

Y 2020 Earnings Call

Company Participants

- Marcio Hamilton Ferreira, Chief Executive Officer
- Rafael Augusto Sperendio, Chief Financial Officer

Other Participants

- Domingos Falavina
- Gustavo Schroden
- Mariana Taddeo
- Otavio Tanganelli

Presentation

Operator

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

The presentation is available in the financial information presentation section of the BB Seguridade's IR 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 the management's current expectations and do not guarantee future performance since these projections involve risks and uncertainties that could extrapolate the control of the management. For further information on the statements of the company, please check on the MD&A.

With us today, we have Mr.Marcio Hamilton, CEO; and Mr.Rafael Sperendio, CFO and IRO of BB Seguridade.

Now, I would like to give the floor to Mr.Marcio Hamilton. Mr.Hamilton, you may start, please. You have the floor.

Marcio Hamilton Ferreira {BIO 16484816 <GO>}

Good morning, everyone. Thank you very much for being with us in this conference call for the Q4 2020. I am going to start with the highlights and then I'm going to give the floor to Rafael. I think that the most important is that BB Seguridade demonstrated

FINAL

Bloomberg Transcript

FINAL

resilience in its results, considering a quite challenging and adverse scenario. And today we have BRL3.9 billion in accumulated results and the growth in terms of insurance in 2020 was 14.8% 2020 versus 2019 and a strong recovery of the pension market along the second half of 2020, in spite of all volatility in the market as a whole during the year and all the uncertainties regarding everything that happened.

And now, I'm going to go over the presentation and we are going to start on the first slide, where you can see a few indicators that are the most relevant for our performance. And we want to focus on the highlights. First of all, as I had said before, in our third quarter, we have a very strong focus on operational results. So we are totally focused on that -- on operating results of all our companies. So, we have 7.5% comparing 2020 to 2019 in terms of operating result. And if we compare Q4 '20 versus Q4 '19, we have an increase of 7%, which really demonstrates the resilience of our businesses in spite of the crisis in the market. Total insurance premiums written if we compare 2020 to 2019, we have a growth of 14.8% and 21.5% comparing Q4 '20 to Q4 '19. Credit life, we had an increase of 64%, rural 19% and term life 7%.

In the pension market, we had a strong performance with 11.7% comparing Q4 '20 versus Q4 '19, and this has been the best fourth quarter since 2016 and the second best fourth quarter ever in the history of the company for pension segment. Now if we compare year-on-year, we were negative by 2.4% and we had -- we closed the year with minus 2.4% comparing 2020 to 2019 and this was driven by our results of the fourth quarter.

In terms of administrative expenses, we had a very strong loss ratio in all our businesses. So so the combined administrative expenses of BB Seguridade affiliate companies and its investees increased below inflation. So it is an increase of 2% comparing 2020 to 2019. In terms of dividends, the payout of 70% in 2020, which is also significant considering everything that happened during the year.

Now I'll give the conference over to Rafael for him to continue focusing more on the numbers and our financial performance and then we will be available for the Q&A session.

Rafael Augusto Sperendio {BIO 18963159 <GO>}

Thank you very much, Marcio. Good morning, everyone. So starting on Page 3. We have a brief retrospective of the main deliverables of 2020. In Q1, our strategy was to have an open platform of third-party managed funds for our pension plans especially, so we reached in 2020 BRL6.7[ph] billion with our open platform. In Q2, we had the launch of the new life insurance that we called Insurance for Life. That was completely redesigned with more focus on making the benefits of the product tangible during life and we also focused more on the customers who are buying, on the persons who are selling it, too. So with this launch of this new life insurance, we extended our sales through the digital channels. So we had an increase of 3.4 percent points as compared to the previous portfolio in terms of share and we had BRL353 million in premiums written.

