Q2 2015 Earnings Call

Company Participants

- Arthur Farme d Amoed Neto, Vice President, Investor Relations & Chief Financial Officer
- Gabriel Portella Fagundes Filho, Chief Executive Officer
- Mauricio Lopes, Vice President
- Unidentified Speaker

Other Participants

- Domingos Falavina, Analyst
- Francisco Kops, Analyst
- Gustavo Lobo, Analyst
- Gustavo Schroden, Analyst
- Rafael Frade, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and thank you for standing by. Welcome to the conference call of Sul America to announce the results of the second quarter of 2015. Today here with us we have Gabriel Portella, CEO of Sul America and the company's VP. We inform that this conference call is being recorded and all participants will be connected in listen-only mode during the company's presentation.

Then we're going to start a Q&A session, when further instructions will be provided. (Operator Instructions) The audio of this conference call will be available right after its end in the company's Investor Relations website.

We're going to have a live webcast with audio and slides that can also be accessed in the company's Investor Relations website at www.sulamerica.com.br/ir in the banner 2Q15. The presentation will also be available for download on the webcast platform. Before proceeding, we would like to clarify that statements made during this conference call relative to the business prospects of Sul America, operational and financial projections and goals are believed on assumptions of the company's management, and are based on information currently available.

Forward-looking statements are not guarantee of performance. They involve risk and uncertainties and assumptions because they refer to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of Sul America and may lead to results that are materially different from those expressed in such forward-looking statements.

Now, we would like to turn the conference over to Mr. Gabriel Portella, Sul America's CEO, who is going to open our conference call. Please Mr. Portella, you may start.

Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

Good morning, everyone. We are here together with Sul America's VP to present the results of the second quarter of 2015. I would like to thank everyone who is attending this conference call, shareholders, investors and analysts, our brokers and business partners, and especially, Sul America's employees who are listening to us now and to whom I direct my special thanks for your contribution to the results that we are going to present next.

Before starting our presentation, I would like to highlight a few points that I consider important about this quarter's performance. We have a net income of BRL123 million, representing a growth of more than 130% as compared to the same period last year. The expected increase in agreement, in most of our lines reflects more and more intense commercial performance, capture of opportunities then we are closer to our brokers and commercial partners. The results were based on the growth of our revenues on a significant advancement of the lines that concentrate most of our portfolio, as you will see next.

Another important highlight, a significant improvement in our operating performance. Clear [ph] in the combined ratio of 99.9% and in the growth of the gross margin from insurance. The operating margin centralized in 2013, if anything for increasing in greater synergies process improvement and greater automation in our operations improving the quality of delivery of our products and services.

In this quarter, we also announced two important positive changes in our business. The commercial agreements and also the sale of major risks to AXA Corporation. And right after the end of the quarter, in July, we sold part of our housing insurance for BRL60 million to PAN Seguros, both these portfolios or both these actions are in line with Sul America's strategies directing our focus to the actives where we think we are better positioned to meet the needs of our customers and brokers. In this manner, we have been able to deliver another quarter of strong and consistent performance and the maintenance of our discipline in the management of underwriting pricing and costs.

Overall, the year is too challenging from the macroeconomic standpoint, but we are falling in our multi-line of positioning, invest in our commercial expansion in the improvement of our product and services processes and controls.

Now, I will like to turn the conference over to Arthur Farme, our VP for Investor Relations and CFO too. And then as usual, we'll be ready to hear your comments and questions. Thank you very much.

Arthur Farme d Amoed Neto {BIO 1845065 <GO>}

Good morning. Thank you, Gabriel. We're going to start our presentation on slide number two, a slide showing the result of our consolidated revenue that we usually included in this presentation.

The highlights on the slide as I said before, is the growth that we had in our health of insurance -- of health insurance and also with a significant growth of more than 15% -- 14% comparing the second quarter of 2015 to 2014 and also the first six months the growth of almost 15% and also close to 13%.

Our consolidated premium insurance grew 13.2% and has grown almost 13% comparing the first six months of the two years. So, this table confirms the excellent performance of our insurance premiums.

In terms of additional pension wise [ph], we have about 16% in a contribution in this period, in the second quarter. And then administrative services is 4. In terms of asset management, we have a drop of 7 percentage points especially because of the variable income market and savings bonds with the drop of 66%, especially because of a redistribution of our portfolio of savings product of rental insurance.

Overall, all the growth was 2% in this period, the same rate as in the six months.

