Our first question comes from Gileami Costa [ph] with Itau BBA.

Q - Unidentified Participant

Good morning, guys, congratulations on the (technical difficulty) results. I have two questions on credit life insurance; we noted that the loss ratio (inaudible) has presented a increase in the second Q, could you comment more on that, what are your expectations going forward for the loss ratio of the segment? And second, could you provide us a breakdown on the sale of credit life insurance to individuals and to corporates? And how much do you expect this was down to be in the future?

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Gileami, this is Rafael speaking. Thank you for the question. I'm going to call for the loss ratio in (inaudible) segment and after that I am going to give comment on the breakdown in terms of individuals and corporate (inaudible). So what happened in second part of 2013 [ph], we had an increase in the loss ratio (inaudible) product mainly because of one effect that is important to explain previously. When we look at credit life in our company we had two main products, one that is bought by the client and the other one is that the bank is buying protection for its credit portfolio.

So people believe when we start production (inaudible) when we didn't have mainly big imports to sell this credit life product to client. It was more common that bank ensuring its own credit portfolio instead of selling the product to the client. So this is a portfolio that previously we didn't have enough automatized system to link the insurance company and the bank to report declines occurred in this portfolio.

What happened in the second quarter is that we finalized the process of implementing this now this discipline that we automatized the process of reporting the claims to the insurance company. And when we finalized this system we -- I think filed some claims that added to it that were not reported to the insurance company and expense of nearly BRL44 million in terms of claims that were not reported. As much this process is automatized we do not expect to have this point that occurs that were not reported to the company. So, going forward if we look at the -- a normalized loss ratio for these products specifically, we estimate that it will be within 25% to 28% in terms of loss ratio.

It's important also to emphasize here that we had provisions in terms of we call a technical exit underwriting exit in this portfolio, and but for the accounting standards, reason the reversal of this provision was not booked and the line of claims it was booked as changing technical provisions. If we adjust the lineup thinking technical provisions, and adjust earnest premiums and also bring this reversal to the claims occurred, line claim expenses in the income statement, we would see that the loss ratio of the credit life in the second quarter would be around 27.6%. So, and it was near the historical average for this product.

So in summary, we now have a system that will bring more, say, an automatized process to report the claims mainly related to this portfolio issued by Banco do Brasil and going forward, we still expect the claim ratio to be around 25% to 28%, according to the historic average for this product.

A - Werner Suffert {BIO 18657101 <GO>}

Rafel, Werner speaking. About the question related to the breakdown of the credit life (inaudible). where we believe that in the short-term the credit life working it will increase a lot and we have a -- Banco do Brasil, yeah, a very big player in this market with a potential growth -- an important potential growth that we will explore this in the next quarters. So -- and on the other hand you have also the average term of this loans they are shorter than individual loans. So the premiums retained it will be higher in the third quarter. So, the breakdown will be increasing in the participation of SMEs very sharp in the beginning of (inaudible) quarters we will stabilize this but the potential market that we have for both is almost the same under nearly BRL100 billion. So when we reach the -- a stable market from some years from now we believe that this will be almost half (inaudible) SME's credit life.

Q - Unidentified Participant

Perfect. Thanks very much for the clarification guys and congratulations on the results.

Operator

Our next question comes from Rafel Fradi [ph] with Bradesco.

Q - Unidentified Participant

Hi. Good morning. I have a question related to dividend payment. (inaudible) not being 100% of dividend (technical difficulty) because of potential increase in (inaudible) you have new rules for pension plans and premium bonds. I would like to know that now that you are -- (inaudible) with some surplus in your (inaudible) if you can revise this dividend payout for each one of this (inaudible). Is there any discussion related to that?

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Rafel, thank you for your question. I think it's important to mention, to emphasize that when you look at the numbers from (inaudible) premium bond company Brasilcap and Brasilprev, (inaudible) company, we need because of the regulatory rules to retain cash on this company to the growth that we have related to the capital requirements and the new capital requirement that we will have related to liquidity this year in 2014 and next year we will start with market risk also.

So this is the main reason why it's almost in the short term we don't think that we will be able to change our payout ratio to a higher one and we will sustain the payout. We believe that we can sustain a payout ratio that we have nowadays in 80% at the plan because when you look at our broker side, BB Corretora we can say 100%, we will sustain this 100% payout ratio. But in the insurance side, we had some company that we need more capital to sustain the growth and the results for the coming -- next -- for the coming years. So, that's the main reason why we believe that this payout ratio will not increase in the short term.

Q - Unidentified Participant

Perfect. Well done. Just to make it clear, last year you had some additional provisions, some changes in the rules to make this additional capital for pension and capitalization, but still there are some step. So probably liquidity and market risk in the next year is that correct? Only the timeline for those new capital requirements?