FINAL

In the third quarter, we had livestock insurance distributed in 10 Brazilian states and more than 3,400 BB branches. And this was related to the National Program of Family Farming and this was a segment that was not met or covered by other types of insurance, so we expanded it. So in terms of crop insurance started to be sold to these audience with BRL60 million in premiums written. And in terms of premium bonds, we adapted our products, increasing the duration on the portfolio. So in the last two years, we started our strategy of having longer and longer products in our portfolio to be able to take advantage from the lower interest rates environment. In Q4, we have a new credit life insurance that was launched in October with BRL380 million in premiums, and this was very important for us.

In terms of pension plans in Q4, we had the launch of Brasilprev portfolio with BRL234 million and new investment funds with higher value-added. The customers can choose the risk profile and the portfolio can be adapted to the features of the customer. Always trying to maximize value to customers. And we adapted automatically without the customer needing to do much depending on the macroeconomic scenario. We also launched new funds with higher value-added, especially variable income in December. These were the main initiatives that we delivered during 2020 and they are related to products.

In terms of diversification of channels, what is important to note is that starting in 2019 and especially during 2020 (Technical Difficulty) we started selling rural insurance to non financed areas. We had BRL163 million in premiums written, so this was important for our portfolio, 10% of our crop insurance sold in 2020. Pension plans outside the bancassurance channel, a growth of 75% as compared to 2019. And lastly, we had our digital expansion, which is something that we emphasize a lot. We placed lots of focus on that. And we placed great focus on the distribution through digital channel. And in 2020, the share of sales in digital channel reached 12%, an increase of 14.3% as compared to 2019 and we had the implementation of new techniques, user experience, journey, and other things. We had 42% of the journeys with a high level of digitalization. So we are using best practices that add value and so this made it possible for us to have 42% of the total.

On Page 4, we have a few details of our work in terms of sustainability. So it's important to emphasize that BB Seguridade and the main focus since the IPO was on governance, and this is only natural. So one of them is our adherence, so we joined the Novo Mercado in Brazil, the new market, we built a statutory committee that was appointed by the Board of Directors, all of this seeking to strengthen the company in terms of governance. And even though we are a young company, our business model has a natural call for sustainability. Our intention for quiet or peaceful retirement for our members. In terms of attracting new customers, those that are attracted because of the lottery, convinced them to have savings and insurance, especially. We offer protection to our customers and to their families. So in 2020, our claims with the COVID added totaled BRL173 million, it was related to the families of customers that might have had the disease.

And then damages paid to farmers, which assures the sustainability of our business which is so important. And then the damage is paid to farmers that was somehow affected by climate events totaled BRL1.6 billion. And with all of that, we have been intensifying even

FINAL

further our work on the environmental and social pillars of our strategy. So in terms of environment, we had the assessment of environmental risk in the underwriting of crop insurance, considering georeferencing data of the rural environmental registry. So we also have reforestation insurance and assistance for smart disposal in home insurance. Brasilprev's investment and policy aligned with the global principles of responsible investment also operating in the total portfolio in ESG. And within the scope of our sustainability agenda, we are expanding our initiative of compensation of carbon emissions.

And the main highlights of 2020 in the social area was the donation of BRL40 billion to fight COVID-19 that reached more than 1.3 million people across the country. We also had the donation and invested in projects related to financial education. And in talking about products in 2020, in addition to our premium bonds, we called it Parcela Premível premium bond or awardable share in order to raise funds for charities, such as AACD. And lastly, on our governance peeler, where there's always something to improve but focus has been placed on improving our reports and aligning and integrating our ESG agenda, so we created our ESG forum, focusing on the strategy related to the sustainability of the BB Seguridade holding. So this was with the purpose of consolidating and accelerating our ESG agenda.

Now moving to Page 5. You can see two charts, two different visions to try and show the composition of our net income. You can see the breakdown. So on the first image on the left, you can see the mismatch or the lag between our traditional plans in Brasilprev. So this is the effect. It does not have any economic impact on the company. So, this effect is down to zero. So separating any effect of this lag between IGP-M and adjusted income, we had a drop of 19% and if we excluded that, we would have had an increase of 7% that you can see on the yellow line. So the yellow number shows the adjusted net income excluding the impact of this one-month lag in the IGP-M. So, if we did that, we would have had a high of 7%. And also in 2020 in the year as a whole, we would have had a reduction of 5% rather than 10%, in terms of the recurring result if we segregate the effect of this lag. And we have BRL3.979 billion of adjusted net income.