Going to slide number three, it's important to highlight, here is the significance of the motor [ph] portfolio that across the six months, accounting for 20% of our total consolidated revenue.

And this is the main comment to make on this line.

Now, I would like to move on to slide number four with the details of the main highlights of our insurance operation starting with what we've already seen in two slides behind with a growth of 13.2% in insurance premiums in the quarter, 12.9 in the first six months of 2015.

In terms of consolidated loss ratio, all insurance portfolios has had a drop of 13.4%, 1.7 points in the year-to-date number.

And then, we also report 75.6 for the quarter, quite good numbers in line with all the efforts and improvement of the company has been implementing and we can give you more details in the Q&A session.

As to admin expenses ratio as compared to premium also improved 0.2 points closing the quarter with 8.7 in the six months with 8.6. The company has managed to balance its expenses in a very satisfactory manner, keeping investments in the processes and projects that are our priorities and even so improving our operating efficiency ratio, as we have just said.

Another number that also reveal the quality of our operations is the combined ratio that closed below in 99.8 this quarter, slightly above the 100 in the first six months, 100.5, with an improvement both in the quarter, in the first six months. In two measurements the combined ratio reflecting the summary of our operations confirm the improvement that the second quarter and the first six months provided us.

In terms of investments and financial results, it has grown almost 16% in the quarter and almost 15% in the first six months. The reason for this growth is obviously related to the higher interest rates in our country and inflation contributing to our assets that are priced to the inflation, but also because of very good work that our asset management team has been done.

All of this drove to this profit of BRL123 million, an increase of 130%, quite a significant growth also compared, if we compare the first six months with 67.5% of growth with that aspect. The return was greater than 16%, a growth of 1% as compared to the return that we had published for the second quarter of 2014.

Continuing on slide five, health and dental insurance. We see a growth of 14% in premium in the quarter ending with 2 billion 600 thousand, 5 billion 200 thousand in six months with a growth of 14.6% and in both measures and improvement in loss ratios of 2.7 points in six months.

So, it's impressive, the loss -- the decrease in loss ratio in health, when you compare the second quarter of 2014 with the second quarter of 2015. The growth margin as a consequence of that, as the new policies are stable have improved as well.

The company ended the period with 2,671,000 members, a growth of 2.2% in the six-month period as you may see in the slide.

Now moving to slide six, we have the figures about automobile insurance. It has grown 14.6% in the quarter, 12.6% in the semester. But the decrease in loss ratio both when you see quarter numbers as well as six-months numbers, 4.1 points [ph] in three months to ending the period at 59.6% and for six months, 58.9%, a decrease of 1.7 bps. So in both the measures there was an expressive or significant improvement in loss ratios combined with an increase in insurance premiums.

It's worth highlighting the growth of the fleet of 6.7% in six months. We end the period with almost 1 million 700 thousand vehicles insured, a growth of 6.7% in the fleet, 2.5% in revenue. Two, aspect that confirms the quality for the basis of Sul America to insurance.

The next slide summarizes our operations in property and casualty expect for car or auto insurance, premiums have dropped by 3.2 points or 8.8 points for quarter and semester figures. A significant decrease in loss ratio when you look at the semester, and quarter figures, and reasonably stable figures, when you look at six months.

As we said, this portfolio may have some volatility given the composition of its portfolio. As you can see on the lower part, and each area has different behaviors depending on the moment and time when you look at it.

Now moving on to life & personal accident on slide number eight. We had a growth of 3.4% in premiums, almost 2% in six months. In this case, with an increase in loss ratio of 5 points on a bit more than 5 points in six months.

Maybe the figure of six months and quarter of 2014 were below what we usually expect for the portfolio and that's what explains this movement we see here. The main portfolio in the segment is Group Life, as you may see in the pie chart on the lower part of the slide. On slide nine, we had a growth in revenues and contribution of pension of 16% almost in the quarter and six months comparing the 8 [ph], we had a drop of 6%. But what's important is that, through portability, which we have new contributions coming, we ended the period with BRL4,851,000 million in revenue or in Brazil with a growth of 14.7% as you may see on the right part of the slide, of the defined contribution grows products PGBL and VGBL.

On slide 10, savings bond, we've mentioned the behavior of our reserves results have dropped by 21% for the same reasons and the operating income also reflects the same movement. We can talk more about it later on if you want.

On asset management, slide 11, the total assets under management has grown by 13.1%, 21 billion under management. The natural rebalancing of asset allocation has led to having most of the funds invested in some kind of fixed income.

Securities, and the results of this, for consolidated figures is a decrease of 10% when you think about the two quarters, BRL9.6 million.