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Yes, the liquidity that we have already a resolution from the regulator that is in place but we will need to retain capital from the end of this year. And for 2014 of course, we will have we will need to retain capital for this region. And for the market risk it will -- we don't have the regulation yet, the resolution from to that but the market (technical difficulty) estimating that we will have this and this in the next month and the implementation of the markets which will be only in the end of 2014 [ph] and a part of this in the end of 2015 and it will have another step in 2016. And the last one will be in 2017.

So that the -- how it will be the timeline of this new requirements would be in domestic in Brazil.

Q - Unidentified Participant

Alright. Thank you. Perfect.

Operator

Our next question comes from Carlos with Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Good morning gentlemen Carlos Macedo. A couple of questions. First, just on your -- on Brasilprev, we've seen reserves increased at a very fast pace on the back of greater contributions and a decline in your ratio, sorry, and redemptions. So a question here unfortunately, we haven't seen the results actually reflect that as much largely because the management fee has gone down.

Can you talk a little about the outlook for the management fee in this business, are we going to see at some point profitability and both our (technical difficulty) bottom line expand at the same pace as reserves or is there a more structural trend here that will keep that from happening.

And the second question is on your guidance, and I appreciate that you say you're not going to change it. But to try to get an understanding of what initiatives you're carrying out in the second half of the year that will allow you to accelerate guidance not in ROE, ROE it's pretty clear that you are going to meet, but in terms of growth for several of the line that given that the second half of the year is generally expected to be worse than the first?

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Thank you, Carlos, for your question. I will start with the one -- the second one, related to the guidance, in operational guidance that we have. We have during the first quarter this year some difficult -- some I would say, strong comps so in Brasilcap, for example, or even for each one in credit life, we had a very strong second quarter last year. So that's one of the reasons why the performance this year and the growth was not I would say normalized as expected by the market. But at the end of this year we believe that we will achieve the level of growth that we estimate because of the budget that we in our channels.

We will be able to deliver this growth and of course as I told you when you look at this comp last year (technical difficulty) we have now a very easy comp to achieve to increase our growth (inaudible) last year the contributions during the third quarter was BRL3.7 billion only and now we are in the (inaudible) BRL1.1 billion in the third quarter last year.

And now we believe that we can reach much better performance this year because of the level of the industry is improving also not only Brasilprev is in a very good position, but we need to say that (technical difficulty) is improving. So we would be able to get through this growth during this third and fourth quarter 2014.

Q - Carlos Macedo {BIO 15158925 <GO>}

Are you doing anything different in order to be sure that you are going to capture I mean you are facing a little bit of headwind from the economy is it, is it something that you are adjusting, you are tightening the screws on the branch managers, the account managers (inaudible) Brazil is there anything that is different?

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Well (technical difficulty) strongly related to the seasonality of this product. We will be able to look because of the hard comps that you had last year. This year we believe that we will start with the third quarter with a very better performance when comparing the same product last year. So this we will need to change a lot our strategy, we have also some new products that will help us to deliver the growth that we expect in new channels.

So in Brasilcap we have (inaudible) branches that they are providing a very strong growth in the state of Sao Paulo for premium bonds. And (inaudible) credit life we had the SME credit life technically we can growth that, we did during the first quarter this year -- sorry second quarter this year BRL150 million (inaudible) of course is not the kind of average that we have in a monthly performance, but because we have some -- we started with -- the first month are very strong enough but that we have a adjusted performance because some of the outstanding balance of some client that they want to do this business with and when you launch this (inaudible), but we will have this product also to guide us to a better growth in financial front. And for auto insurance, it is true that first quarter, first half of this year is very -- for the banking channel, it's not as strong, what it was not as strong quarter half, but now we have several initiatives in our channel to increase this and improve also not only the premiums, but to help us to decrease our loss ratio and our claims ratio that we have in this product in SAQ [ph].

So this will help to the combined ratio for SAQ as well.

Q - Carlos Macedo {BIO 15158925 <GO>}

Clear. And now under, sorry I don't want to extend it any further, but on the management fee on Brasilprev.

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Okay. This as you said, this is a trend, you have new clients and new clients that are increasing their contributions in this product so when you have clients increasing contributions mainly when you have profit making clients and this helps to drop the average fees. But when you look at the industry as a whole, Brasilprev is still the best performance as management fees and this we believe that we can sustain with some initiatives, one of them is increasing our periodic plans. And this is helping to sustain this fees for -- we've started this year and we have also some initiatives related to corporate products that will increase the premiums. But of course we put some pressure on the average season (technical difficulty).

So we will see the market as a whole, it will reduce the average fees. But the reserves we will remain (inaudible) but still higher than the 10%, maybe from 10% to 15% for the next quarter.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you.

Operator

Our next question comes from Gustavo [ph] with BTG Pactual.

Q - Unidentified Participant

Hi, everyone. I have a question on your insurance business. We know that these results are quite volatile that looking at second quarter figures, this seems particularly strong. Was there any particular reason for that, did we gain share, any reason for the much lower loss ratio and what's your expectation of this business going forward? Thank you.