On the right hand side, you can see the comparison or comparing comparable structures. So we eliminate not just the time lag of the IGP-M but we are also taking out from the net income the effect so that it can be compared to the comparable basis. So here we are segregating the IRB equity income, so as in this year, we do not have IRB in the composition of our portfolio. So, we should have a comparison excluding that effect to understand how the results evolved in 2020 to make its basis comparable to 2019. Moreover, the proceeds that we had by selling our share in IRB in the mid last year, they were retained in the cash and then earlier this year because of regulation issues, we could not distribute those proceeds in 2019, but we did it earlier this year.

Apart from that, we have had a reduction in capital, which was also paid out in early 2020. And also because of regulation issues, we could not pay it back to shareholders. And then -- the cash and they are not making the cash profitable in 2020 and our cash in 2020 and we have the average selic rate in 2020. So you can see if we segregate the effects and then we show the results on comparable basis, the difference would be just 1.3%. If we

FINAL

take out the IRB, it would be a drop of 1% only in a very, very difficult year during the pandemic with low interest rates. So this demonstrates that our results are very robust.

Now moving to Page 6. You can see the breakdown of our operating results versus the net investment income. In terms of the net investment income and you can see on the first chart the consolidated operating result so that you can see all the components. If we add up by period, we just segregate the effect of taxes, so we have the operating result on the left, so free from tax. And as Marcio said in the beginning of the presentation, we had 7.5% before tax. If we compare year-on-year Q4, we had an increase of 14% and the main highlights in 2020 were obviously the most direct effect was related to an excellent commercial performance in insurance environment. And also we had admin expenses in the new companies that we have in our portfolio and we have administrative expenses combined grew only 2%, so this is well below the inflation in the period.

So the commercial performance added to the reduction in admin expenses contributed to this operating result. And I always emphasize and as we always emphasize, our focus is on operating results. And then as you can see on the right hand side chart, we have had the drop in the -- of 82% in the consolidated investment income 2020 vis-a-vis 2019, and we had only 4.1%. So we are practically on the floor of the investment income and its share in our net income and it is the lowest values. So in Q4, year-on-year, we were down by BRL29 million and there was a significant impact of the high of IGP-M towards the end of the year in December which ended up having an impact in the liabilities. So this is the negative investment income result, so all companies have had that type of performance because of a lower interest rate compensated by a positive marking to market on the average.

Bloomberg Transcript

Now talking about each business and our main lines on Page 7. You can see our Insurance business in terms of premiums written, we had a growth of 21% year-on-year comparing quarter results and a growth of 15% comparing the whole year and this is related to what we published before the pandemic. And in that interval, when we published and hadn't we had the COVID, we would have had different operational results. And in terms of written premiums would have exceeded, so we delivered 15% growth. The main highlight was credit life in Q4 '19. In the beginning of the presentation, I mentioned it. So we had a reduction of cancellation in Q4 year-on-year. And rural was also a highlight on a year and on a quarter 2 with 19.3%. If we take the year as a whole, we had credit life with 22% and rural with 22.9%, and life, we have 5.2% and these were the main drivers for 2020.

Now talking about the operational indicators on Page 8. In Q4, we had -- you can see the loss ratio and the main factors leading to a high loss ratio if you compare year-on-year was obviously the impact related to COVID-19 pandemic. And this is related to products with life coverage. And in addition, we also had an effect in crop insurance because of climate events. If we take the year as a whole in loss ratio, there was a high of 20.7% and here the main driver for that high were claims related to COVID somehow. Otherwise, we would have a drop of 60 basis points.