On slide 12, general and administrative expenses have increased by absolute values by 11%. The most important is the decrease you see when compared to premium, which confirms the greater productivity and operational efficiency of the company. So, from that point of view, in both cases ending at 8.6 -- 8.7 in the quarter and 8.6 in the semester combined an operating ratio.

We have mentioned already that it ends at 94.5% in the quarter, six months 95%, almost close to 100 showing the quality of our operations.

Slide 14, the investment portfolio, in the top part of the slide, we see the composition of asset, not related to pension and there are no significant changes as to what was reported in the first quarter.

The company is largely positioned in fixed income investments, interest rate or inflation-linked and a small portion in equity. These are the highlights of this part of our presentation, and now we may start the Q&A session. Thank you.

Questions And Answers

Operator

Excuse me, ladies and gentlemen, we will now start the question-and-answer session. (Operator Instructions)The first question comes from Gustavo Schroden from Bank of America.

Q - Gustavo Schroden {BIO 17051676 <GO>}

Good morning. Thank you for the opportunity. Congratulations on the results. I have two questions, the first one is related to the macroeconomic scenario. We've seen an increase in unemployment here faster than most people would expect and I would like to know how much that could affect your figures especially in health insurance because we know that there is a correlation with the increase in unemployment, how do you look at that, what are you doing to manage that or to try to minimize this potential impact? And then I'll ask the second question later. Thank you.

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

Gustavo, this is Gabriel talking, good morning. Well, we are carefully watching, paying attention to this unemployment figures, of course, and as things change in the economy, the unemployment doesn't affect all the industries in the economy, the same way, not all of the companies, it depends on the portfolio and the profile of companies and the risk portfolio we have.

For health insurance, we're paying close attention to the movements in companies we have in our portfolio and we see that in the first six months, we had the same movements we had in the same period in last year.

Although a good performance of new sales, we are able to grow the portfolio, as you see in the slide that shows this evolution. On the other hand, for auto insurance, for example, that one of the other areas of the economy that has been affected, the sales of new cars was mostly affected by the economic slowdown and we sell more used car insurance.

So it doesn't affect, it didn't affect our portfolio so much, which causes also our penetration in our segment to increase, which offset for example, this loss in health. In terms of management, losses, both in health and car, we are paying closer attention to claims management and we're able to go through this period paying attention to what's going on, but without major losses so far.

Let's see how next quarters, what they -- will happen but we are paying close attention trying to grow in the segment and that we have an opportunity to offset unemployment trend, which affect the economy, but was not significant for us. In other -- in terms of changing result.

Q - Gustavo Schroden {BIO 17051676 <GO>}

My second question regards the structural changes that you have been implementing for about one year, one year and half more or less related to claims management. So, you've been working intensely [ph] with hospitals. You are using indirect procurement of some types of equipment. If we had to qualify which level or which stage you are in those initiatives in terms of maturation, do you think you are in the beginning, in the middle or towards the end of this process of those initiatives? Is there too much to come, these two have a lot to improve from now into the future or are you in the beginning, in the middle of at the end?

A - Mauricio Lopes {BIO 20668973 <GO>}

Hello. This is Mauricio. Hi, thank you for your question. Well, they are permanent. Ever since we started the major cycle of implementations of claims management policy, they are the continuance of actions that overlap each other.

So we have about 30 actions overlapping, some are more matured, some are less matured, direct procurement, because a huge number of hospitals are doing this. And this is evolving as time goes by.

Health management takes slightly longer for obvious reasons, but all these actions are within schedule. Our main debt [ph], and we're focusing more is that, regardless of what we are doing now, what we are doing in-home is to intensify greatly in health management processes. 90% of our time we spend in health management, continuous health management.

Okay. Then, so as you say, it's permanent project, permanent improvement.

So the improvement in costs related to loss ratio is likely to go on improving. So, a long time, we found out that for every action you implement, it's not stable in the long-term. As you work on certain actions, you need to change it to evolve an improvement, because the market changes together.

So, all these actions that we have implemented, that were a kind of more stationary in the past, they are not. We cannot say that they are in the final stage, because they evolve every cycle. As an example, a direct procurement of materials, the first model we used in direct procurement was way different from what we're doing today. What we are doing today is much refined, much more evolved. It's not just evolving or improving the actions, but we also calibrate actions, so that they are better suited to the market. So, things change, we have our partners in the health value chain, they evolve and we evolve together.