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Thank you Gustavo for your question. For RV, we will say that we (technical difficulty) line that we are still understanding a very (technical difficulty) increase our independence in this line of business line. We had some volatility in the performance in this company. Now we have a very, in this quarter, a very low loss ratio. And we believe that this is not a sustainable level that we have for this market, reinsurance market is a market that we will have an ROE that would be a little bit lower than the 20% that we will achieve this quarter.

And so we believe that the kind of return that we will have from this company would be between 16% to 18% as a recurrent ROE. And then it gives -- we believe that in the coming quarters the loss ratio will increase a little bit to reach numbers that will guide us to the kind of returns that I told you.

Q - Unidentified Participant

Okay, so returns are your expectations for ROE for sustainable ROE of this business has been changed, right?

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Because this loss ratio that we had this quarter was very low comparing with our historical numbers. So it's hard to say that all the improvement that we are -- and initiatives that we have in that company they changed so dramatically, the level of loss ratio in just one or two quarter. So we think that we will see a higher loss ratio in the coming quarters. But we are working hard to increase the returns with our (technical difficulty).

Q - Unidentified Participant

Okay. That's clear. Thank you.

Operator

Our next question comes from Eduardo Nishio with Brasil Plural.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Hi. Thank you for taking my question. I have a question on SH1. You mentioned that you might see an improvement in next two quarters on the credit life business loss ratio was increased this quarter to 35%. However, you have a very good refi business where you had a rural decline and that sort of offset this increase, but looking to the overall business, still you had a very good evolution right in loss ratio this quarter, it went down to 31%. And looking to the combined ratio you are running at roughly at 75% which is very low compared to any other business in the insurance space.

So my question is, how do you see the sustainability of the combined ratio this 35% and where are you seeing some space to improve since you said that the credit life probably will improve in the next two quarters to a more normalized levels, 25% is that, how you see that, any further space to improve combined ratios in this business? And then I will make my second question. Thank you.

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Thank you, Nishio, for the question. Regarding the combined ratio for SH1 we had a very good quarter with 71% combined ratio mainly due to the 31.5% loss ratio that we have this quarter, but also some other points, we improved our acquisition cost, reduced the acquisition cost in this company and the G&A ratio improved also. So in the coming quarters, we will see a better combined ratio when you look at the previous quarters, of course, but it's hard to say that the combined that we have this quarter will be sustainable for the coming quarter.

So 75% is a good approach. I would say that (inaudible) currently will be a good estimate for SH1 but of course we do have some room to decrease G&A and a little bit of the acquisition cost to improve these numbers. And lastly to (inaudible) very hard to beat this quarter as well a near performance. But we believe that this 75% or mid 70 something that we can reach in the coming quarters.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Okay, very clear. Then my second question is on Brasilprev, is follow-up actually from previous question. You have a very good evolution on reserves growing at 30% year-on-year. However, your bottom line is not moving in the same direction, it's actually growing slightly at a lower pace. You said that management fees you expect some compression in management fees. I just want to clarify if you see going forward management fees under pressure or you see a stabilization in pricing? And therefore probably an evolution in revenues on the revenue line going quarter-on-quarter and sequential basis. Thank you.

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Thank you Nishio, regarding this management fees in the Brasilprev business, we believe that the level of fees that we have they are not changing the last quarters. They are the same, but when you have new clients coming and new volume contributions coming from clients from Brazil -- from private banking and this plus eight clients, these of course will put some pressure on the average ratio -- average fee rate.

So this is something that we will see in the market, but when you look each of these levels when you look at the clients from privacy banking clients from the middle class, they are not changing, we are sustaining the fees, is not changing in the last quarters. So just to clarify this point when you have this reserve increasing a lot and the total reserve, a good part of this new contributors come from private banking clients. This will reduce the average ratio, the average fees and maintenance fee but not the fee that we have in each of these segments.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Right. Clear, so --.

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

But we will be, as I told you before, we believe that this we will sustain the best management seen in the market. So when you look at our peers we have the leaders in this segment, we have the highest management fee in the market and of course, this is something that is particularly linked to our strategy and we have several initiatives to sustain the fees in this level the kind of growth that we have in our strategy this year, changing from not only looking at the contribution side but looking at the growing -- the growth in reserves and so on, this is the main reasons why we will be able to sustain this (technical difficulty) adding to this also our periodic term expansion that we have this quarter -- last quarters. This will help us to sustain the fee that we have.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Okay, thank you very much.

Operator

(Operator Instructions). This concludes today the question and answer session. I would like to invite Mr. Marcelo Labuto to proceed with his closing statements. Please Mr. Labuto go ahead.

A - Marcelo Augusto Dutra Labuto {BIO 18015082 <GO>}

Thank you all for joining our conference call. And for the confidence placed in the company. Here we reinforced our confidence for the rest of the year. Our IR team remains available for any further clarifications. Have a good day.

Operator

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