Commissions, there was a reduction in the Q4 year-on-year. And then you can see our performance -- because of the performance of life insurance that was inferior. And here it's always good to remember that in 2020, there was a change in the model. And it used

to focus before until 2019 on credit life and term life. And in 2020, we changed it. So we stopped having the life insurance for farmers, but we started having the credit life for farmers. So this had a lower performance and also a reduction in commissions. So we repeated the analysis of 2020 as a whole, so if we see 2020 as a whole, if you see traditional life and credit life leading to a performance that we had in 2019 of BRL472 million performance gain vis-a-vis 20% year-on-year and for this reason, we had 0.7 percentage points.

In terms of G&A, we had a reduction year-on-year in Q4, and this is related to advertising and the funds for overall insurance, and we had a drop of 0.9% in terms also driven related to fewer expenses related to rural insurance and the expenses related to other factors that contributed to a reduction of G&A in 2020. And these are the elements that are reflected in the combined ratio, so this reduction in commissions in Q4 has contributed to improve the combined ratio also related to better G&A in the year it has had an increase.

In terms of the net investment income, it was impacted by the Selic or our basic interest rate in Brazil with a drop of 10% year-on-year. And in spite of this improvement in the fourth quarter of 48% quarter-on-quarter. And so we had a higher adjusted net income in Q4 2020. And if we take 2020 as a whole, you can see that reduction in admin expenses combined with increase in earned premiums, it offsets the drop of 27% in investment income thus contributing for the 2% increase in the year for the adjusted net income.

On the next slide, you can see our pension business and the main drivers. So in terms of contributions, we have had the best fourth quarter ever, and additionally, we had the second best month of inflow. And in this manner collection grew 12% year-on-year. For the year, we had a good performance because of the pandemic in a second quarter especially and this explains the drop in collection in 2020. In terms of net inflow, we have had a drop of 13% year-on-year in the fourth quarter driven by the redemption rate, which is explained by the volatility in the market and especially fixed incomes and most notably in October. And for the year as a whole. Inflows reflect this reduction of 2% in collections and this is explained by the volatility and related to the fixed income market, especially towards the end of the first half of the year.

And if we compare to 2019, we had a historical high of redemptions. It was the highest ever for Brasilprev. So pension reserves have grown 6% in the last 12 months. We have BRL308 billion with a strong campaign in October to bring our customers to our base, especially with the Brasilprev plan. And in 2020, we brought in 136,000 new customers to Brasilprev customer base. As to the main source of revenue for the company, we had a good performance with an increase of 1 basis point on the average rate in the year. We had an increase with a reduction of 0.2% or rather 2 basis points -- or 2 percent points in the average rate.

Within this context, I need to reinforce the whole strategy that we have in terms of working of our portfolio and in terms of managing risk and other work we've been doing with customers. And our collection or revenue from the market has grown 28% in 2020. And the share in this type of investment as in the whole of our assets under management has increased. In this manner, in addition to these points regarding revenue, we have also

FINAL

had a good performance in terms of expenses, so we had a better performance to 0.4 percentage points in the fourth -- for the year. And on the other hand, the net investment income shows the results of Brasilprev, we have a financial result of BRL298 million in Q4 '19. And because of this rise of 23% of the IGP-M during the year as a whole, we had a net investment income that is negative by BRL297 million in Brasilprev for the year, and this is related to the 70% drop of the adjusted net income year-on-year in 2020 -- in the fourth quarter of 2020 and even though the company performed very well operationally.

Now moving to the premium bonds. We had a reduction of 20% year-on-year and on the fourth quarter and 11% taking the year as a whole. And this is very much related to our budget. We were expecting a drop in collection because of a longer portfolio and also the greater emphasis as you can see on the right top right chart. You can see increase of the share of monthly payments out of the total collected. And obviously, we have more products with monthly payment. They are a smaller share of the total as compared to single payment products. And this has an impact in collection. On the other hand, considering that we have a longer portfolio, the company has more freedom for management and can use a larger share of the carrying charge. And this was very important for us to produce the operational result for Brasilcap in 2020.