Q - Gustavo Schroden {BIO 17051676 <GO>}

Thank you very much for your answers

Operator

Thank you. Our next question comes from Rafael Frade from Bradesco.

Q - Rafael Frade {BIO 16621076 <GO>}

Good morning, everyone. And I think I'll continue with Mauricio, as you have explained several times that you have a silver bullet for silver management processes. It is the work of many initiatives. But I would like to draw your attention to this great improvement in the second quarter more specifically, whereas we didn't see this improvement in previous quarters.

So when we see this improvement of more than 400 bps in health, is it -- would it be better more reasonable for us to compare the first six months of the year when we had a significant number of provisioning and we might have benefited as compared to the results in the second quarter?

So, we had more than 200 bps improvement in loss ratio in the second quarter and what about the DNR[ph] is it related to that, what about the growth? What should we expect for the future? So if we combine all the initiatives, should we expect an improvement in loss ratio in the next six months?

Could you give us some more color on that?

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

Hi, Rafael. Good morning, how are you? Two things to say. First of all, I think that the understanding of the first six months is better than the quarter alone, so quarters are more volatile and sometimes we are caught by surprise because of one quarter or another, but the six months provides us more stability, especially because it takes a close cycle. So the third and fourth quartiles of our adjustment cycles last year.

So, it gives us a good perception of what effectively happened to loss ratio considering the improvement of 200 bps. So, the adjustment cycle that has started in May and that will go on until May or July next year, it's also a result of strong medical inflation. If the medical inflation go down, there is some excess. If there's not -- and we're only going to find in the future. What is important for us to learn from here the underwriting policy is still being done very consistently, not just in terms of pricing, in terms of the adjustment cycle that we have in the future, but also in terms of pricing of the new contracts we are selling and underwriting management in our portfolio.

For example, last year we launched a new dental portfolio and now a new dental portfolio seems to be much better suited to the market with a much better performance in the cycle. We also launched some affinity products that seems to be better suited.

Now we have launched a new home portfolio of health, not dental last year, and this portfolio is better suited in terms of reimbursement and loss ratio and we also launched about two or three months ago a new dental portfolio that is showing to be very effective in sales. So this composition of -- pay attention to adjustments and underwriting, I am not seeing underwriting, just as price, but product prices in markets gives us a good idea of what we did in the six months. In parallel, we have the claims management both in health.

Q - Rafael Frade {BIO 16621076 <GO>}

An additional question related to the growth on your member basis, it really -- we had a growth in the corporate, number of members despite of the scenario and as Gabriel said, it depends very much on the profile of customers.

So we're seeing this mix taking place in our country. And Sul America as a more premium type of product would suffer lesser downgrading because of unemployment. Just -- the only thing I would like to understand in terms of the number of members, in terms of the maintenance of the portfolio, has an effect of this (inaudible) plus sales, could you give us the vision of what changed in this portfolio or whether there were any changes or what remain the same?

A - Arthur Farme d Amoed Neto {BIO 1845065 <GO>}

Well, I think it's underwriting again. The products are very compliant, we are see lots of entry ways for us to sell our products in the right way. We are doing it in a very conservative way focusing on the long term and we're surprised well, right at the entry point they are more likely to stay for a long time. As Gabriel said, we have not yet seen the whole effect of the economy as a whole. We have seen the same movement we saw in the second half of last year. So, it might be our portfolio mix and it might be protecting us slightly more. So, let's wait and see, but so far, so good.

Q - Rafael Frade {BIO 16621076 <GO>}

Okay. You've also in the -- just one more question more general for Sul America as a whole. In terms of profitability in the last 12 months, you've reached ROE of 16%, in the past, the company was comfortable working at 15%.

But, we have several questions, but meaning that, it will be a second price adjustment period. And since -- if the benefits are maintained in terms of cost reduction and health, you would see reasonable to think that the company would deliver more than 15% or maybe 17%, 18% profitability for the future? Is that reasonable or are you going to re-invest in the company? What you think about profitability?

A - Arthur Farme d Amoed Neto {BIO 1845065 <GO>}

Rafael, good morning. This is Arthur. I think it's a good morning you made. We've been investing for some time now. There's no mystery, this quarter actually reviews the positive combination of operations and financial results or financial income. In operations, as you were talking with, to Mauricio about health and he -- it was -- it has been a very good result actually in the quarter and semester, automobile insurance also performed well, and we have more than 90% of our premium revenue from -- coming from these portfolios, which contributed to margin.

We've -- the operating cost and the quality of their operation has led to this level of return that you see there. We have produced the ROAE that's better or return on investment better every quarter, is the purpose of the company. So, we're choosing portfolios and pricing policies that are focused on providing more profitable operations for Sul America.

Q - Rafael Frade {BIO 16621076 <GO>}

Thank you, Arthur.

Operator

Excuse me. Our next question comes from Credit Suisse.

Q - Unidentified Participant

Good morning. I would like to first congratulate you for the impressive result and improvement in loss ratio and reduction of operating cost. Go ahead. You are now getting out the benefit from your efforts in the last 12 months, especially. My question is more like a follow-up on some issues raised by Frade [ph]. As for the expansion or the growth of the customer base in a challenging scenario, do you -- can you say how much of the potential beneficiaries have been dismissed from the company and have renewed their policies with you as a, let's say, a benefit that they remain with their health plans for let's say, six months or so.

Would we have maybe a delayed effect of dismissals in the first six months that would come in the next six months. Can you identify that or maybe it hasn't had, that was not the case for you. Could you comment on that please?

A - Mauricio Lopes {BIO 20668973 <GO>}

Victor [ph], this is Mauricio speaking. Thank you for your question. What -- we try to implement a strategy to go through the crisis is to have a very complete portfolio as what we believe is a good portfolio. So our affinity portfolio is well calibrated, small SME also. The movement, the natural movements that are happening in the market are not natural because of unemployment. We have the waiting period and since the waiting periods are used, it's either for one customer who leaves the portfolio to enter another one.

And we don't control in detail who goes to what -- in what direction, but what we noted that we have a positive growth or gain in almost every portfolio. So despite having an economy that is not performing as well as we are, the growth, we have a growth in portfolios of the company. It is related, but also newcomers, also new members.

This good management is present in here because we have a good distribution network and we have a very -- our products are competitive in terms of prices. This shows the growth in our portfolio regardless of the economic slowdown. So far as Rafael said, these movements have not been relevant, people leaving plans and although they are significant we have a complete portfolio so that we can absorb these new people who left. The plans they enter, they join new plans within Sul America.

Q - Unidentified Participant

Okay, thank you. Another question, with regards to the, maybe it's for Arthur this question, with regards to the increase in taxes from now on, what is your analysis, in-house discussions in terms of insurance operator, insurance carriers so much in terms of tax load, tax burden, have you made analysis regarding that? Does that make sense to consider that or not? If you could tell me more about that aspect? Thank you.

A - Arthur Farme d Amoed Neto {BIO 1845065 <GO>}

Victor, this is Arthur speaking. It is a complex topic, because, actually, we have to wait and see whether this ruling would be implemented as it is now, impact will start in September, in which the total contribution, tax rate will increase. That's what you're talking about. We cannot yet affirm that one model or the other will offset this impact, it will be premature to comment on this now. The company is studying this possibility as well as several others, but this is a worrisome topic, because it would have a large impact on the operations of companies that must comply with this tax increase.

We are discussing this both in terms of institution as well as in operation. So far, this is what I can tell you right now about this topic.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Our next question comes from Domingos Falavina from JPMorgan.

Q - Domingos Falavina {BIO 16313407 <GO>}

Good morning, everyone. Thank you for this opportunity to ask a question. I would like to better understand the dynamic of cost and loss ratio in health, a bit along Frade's question.

We had a major -- a significant improvement, when we look at the quarter, is there any non-recurring event that we should consider? If you could share for example, how much of this improvement in loss ratio or in fact that expenses have not grown as much as revenue, the 4 percentage points, how much would that would come from -- and decrease in the usage of the plan, so less frequent use. How much is coming from increase in prices? So that we would understand whether this improvement will be -- will be -- come again or not.

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

Okay. There is no non-recurring event in the loss ratios. It's totally standard process, I mean just plain vanilla as you may imagine. Usually looking at the semester figures, it's better than quarter figures. There is no major impact, I think, it's derived from the statutory [ph] which implement a good underwriting policy, both maintaining customers in-house as well as for new customers, of course, it's not everything we would like to have, but newcomers are coming, new customers are coming with a -- at a good pricing.

So this is the first aspect. Also the price adjustment policy adopted two years ago has proved to be a winning policy, we are able to retain customers. We know it's always difficult to ask for high price adjustments. In this economic scenario, we try not to ask as much as possible, but clients understand and are with us in this, so although we see a growth in medical inflation as it happens worldwide, we understand that the actions to manage claims and costs in health will bear fruit later on.

We now are purchasing products directly again, so transposition and direct purchases, second opinion from physicians, everything contributes to good results.