And the financial results or rather in terms of net investment income, we had an increase of 13% in Q4 year-on-year, especially considering financial incomes, admin fees for the funds. We had a high of 24% in terms of net income, comparing the whole year. And so we had an improvement in the net investment income because of reduction of better financial -- or rather, operational performance. And we had a drop of 24% quarter-on-quarter and a high of 82% year-on-year here talking about the net income.

Bloomberg Transcript

And now on the next slide, if we see the BB Corretora, the Brokerage, this is related to the explanations that I provided in Brasilseg, because of a lower volume and a lower performance in a period. But if we take the year as a whole, we had an increase of 6% in brokerage revenues. If we compare the whole year 2020 to 2019, but we have had new insurance products that were sold, especially rural insurance. The net margin has dropped 1.4 percent points in the fourth quarter year-on-year, 0.8% for the whole year which is totally related to a reduction of the average rate, because the financial funds are related to T&F. And that's why we had a reductions in the net margin. If we compare the quarter year-on-year or the whole year and this also explains the lower growth in our adjusted net income or growing less than revenues because of the impact of the net investment income.

And then on Page 12, you can see our guidance for 2021. So we decided to use the same indicators for our guidance as we used in 2020. These are indicators that truly reflect the company's capacity to generate results. The first indicator is our main objective is the adjusted non-interest operating result ex holdings because they are residual. And we consider the variation of our operating result for all operations either in underwriting, in the management of assets and distribution. So we are expecting a growth between 8% and 13% for 2021. We should remind you that we are coming from a growth of 13% in 2019 and 7.5% in 2020. And for 2021, our estimate is to grow between 8% and 13% on top of our previous growth.

Premiums written for Brasilseg, we have an estimate of growing between 7% and 12% in 2021. And the reserves of pension plans we're estimating that we will grow from 4 -- between 4% and 7%. And these are the main indicators that we monitor and that we manage and we wanted to share with the market.

And then on Page 13, we highlight our top four priorities for 2021, which is focus on customer experience and the growth of operating results which is emphasized by our economic guidance, new channels and the expansion of our digital footprint. And here are the main -- five main highlights. So insurance, we are going to continue the diversification of our portfolio with new business solutions and features with emphasis on life and P&C insurance including the corporate segment. Here in terms of pension, we want to consolidate our portfolio and a movement still strong and very intense towards reallocating funds in multimarket funds and also a concomitant movement towards open platforms.

In terms of new channels, we have the expansion of alternative channels, initially emphasized on rural and pension plan segments, prioritizing digital solutions and new customers. In terms of digital transformation, we want to continue the technological modernization and the development of new business models, focusing on higher operational flexibility, agility and launch of new products, and of course, connectivity to new channels and partners. And in terms of customer experience, we wanted to increase the use of analytics embedded in products, services and processes, always seeking to improve customer experience and operational efficiency as a whole.

So in this manner, I conclude my presentation and we can move to our questions-and-answers session.

Questions And Answers

Operator

(Question And Answer)

Very well. Ladies and gentlemen, we are now going to begin the questions and answer session. (Operator Instructions) And now our first question is from Otavio Tanganelli from Credit Suisse. Otavio, you may ask your question.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Hello. Good morning. I have a quick question about the guidance, the operational part is growing 10% -- growing close to 10%, I would like to understand how you think about the financial share? And how this is going to go into the balance sheet, you're going to have less BRL1.2 billion in cash but a higher Selic rate during the year? At the end of the day, can we see the net income growing close to 10%, too?

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

FINAL

Well, Otavio, thank you for your question. As to the financial result, we were very conservative in terms of our estimates, and obviously the information that we had about interest rates and inflation rates at the end of the year, so we obviously consider the average Selic lower than we have to date according to the information published today and the Focus Bulletin by the Central Bank.

Something that is critical for our results is the performance of inflation rates and especially the lag between IGP-M and IPCA, even though our investment income. We don't have a guidance specific for that in our understanding. We may have come to the closest share of the investment income as a share of net income -- of the whole net income. This may be the lowest level ever. And so we compare it to what we had in the past. It's interesting to note, if we are going to keep the guidance of the net income and investment income, so the investment income will be lower than we had in 2020.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

It's clear Rafael. Thank you.