When you look at the medical inflation from the past and you adjust with loss ratios, may be an upsize from that, that maybe what we're seeing. So, a good underwriting policy and we're able to deliver the claims management result, which everything adds to what you see.

If it will remain for the future, we don't know we don't give any guidance, but we're trying to comply with this mature process for underwriting and at last in claims management.

Q - Domingos Falavina {BIO 16313407 <GO>}

Another question I have more qualitative, when you look at the health insurance market, an assumption is that any decrease in the economic scenario, slowdown in the economy with unemployment would decrease these insurances as well. We think about the deterioration in the economy would increase the higher demand for premium segment, which would be a better scenario for renegotiating plans for you that -- because Sul America is a provider of such premium plan. I don't know how you would renegotiate that, but do you see any type of flexibility in this area that would lead to a more reasonable price adjustments in the future?

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

Well, the two theories are good, both to think that you would have a higher frequency of utilizations because of higher unemployment, and also a better bargaining power with our providers. Interesting to note, however is that in terms of the increase in churning, we haven't been able to see it yet, while it's good in theory, but we can't yet see an increase in churning in a significant way in our portfolio. Once we will be able to see it, we might be able to see an increasing frequency as a result of that.

So, we have much higher frequency and claim control to increase what we had in the two (inaudible) crises. Remember what was going on in a market was much smaller than today. Today, much of the practices that we started thinking back then and started being imported slightly afterwards, has become a reality in which we can think that the market will go back.

Such as for example, growth of division, second opinion, direct procurement and other strategies that have been developed more recently and not as in a homogeneous manner throughout the market, and all the actions that we are taking on together, many insurance companies that may bring results in the future.

However, the belief we had that we negotiate and we have quite mature negotiations with the major players, because of Sul America's size. And I think that the time we are at now is much more related to building towards construction than towards our position.

So we have a much more matured relationship with all the major players in our chain. But, having better businesses, goes toward of having more synergies rather than having more rivalry, so to speak.

And I am glad to say that for the past one or two years, we've been able to start much more productive conversations with a win-win policy between all players in the market. In adverse scenario, of course, the bargaining power may deteriorate in one-end or another end and that is a possibility. However when we talk about the leading areas of claim generation, I think we have a much less conflictive or much less aggressive relationship and more towards synergy. Now, when we think about medical inflation and the use, the driver is not today, the driver for us has been to increase the payments to small doctor's offices and understand that they are all partners and we've been working intensely towards that, with major adjustments in terms of medical fees and the price for appointments.

We think that this will lead us to a more sustainable market in the long term. So, it's a good theory, but I don't think we are seeing changes in bargaining powers, but we're more headed towards building synergies between all players.

Q - Domingos Falavina {BIO 16313407 <GO>}

Thank you very much for your answer, Mauricio.

Operator

Excuse me. Our next question comes from the Mr. Francisco Kops from Safra Bank.

Q - Francisco Kops {BIO 17215088 <GO>}

Good morning, everyone. I have two questions. One is still about health, I would like to have more color on competition. Sul America has implemented quite strong adjustments, recently you're planning another significant adjustment in 2015 and you've been able to keep the number of lines that are quite satisfactory level and we are seeing some health carriers on the other end with some problems in capitals and we know there a convergence line between ANS and skill sets requirements in the future.

It seems to me and I'm not sure whether this has an impact in your improvement in the past three quarters, but it looks like to me that the health insurers are supposed to help operators, have sort of a competitive advantage. Has anything changed in the competition scenario? Could you give us more color about that, what you're seeing in the year and also towards the future? And then I'll have a second question.

A - Mauricio Lopes {BIO 20668973 <GO>}

Hi, Francisco. This is Mauricio, hi. In answering your question, the two things, well, the competition scenario in the health market is as difficult as it has been, it's very challenging, there is a lot of pressure for a long time, there are many carriers undergoing difficulty. This is public, everyone knows about that and there haven't been a year since '04 '05 that we didn't have a pressure for some of the players. Most significantly players that have less capital, less reserves and they have more difficulties in complying with the solvency rules that are in (technical difficulty) insurance companies are slightly better. In terms, the vision that I have here is that, we have solved that pressure of medical inflation and a margin limitation or reduction that we've been seeing over the past few years.

We used to understand that there is -- we need to have responsible underwriting and most notably, or in the past two cycles, 2013 and 2014 are showing to be much more rational and this provides much more stability to the market. So, I think, the competition scenario hasn't changed significantly, what changes the mindset of the players that have finally understood that there was a lot of pressure on the bottom-line as a market.

We needed to find way to find some type of profitability for the sustainability of the market and I think that's what players did in different ways, in different formats, Sul America would claim limitation actions in health management and a very critical look towards underwriting for at least one year and a half, Sul America does not have as its main focus. The volume, of course, the volumes of business that we closed, we are no longer fighting for market share. We are fighting for results, we are fighting for a sustainable operation.

And I think that the market finally understood that this is a good driver to follow.

Q - Francisco Kops {BIO 17215088 <GO>}

Well, thank you very much, Mauricio. And if you allow me to ask a second question, this is more addressed to Arthur. Well, over the past three years, and this is a slightly more clear now, we see that the growth in health premiums is much more related to price adjustments than to the number of members. And if we look at the DA [ph] index, your admin expenses, it's been going down and this is good. But my perception is that, it could drop even further, because you have almost the same number of members or a very similar number and a much higher price.

So, Sul America's structure should increase less than it's been, then the revenues had been increasing. I might not know so much about what its fixed cost and what's variable costs is Sul America, but wouldn't you have an opportunity there to have an even further or greater improvement of your expenses or costs?

A - Arthur Farme d Amoed Neto {BIO 1845065 <GO>}

Well. Francisco, this is Arthur answering your question. We agree with you, with your perception that there is room to improve our admin expenses. The operation, we have scale, we have capacity of continuing to grow against the salary base we have. It's important to note is that, insurance is very IT intensive and if more intensive we are, more productive we will be. In the last two years, we have been investing in increasing and improving, upgrading our IT structure, especially for brokers and to have a better service for brokers and customers.

And this -- you have seen the results in our indicators. As for premium, we have had important gain in this area. Of course, in order to find the right balance between investment in operation, in improvement of operational procedures, everything will result in gain in this pressure. But, it's important to bear in mind that investments in this area are key and essential to support the style of operation that the company has at the growth rate we have.

Q - Francisco Kops {BIO 17215088 <GO>}

Okay. Thank you, Arthur. That was very clear.

Operator

The next question comes from Macedo [ph] from Goldman Sachs.

Q - Unidentified Participant

Good morning. First question is related to auto insurance. We haven't discussed that much. I would like to hear from you, how you see the pricing scenario, whether it continues healthy in the future and if there has been any pressure in new insurance contracts in this quarter. And if that has contributed to growth or whether that is only due to an increase in the fleet and our underwriting policy? Thank you.

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

This is Gabriel. First of all to (inaudible) of automobiles, it's his first call, so, he really wants to answer your question.

A - Unidentified Speaker

Thank you for your question. I will start, as the CEO has said, today my first -- it has been a two-fold, it's the growth or in premiums and also in the fleet. The organic growth of number of items is important as well as the average premium, which reflects our effort and discipline in pricing and underwriting, which we have imposed to our portfolio. This pricing policy has been a good one and that has to do not only with, to what we do, but we also pay attention to the market practices. At least this year, we don't have price war in the market, but even so, you know Sul America, we would not have entered this price war.

And since this price war has not happened, we are able to -- we're benefiting more from this situation and therefore, we have a greater increase in premiums. I believe I have answered your question.

Q - Unidentified Participant

Just a quick follow up. Okay, as you mentioned, we still haven't had much pressure so far, but in terms of the market as a whole, I would like to hear from you, how do you see this from now on? Do you think that this policy is sustainable? If the loss ratio is improving for the industry as a whole, we had several benefits, the new (inaudible) law and losses are still high, so how do you see the cycle?

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

We don't see any sign showing that this will change. Of course, we can't speak for the future or for our competitors. There are some actions that are happening in loss ratios such as the (inaudible) but it seems to me that this high interest rate cycle is not as high or capable of paying for severe increase in claims.

And since we are worried about the future, for example, the frequency of theft and what's indexed by exchange rate, I think the market is more conservative right now and looking only at interest rates now maybe dangerous because any price decrease now because of interest would -- we have its effects in the future.

For example, frequency of theft, which is a variable, we are not able to identify for the future given the macroeconomic scenario of slowdown in the economy, it'll be very dangerous to foresee that right now.

Q - Unidentified Participant

Thank you. The second question, I would like a follow-up on how -- when you talk about the improvement of loss ratio, you mentioned the underwriting policies, prices and new volumes, as well as on assets or rather in health management policy, what do you think is giving the greatest contribution to this improvement of loss ratio in health? Would that be the health management or a more efficient pricing policy?