Operator

Well done. Our next question is coming from Domingos from JP Morgan. Good morning, Domingos.

Q - Domingos Falavina {BIO 16313407 <GO>}

Good morning, Sperendio and Marcio. I just have a question regarding the financial result of prev in pension. How would you separate IGP-M and IPCA? Because there was a lag? When we look at things as a whole? I would like to understand a little bit if there's anything in terms of IGP-M and IPCA? And taking on the stability of IPCA and IGP-M, the investment income will be positive again?

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

Thank you for the question Domingos. As to the impact of the investment income in the year as a whole not just at Brasilprev, most of it came from the mismatch or the lag between indexes as a whole. And when we look at located 23% IGP-M against the IPCA, and these different numbers, it really affected and hurt our performance as a whole.

And I can't remember it. I just remember the rough numbers according to what we have published. And in the Page 5 of the presentation, it would be something like BRL230 million the impact for this time specific lag in Brasilprev, without considering our share and the remaining was related to other factors. And the highest lag or mismatch between these two indexes in the history of Brasilprev.

Obviously, the investment income will become positive again as IGP-M goes back to normal to reasonable levels and closer to IPCA which is the trend and has been the historical trend of these two indexes to converge. So if this result will be positive again or rather investment income will go back to positive. So half of our portfolio is in P&Cs. So it is -- it has a significant share of our portfolio. And it's about the cost of liabilities. And in

Bloomberg Transcript

this manner, we believe as IGP-M goes back to normal and then the net income will be positive again.

Q - Domingos Falavina {BIO 16313407 <GO>}

Very clear your answer. Thank you very much.

Operator

Okay, we have another question here from Mariana Taddeo from UBS. Mariana?

Q - Mariana Taddeo {BIO 15009172 <GO>}

Good morning.

A - Marcio Hamilton Ferreira {BIO 16484816 <GO>}

Good morning.

Q - Mariana Taddeo {BIO 15009172 <GO>}

Thank you for the opportunity of asking a question. In the presentation you mentioned, the focus in 2021 on new channels and digital transformation. Could you give us a little bit more detail about the digital channel? What was its share in 2020 of your total sales? And how much can it increase year-on-year? Thank you very much.

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

Mariana, this is Rafael answering your question. And as I said, digital sales accounted for 12% of total sales in 2020, and we want to increase this share obviously in 2021. And if we think of financial products, we have an additional challenge, which is a challenge related to culture. People are not used to manage assets or buy credit products in terms of credit cards. In everything, they're more used to doing that on digital channels, but not so much. People don't really have the habit of buying insurance through digital channels. It's something that people -- it's not the first thought of customers. So people want to assure their pension in retirement and to follow the change in risk profile and income profile of the customer. So, that's why we have been investing heavily in digital channels in user experience and trying to change the behavior of customers, so that they go for the product that fits the best their features.

And we also provide services or relationship with a person through the process of contracting this product. So we want to simplify the portfolio. And so in life, we have three options. So the digital journey has been completely redesigned to make it really clear what is the difference between those three products, so that customers can see there and see what it is the product that fits the best their needs or features. So we are focusing much more on reeducation, customer experience and their changing behavior and culture and wants to facilitate the journey for our customers. So most of our investment is directed towards that.

FINAL

Bloomberg Transcript

FINAL

And when we talk about IT in a broader way and so we have a few investments related to infrastructure, which is the capacity, and something that has really been our focus over the past few years. And we want to expand our work and diversify our channels. And we have been investing heavily on our infrastructure to provide more flexibility and connectivity with our partners. And so we are making major investments.

In terms of CapEx, it is the highest ever for our company to contemplate all the investments related to IT infrastructure connectivity and customer experience. We don't have a target for 2021, our intention obviously is to continue growing, so we already had a growth in 2020 as compared to 2019, but we don't really have a guidance in terms of our target number of our increase for digital channels.