A - Mauricio Lopes {BIO 20668973 <GO>}

Marcedo, this is Mauricio speaking. Thank you for your question. It's the whole thing. It's, the discipline in underwriting is key. Without that, there is no sustainability in the policy. Claims management, we have effective results in the short term and health management is more of a long-term gain. So, it's the everything. It's not a one single thing separately.

Q - Unidentified Participant

Okay, so it would be a structural improvement you would say given health management? I understand that these policies are more of a long-term, but you think that these changes are now more structural?

A - Mauricio Lopes {BIO 20668973 <GO>}

Yes. Every project that Sul America has improved, has invested on in addition to regulatory ones are in order to provide a better structure. We are not investing in short-term projects, but long-term project. And the loss ratio is the ratio between payments and losses.

So of course, there is a second part, it is pricing underwriting new sales, new areas we enter, new products. So the whole thing is being adjusted in recent years to try to have a profitable operation. I can't separate one item and say, this is the silver bullet item. We haven't, we don't have that answer.

There is no silver bullet as Rafael said, as Rafael asked in the beginning. Only when you get a bit far away from, to see the overall picture, you can understand it. You can't just pinpoint one item to say that this is responsible for everything.

Q - Unidentified Participant

Okay, thank you.

Operator

Our next question comes from Mr. Gustavo Lobo from BTG Pactual.

Q - Gustavo Lobo {BIO 18719996 <GO>}

Hi, good morning. I think most of my questions has already been answered, but I still have two questions to ask. First of all, you have had a very strong performance. Thinking when you're back, when you price this cycle based on the past four quarters, were you targeting an improvement in loss ratio more or less like this, and looking to the future, are you still pricing aiming at an improvement in loss ratio or using the level that we have had in the past four quarters and this level, you are okay with working with that? So that to keep this level of that was very, very strong most recently? And then I have a question about motor insurance. Thank you.

A - Arthur Farme d Amoed Neto {BIO 1845065 <GO>}

Lobo, this is Arthur, well, what you see is interesting. Actually this dynamic is something that you were constantly pointing or thinking about your future. As you've observed the movement of 2014, is reflecting in our improvement in 2015, and all our marbling myself, Mauricio, (inaudible) and Marcelo, all our business units, we are always looking into the future. The company as I said in the beginning has a global profitability objectives that is going to arise from our operations.

So the profitability assumptions that are incorporated in the pricing models, of the units will have a reflection in our future performance and they have an impact in Sul America's global profitability.

Q - Gustavo Lobo {BIO 18719996 <GO>}

Thank you. Now about motor insurance. About motor insurance, my question about pricing, it doesn't seem that we are having a very serious price war, it doesn't look like it started. The market is quite rational and the players are making money.

So the scenario is favorable for everyone. What we wonder is that will this drop in the cost of claims because of the drop in robbery in fact will be -- will it be ever transferred to prices. I am not talking about anything too aggressive to gain market share. But will customers benefit from a scenario that now is less risky for insurance companies considering that there are fewer cars being stolen?

A - Unidentified Speaker

Gustavo, this is Azevedo [ph]. Well, thefts of course is not the only reason for our claims. So today's thefts accounts for 30% to 35% of everything that we spend with claims. So thefts by itself would not account for any radical change in pricing. Occasionally in some region here or there that there was a more significant benefit in the reduction of that, that would apply.

Once we design our pricing strategies then we see reductions in robbery and thefts or in the cost of cars frequency is in general. I cannot look at the frequency that is going down immediately lower prices because today, building the price is in a performance of next year. So I cannot include in my projections all the reduction whatever the variable immediately afterwards and not even in for.

So I don't think that neither us nor any competitor will look just into this variable, just one variable, whatever variable and choose to implement a price reduction to win market share.

And also because the new environment in the automobile market is very competitive as you were accurately mentioning. So any strategy that we design with that aim will be looked and analyzed by the other competitors. So, I don't see that happening.

Q - Gustavo Lobo {BIO 18719996 <GO>}

Thank you very much.

Operator

Excuse me, we are now closing our Q&A session. I would like to turn the conference over to Mr. Gabriel Portella for his closing remarks.

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

Good morning, everyone for your attendance to our conference call and once again I would like to thank the engagement of our team of employees, the confidence, dedication and trust of our business partners and brokers that have contributed to our excellent quarter. Thank you all very much and have a good day.

Operator

The conference call of Sul America has now ended. We thank you very much for your participation. And have a good day. Thank you very much.