Obviously, this is related to the partnerships that we have. So we have a few partnerships, for the digital channels and in pension we are finalizing a few partnerships to go to other platforms placing our products. And this is related to other platforms and other partners. And the focus of our main OTC is Brazil, but it will complement our strategy of diversifying channels too. And in my understanding, and in trying to answer your question that is very important for us to attract customers, so that to make it easier for them.

So that they can have all their questions answered. So that's why, we are investing heavily on that process. So that they don't join with any questions. So today, 42% of our journey is digital. It's higher than it used to be in the past, we'll continue investing in that so that customers have the best experience possible within a process that will be an evolution in terms of culture and risk management. So that we will be better prepared to provide the best services possible to our customers through the digital channels.

Q - Mariana Taddeo {BIO 15009172 <GO>}

Thank you very much for your answer.

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

Thank you for your question.

Operator

Very well. Then our next question is from Gustavo from Goldman Sachs. Gustavo, good morning.

Q - Gustavo Schroden {BIO 21633251 <GO>}

Good morning. Thank you for the opportunity. I have two questions to ask. The first one is related to the previous one. Of course, the company is going through a process of digital transformation, but it's still only 12% of your sales. So still there is a lot of room to grow, it's still heavily dependent on branches. And usually final sales are done in person by a person face-to-face with a customer. What is the structuring that Banco do Brasil is going to implement in terms of the profile of branches? Could it somehow have an impact, while the digital channel does not have such a high share as you could have? So could you have an impact on your commercial numbers during this transition?

Number two is the payout. What can we expect in terms of payout for 2021? We understand according to Sperendio this can be a better year, financially speaking. What can we expect for 2021 in terms of payout considering that financially, it's going to be better than 2020?

A - Marcio Hamilton Ferreira {BIO 16484816 <GO>}

Thank you very much for your question. This is Marcio. About the restructuring actually in the process that the bank is implementing, it has an impact. So the bank is including another 1,300,000 customers in its portfolio. So there are many new channels providing digital channel or digital services to the customers. And so they also creating 14 branches specialized on new businesses and is a quite robust structure for agricultural insurance or crop insurance. So we have a cultural process, where there should be a cultural change in terms of how Brazilians buy insurance, but this restructuring strengthens the contact and the partnership and we want to make our customer services stronger and we are not going to have a drop because of the restructuring or the changes that the bank is implementing right now.

So, we need to start building a culture with our customers, and so we want to make a transition towards having fully digital products, but people are coming in, they go online, they research, we generate leads, so we are investing to have alternatives to have more channels. So that we may provide unique customer experience in all our channels, but always considering and other movement that the bank is implementing.

So I move to your second question. And even though it might be too early for us to talk about that. We hope that we are not going to decrease it as compared to 2020.

Q - Gustavo Schroden {BIO 21633251 <GO>}

Thank you very much. Your answer was very clear.

A - Marcio Hamilton Ferreira {BIO 16484816 <GO>}

Thank you Gustavo.

Operator

Very well. Next, we are going to have with us Domingos. Domingos, you may ask your question, please.

Q - Domingos Falavina {BIO 16313407 <GO>}

It's just a follow-up on the previous question. And then we have cross-selling. And I would just like to check whether you have the correct understanding. So if you have credit life insurance and life insurance, which are the main types of insurance? Can you get in touch with the customer for whom you already sold one type of insurance to try and sell a different type of insurance? Are you allowed to do that or not?

A - Marcio Hamilton Ferreira {BIO 16484816 <GO>}

Domingos, thank you for your question. In fact the entire relationship with the customer is with Banco do Brasil, but there are a few things that we need to see, the holding or the broker business. So, yes, we can have access to customer information as all of this is done internally. So we have our own model and they are complementary to other models to generate more intelligence. The insurance company in itself has access with the insurance company. And in terms of distribution they have more information. I don't know if I answered your question whether you were -- was clear.

Q - Domingos Falavina {BIO 16313407 <GO>}

You were clear. My question is at the digital part. And so there is a rupture. And in terms of Banco do Brasil and your relationship with it? All the sales that you have on the digital portfolio is related to BB Seguridade. So if I talk about the digital channel cooperative.

Operator

Very well. So we are going to read a question that was asked through the webcast. The first question. What is the company estimate for 2021? What would Kindle's estimates have an impact on the investment income? This is the first question.

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

This is Rafael answering. And so when we prepared our budget for 2021 we used 2.1% without any further sophistications, this is our estimated Selic. So considering Focus Bulletin by the central bank once we prepare the budget. Of course, if in 2021 Selic is different and there may be a positive impact on all our businesses, not just the more direct impact on the investment income but also on pension reserves.

Operator

Our next question comes again from Gustavo from Goldman Sachs. Gustavo?

Q - Gustavo Schrodén {BIO 21633251 <GO>}

Thank you for taking my second question. This is related to the guidance. If we look at the guidance in terms of insurance, it's below what you had for 2020. So are you being conservative? If we assume that there is an expectation that the economy will perform better this year? Why are you expecting premiums to grow below 2020 considering that 2020 was much more challenging than we are expecting 2021 to be, so what are the reasons underlying that number?

A - Marcio Hamilton Ferreira {BIO 16484816 <GO>}

Thank you for your question, Gustavo. As to your reasoning, yes, you're right, 2020 was very -- will be less challenging. If we compare 2020 and 2021, 2020 was more challenging than we are expecting 2021 to be. So in this manner, it's always good to remember that the performance that we have had in the rural segment was quite robust and one of the main drivers for the strong rural and insurance in 2021 was crop insurance. That we had 400 -- more than BRL400 million, and in 2020, the solvency was BRL1 billion. So, this had an impact on our commercial performance.

For 2021, we have not defined those numbers yet. There is a lot of uncertainty associated to the economic environment and to the pandemic. So, we take all of this in consideration when we design our projections, and when we designed our projections for 2021.

Q - Gustavo Schroden {BIO 21633251 <GO>}

So you're just being cautious, right?

A - Marcio Hamilton Ferreira {BIO 16484816 <GO>}

Yes, it's natural for us to be cautious and conservative in the beginning of the year, because we don't know what lies ahead of us.

Q - Gustavo Schroden {BIO 21633251 <GO>}

Thank you very much.

A - Marcio Hamilton Ferreira {BIO 16484816 <GO>}

Thank you.

Operator

Very well. We are now going to read a question that was sent through the webcast. The conditions that required allocating money into pension will be -- will continue in 2021?

A - Marcio Hamilton Ferreira {BIO 16484816 <GO>}

Well, as to your question, it's still too early for us to say anything. Obviously this depends heavily on the dynamics and especially to differentiate -- and to the difference between IGP-M and IPCA. Of course, 2020 was a very a typical year. When there was a lack of liquidity, no issuance of debt bonds that were indexed by the IGP-M and there was a mismatch or a lag that is really unusual between these two rates or indexes.

And then we had to mark our assets to market. So and until 2020, we had never seen anything like that and in this year, they are evolving with the same trend but we think that we still need a few months for them to be closing. So right now, I wouldn't dare say anything more definitive. So the 23% rise of IGP-M in 2020 has placed it at a different level. So there is an adaptation and IGP-M will normalize over the next few months. We will be more regular. So that very briefly in a short time, it may go back to normal. This is what we are hoping for.

Operator

Very well. (Operator Instructions) We now conclude today's questions-and-answer session. Now, I would like to invite Mr.Sperendio for his closing statements. Please Mr.Sperendio, go ahead.

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

So I would like to once again reinforce our gratitude for your attending our conference call. Thank you very much for the questions you asked and I and my whole team will be available that if you have any other questions to answer any questions you may have or anything you might need.

Operator

Thank you very much, and have a good day. Very well, the conference call of BB Seguridade has now ended. The slide deck that we used in this conference call is available at BB Seguridade, Investor Relations portal www.bbseguridaderi.com.br/en. We thank you all very much for your attendance and have a good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript