

Q2 2020 Earnings Call

Company Participants

- Antonio Cassio dos Santos, Interim President
- Isabel Blazquez Solano, Reinsurance Executive Vice President
- Werner Romera Suffert, Finance and Investor Relations Executive Vice President
- Wilson Toneto, Risk and Compliance Officer

Other Participants

- Carlos Daltozo, Analyst
- Domingos Falavina, Analyst
- Eduardo Alhadeff, Analyst
- Karina Martins, Analyst
- Mario Pierry, Analyst
- Otavio Tanganelli, Analyst
- Thomas Peredo, Analyst
- Unidentified Participant

Presentation

Operator

Good morning. Welcome to the conference call of the second quarter 2020 of IRB Brasil. In today's conference call, we are going to have Mr. Antonio Cassio dos Santos, Chairman of the Board and CEO; Mr. Werner Suffert, CFO and IRO; Mr. Wilson Toneto, Operations and Actuarial Vice President; and Ms. Isabel Solano, Reinsurance Vice President. This conference call is being recorded and all participants will be in listen-only mode during the company's presentation. Then we are going to start Q&A session when further instructions will be provided. (Operator Instructions)

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The market and competitive position information, including market projections in this presentation were obtained through internal research, market research and public domain information and corporate publications.

Now Mr. Antonio Cassio dos Santos, Chairman of the Board of Directors and interim CEO will now start the presentation.

Antonio Cassio dos Santos {BIO 6471873 <GO>}

Good morning, everyone. Thank you very much. It's a pleasure to be here with you once again for another meeting about IRB, about our timing, about what we are thinking about the future. And we want to clarify any questions you may have in the best way possible. And we're going to have a Q&A at the end of the presentation.

This is a very important time for the IRB because I have 53 days because in 53 days, we did something really unprecedented. We raised BRL2.3 billion. And in the first round, before the surplus, we have already raised BRL2.1 billion. And doing this 53 in 53 days through a capital increase of private capital with investors who gave us a vote of trust is something that is very fulfilling, very gratifying in a company that has been going through these processes, which have brought us this far.

It's very, very important to emphasize that the quality of our financial information from now on, well, in the past you didn't have access to everything and we are going to be absolutely clear for everything that can be clear about. And everything is going to be absolutely transparent. Our commitment is to transparency.

Another important thing is that and then you need to remember is that this company is supported on two pillars from now on, for its corporate strategy. The first one is ethics, sustainability and governance. And then we are going -- we are being very fussy about things. We are doing what needs to be done in the company.

And to be the Chairman of the committee that has been exclusive for that, we have the former Justice Ellen Gracie to do that. And then for enterprise risk management, which is a key pillar in our company, for our businesses, we have brought Regina Nunes, former CEO of an important company. It's very important to clarify that.

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Another important thing that I would like to draw your attention to, there is a confusion between solidity and regulatory liquidity. So making it easier. Solidity being sound, financially speaking. It usually is based on basic information. For each one obligation or expense, which has not yet been paid, how much assets does it have to back up that.

So this is what we need to have. And regulatory soundness is something very, very important. The company has a volume of assets that are more than enough to constitute its reserves. But many of those assets, for regulatory reasons are not good enough to cover all our liabilities in terms of the provisions that we need to set in terms of technical provisions of the company.

So the Brazilian regulators, because of the style, the way they work, using past experiences with high volatility in our economy, they gradually limited more and more, requiring that the assets that will guarantee the company's liabilities, the technical provisions, they need to be liquid.

They need to be absolutely liquid. So the company has the assets and they're unencumbered, they are free. But part of those assets, they're not absolutely liquid. They are receivables in the mid and long-term. But they are monetized and monetizable. So this confusion between solvency -- our company is absolutely solvent.

Today maybe after the capital allocation, we are in the first tier of solvency in the world. And not just in Brazil, it's in the world. And with regards to the regulation or regulatory issues that we are going to explain during the presentation, this capital allocation, 70% of the problem more or less has been solved with our capital allocation or capital increase.

And we've been working since mid-June and we started working in April. We stopped in May because of the inspections and then we resumed it in June to create a swap model of the free unencumbered assets and the guaranteeing assets.

So there is a small part of the assets, we have an excess of three assets. So a slight lack all of the other assets will be used for the swap between the two types of assets. Another thing that I would like to clarify is the confusion with the word adjustment.

Adjustment, so accounting adjustment as a result of the investigations that were conducted of the audits, they no longer exist. They were done and we are not expecting any new adjustments. They were done. They have been done. They have been absorbed even in the statements, even the company's financials. So we don't have a prospect for any future accounting adjustments. This needs to be crystal clear.

Of course if we do something that might come up at some point in time that can be called an accounting adjustment, of course, there will be a material fact that we will disclose. And then as an example of transparency, took place on August the 3rd when we came to public and we talked about the adjustments, and we published our adjusted financials for the quarter earlier on.

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So another thing is business review. So if we review businesses, it's a business review. What does it imply? So if we are to keep businesses, if we are to improve businesses, we need to understand that in our activity, our businesses have a tale. So when an auto policy matures, for example, the insurance company, paying the underwriting of that risk makes a risk which is, will I renew it or not. Should I increase price or should they keep the same price.

So in reinsurance, same thing. Our contracts are long-term contracts, 12 to 24 months, up to 36 depending on the type of operation. And the decision to have or not have -- keep or not keep an account that was in our portfolio before. So sometimes there are some customers that we don't want to incur in on a given risk for a given price. It's a business decision.

And these business decisions are based on measures that we started taking. And now the past is past and we are moving towards the future to seek what belongs to our company and what investors need, which is mid and long-term value and having a clearer vision of where value comes from. But it's important to emphasize what happened and I'm not going to go over every one of the first 14 slides so that you don't get tired.

But in the first 14 slides, we are clearly saying to you and clearly explaining to you that in 150 days, we had seven different projects. The first one was the complete change of our bylaws. Without change or amending our bylaws. We would not be able to restructure the management, restructure the Board or to take in more capital. And this is a process that depends on our shareholders' meeting. So this is a process that demanded time.

Second major project was the remodeling, so to speak, of our Board of Directors. So we replaced six of our Board members. We filled six seats in the Board in 50 days with very serious work, searching work with a specialized company helping us to try and find Board members that were experts and specialized, so that they could look after the committees that we have created as we reformulated the company in order to give us governance so that things such as -- things that happen in the past will never ever happen again.

So the work governance to us is key. Sustainability is key. Ethics is key. We take it all very seriously. Number three. So the company's organizational restructuring. So analysts and investors following up the company for a long time know that we had three people in the management.

On pages 13 and 14, you will see how we've changed it. And we're very bold in doing that. Compliance, risk and investments also report, in addition to the Executive Officer, to the committees, to the corresponding committees in the Board. So having a cross-sectional report in control roles provides us greater control and requires much more transparency in our day-to-day businesses and in the company's internal controls and strategic decisions and also tactical decisions.

So our project, life of capital increased in 53 days, as I said. We had a capital increase with 100,000 people. So sometimes you read in the press, the company doesn't have credibility. I don't know how to interpret credibility like this 100,000 people exerted their

rights or exercised their rights. And after the subscription period, we had the minimum volume, 2.1 out of 2.3. So on Friday we completed it and we were very successful in that.

So we instituted this project and in the latest audit report, we have re-underwriting. And there's a sequence. Clean, fix -- fixing and grow. So we had the six process or review of all of the company's policies and a project of structured operations, as I had said, about swap of assets to close the gap that still there is in the terms of regulation requirements.

Besides that, we have also implemented three major investigations and audit procedures. The Berkshire case, which you know. The Bonus case, which you have found out about and the Castelo case. And what is the Castelo case. It's an investigation on the manipulation of claims accounting treatments found in the company.

So this all requires time. It's important to highlight that because these three operations were started. They were assessed and concluded and their results have been offered to the regulators and also to the public prosecutor's office, so that criminal measures, if there are any, can be handled.

So in three operations, we've provided that in a timely fashion. And at the same time, we are creating a new director, hiring three new council members, as was said, and organizing committees around this. This naturally is being done at the same time as everyone is working from home from May. So regardless of the amount of work, it's been -- it's generated, we've done a good work especially in reviewing several parts of the process, which we are working together on to improve.

So with that being said, I'd like to highlight two macro trends in the market. The first, in the global market, that is. Looking at the figures for the top 10 or 11 reinsurers in the world, all of them in one way or the other have presented for different reasons an evolution in their claims ratio, according to what was reported in the first quarter in their own reserves.

So the global claims ratio in the first half of the year has significantly changed. So there is a global trend for that to increase. On the other hand, we have some good news. The global market is hardening, meaning prices are being recovered in the soft price market. In practice, some reinsurers, some portfolios were paying in order to work. So these were some good news.

And finally I'd like to tell you about something very important. Credibility is something that you only have when the message and the messenger are one and the same. And you have our commitment from this administration that we are going to be transparent. We are going to work truthfully. And little by little we will achieve what this company deserves -- what our company deserves.

We are changing the meaning behind our company. And please do not get confused. Don't mistake solvency for regulatory asset payments in our reserves. And don't confuse accounting adjustments, which have already been done with the company's revision. This is our obligation. So we are adjusting the company to be as it should be.

With that being said, I'd like to give the floor to my colleague, Toneto, who is going to continue from page 14, I believe.

Wilson Toneto {BIO 20892371 <GO>}

Great. Thank you, Cassio. Good morning, everyone. I hope everyone is well and healthy. I'd like to invite you to look at slide 15. That has some details on the cases mentioned in some of the previous slides. Slide 15 reinforces the commitment that this administration has to transparency.

So here you can see the number of communication actions for the market that we had in the second quarter. Meetings, letters to regulators, reference forms, material facts, as you can see, a number of them have been issued to communicate exactly the main facts that took place during the quarter. Our goal is always to be quick in our communications and to let everyone know of anything that can affect positively or negatively their point of view and shareholders' decisions.

In our shareholders' meeting, we had it 100% online and everyone was active in participating and approving any changes. And all the relevant information can be found on our Investor Relations website. We also have the e-mail address for our IR department through that official channel. And in fact we have answered thousands of questions that came from our shareholders.

The next slide shows discusses something that has been a topic for concern in the last few months. The special inspection that we had from SUSEP. From May, a very technical and well-trained team, started working with the reinsurance superintendency. And again this is not a fiscal intervention. And this is not an inspection on the company's activities, which continue normally without any continuity issues.

Here it's important to see the number of requests that we received from that inspection. We had 170 demands and we were cooperating with the regulators for all of them. Our aim was to be completely transparent and speedy in this. So this reinforces our commitment to be transparent with this investigation and any other authorities we are under.

Slide 17 discusses what Antonio Cassio mentioned initially. Here we can see the company's solvency, which right now is above the international level. Our adjusted financial solvency with assets and with our net assets are higher than the assets required by the country's capital authorities.

So there's no solvency gap here. Brazilian regulation removed several assets that we have for what they call the adjusted equity. They removed, for example, tax credits, shareholders' participation and so on. So our net equity in June was BRL1.6 billion, which removes all the requirements from the regulatory agencies.

So with that, our results would be BRL1.1 billion for this period. Considering the capital increase approved today, BRL2.3 billion without any bonuses or reductions. This reduction

that we had of 100% becomes 244%. So that is an important level to be at. It's very important in this market where we're working.

Next slide, slide 18, shows the company's regulatory liquidity. That is the company's capacity to have appropriate assets within the regulations to cover our demands with technical provisions and liquidity busters. The scale on this slide shows the position we had initially in 2019 on December 31st before restatement, before restating our reports, which were BRL36 million very close to the regulatory levels.

When we republished our reports, it came to BRL1.4 billion, which can be seen in the reports. Similarly when we looked at the first quarter, before a restatement, our expectation was to have an insufficiency of BRL1.1 billion. With all the adjustments after restatement, which also affected the first quarter, our insufficiency was BRL2.1 billion.

If we add that to the insufficiency from the second quarter BRL1.2 billion, that is block D plus E that would be BRL3.3 billion, which is the insufficiency we are presenting in the reports for June. If we did not have the effect from the Castelo operation, that is the adjustments carried out by the current management, our insufficiency would have been BRL2.3 billion. So very close to the exact value that we had perceived from our capital increase.

So considering the capital increase that has already been approved and carried out, this insufficiency from June was substantially reduced. And it's about BRL1 billion now. So working together with SUSEP, we are creating a regularization plan, so that we can balance things until December 2020. And it takes into consideration receivables, asset swaps, as Cassio said structured operations and selling some financial assets. So we expect that during this period, this brief period, we will straighten the situation out.

So this concludes my part and I'd like to give the floor to Mr. Werner for his comments on the results for the second quarter.

Werner Romera Suffert {BIO 18657101 <GO>}

Good afternoon, everyone. Before anything I would like to talk about what we are doing in terms of our numbers and our performance analysis and everything that we have done. And so this quarter now, we are breaking down and opening all the lines for Brazil and overseas underwriting for you to see with all explanations comparing quarter-on-quarter.

So we are making a more transparent or publishing more transparent statements and it's getting longer and longer. And the objective is to provide more information, more detailed information to you with more transparency and this is a commitment of our management.

And all the detail in the performance analysis report has the objective of talking about variations, the reasons for the variations. So -- and also for Brazil and abroad or international by business. So it's a level of detail and opening that is not usual in our

market, but it's important for us to do that to give you information that you had requested us to publish.

So starting on slide 20, there is an executive summary during this period. So in terms of written premium, there was a positive variation especially international because of the FX rate, dollar BRL, which favored it. And then we had also other effects.

So we have a level of renewal of contracts, which is very positive and renewed all our contracts during the period of the first quarter of the year. But the main impact in the quarter came from the claims line. As you can see in the detail at the end of the slide, there are three points. And as we had said and reported to the market on August the 3rd and we have divided the effects in three. COVID effects number one, two and three.

So COVID one, the assignors accelerated the preparation of regulation claims report that occurred in previous years. And COVID two when assignors and retrocessionaries with a positive current accounts anticipated to charge IRB more quickly.

And in both cases, it's important to emphasize they were promptly accounted for in spite of the normal acceleration process because everyone is going through that in the market because of COVID, the insurance companies, too, and also because of our own status and everything that happened to us. So that's why retrocessionaries may ask this type of question. And then we have a faster process. So this process accelerated.

Just to make it clear. So COVID effect, imagine, so after April, we started the COVID crisis. And with everything, all the companies that have credits to receive, in our case, credit can only be identified once we acknowledge them or book them in our financials and to be acknowledged in our or be booked in our financials there has to be a report.

And we, as reinsurers, need to identify and correct the amounts of reserve. So this accelerated. For example, there was an isolated fact in June when we received an avalanche of requests that wanted to do that and they concentrated in a short period of time. And we had two options. Either to do the right thing or do the right thing because we cannot do what we were doing in the past.

So the basic point was you know something, let's do the right thing, let's book it, let's register it. So we have a record of that and it's in our financials. So one, the difference between one and two and three, so we received like a current account from each retrocessionaire and in the current account. So we accelerated sending what had to receive. Those that had to pay, we did not accelerate.

So after April, we felt an acceleration, which in fact took place with a quite interesting effect which, also because of the decision of the management to do the right thing. So we involved the company's accounting department in that. And there's a concentration of something that won't happen that would be really smooth along the year, but that was all concentrated in a short period of time.

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So the third effect is the depreciation of the foreign exchange rate in Brazil. So about 60% of the claims are from abroad. So there was an FX effect, so which worsened or strengthened the COVID one and COVID two effects. On slide number 21, you can see the loss ratio and the moving average of our loss ratio. So here you can see a curve that is less volatile.

And once you look the short term oscillations. And we look at the effects in the last two columns here. So June 19 to June 20 with 73.1% loss ratio with a normalized number without the one-offs. So taking out COVID one effect and taking COVID two effect, so here you can see the data. So it's important for you to have an idea of what is our loss ratio level and what the effects are in the company's bottom line and in this manner help you to analyze our financials better.

So as we have 77.3% to 73%. So this is something expected in this period with all the effects. So you can see what is recurring businesses and what is a one-off event that we took out from the portfolio. This is a normal company and this is where we are taking the company in terms of our recurring businesses. This is how we are going to do it. This is the vision that we have right now. And it's important to emphasize that all the effects that you saw in the previous page in terms of loss ratio versus past and we are moving forward.

So now about acquisition costs. It went from and it affects the combined rate. So it went from 20.1% in Q2 '19 to 21.2% in Q2 '20. So it's not much of a variation and obviously, as I said, as we have opened all our data, broken down everything and with all the detailed information.

Now in terms of admin expenses, our level is compared to last year. So if we compare Q2 '20 to Q2 '19 they are comparable. And we are comparable to our international peers, considering that we have the conditions of keeping our differential and also in terms of the evolution of technical provisions, which is the last item here.

It's important to emphasize that the company has had a growth in its technical provisions that was significant in 2020 or plus 26% of BRL13.5 billion. And the company did its homework. We did what we were supposed to do. Now we are in an adequate level considering our activities. So in a nutshell the company is more solid with higher liquidity and it's stronger in terms of its cash position. And in addition to that, we have 26% more provisions than we had on December 31st last year.

Now on slide number 22, you can see our written premiums. And the growth was impacted by international events especially because of the variation in foreign exchange rate. And in a segment, Brazil, we had a drop influenced by special risks and automobile risks. And all of this will be booked next quarter. And we had a policy in rural, agro insurance. There was one customer that affected our results. And in terms of loss ratio, as I said before, it was impacted and it relates to what we did in the period.

As our CEO mentioned, the main drivers for the increase in addition to the variation in the foreign exchange rate and as we explained in August, there was an acceleration in the

completion of their updated reports, as said before and especially the slowdown in our life lines and especially in Latin America countries. And in Brazil, there was some optional risks that were also strongly impacted in the quarter, although less than in the past.

So especially for property and life lines. So just a comment, we -- looking at the receivables and the definitive reports all of them have been adjusted to show what we needed to have. But these are different from the ones we had before. According to accounting criteria applicable to this quarter, that is why we are seeing this change, perfect.

So moving on to page 24 on underwriting. Here we have a negative result for the second quarter of 2020. The underwriting results were strongly impacted by increased loss ratios due to these underwritten risks from previous years. And we were focusing on especially growth volume in this portfolio not necessarily margins.

So this is in our strategy and a higher speed in updating reserves for some claims as was explained before. Also there were foreign exchange adjustments for claims in foreign currencies. So we are assessing each one of our contracts constantly and this has become more intensive from June.

So we are following our strategy and this is already ongoing. There was also a renegotiation of fees, reduction of exposure, non-renewal or contract cancellations when profitability was unsatisfactory both in Brazil and abroad. This is a part of our strategy to make our underwriting results better. And of course this will affect it on the long-term. So this is something worth highlighting.

Moving on to page 25. Here, we have our financial results in 2019. Our total assets were around BRL5.1 billion. And then in 2020, there was a reduction in interest rates. And that affected, of course, the portfolio performance. And it's important to highlight that we are being followed up by the company's investments committee, which assists us and assists our risk. And this is, of course, in the company's strategy. Its concern is to keep the company with appropriate profitability and obviously continue to seek gains in the best way possible within the company's risk limits.

Moving on to page 26. Here, we see our net income. So as a consequence of everything we said, especially our financial results, we had a loss for this quarter, which was a strong impact by the claims line with the benefit of the income tax and social contribution lines. So we reached BRL685 million.

Page 27 is something that is important to discuss. This is something that we have been discussing in previous days about the company. We can see that the cash flow and the company had been discussed in some previous documents. And here we can see that the cash generated in this quarter was positive BRL526 million.

And when we remove the effect of the payments received for shopping mall sales, there's a cash consumption of around BRL209 million during this period. But even despite that, when we compare it to a previous period, such as 2019, we can see a substantial

improvement in cash generation for the company. So it went up to BRL209 million. So that's over BRL300 million improvement.

We also have the payment of, in this half of 2019, which was higher at BRL441 million. So this makes it very clear that the investment made during this quarter had an improve -- led to an improvement in the company's cash flow as was said before.

So Cassio will explain slide 28, which will discuss the company's strategy under development.

Antonio Cassio dos Santos {BIO 6471873 <GO>}

The new strategy has three pillars and we try to simplify it to the most, so that our employees can understand even at the lowest level of the company. So we are going to take more time to do what we're doing and what we're already doing in the short-term.

It's what we call the CFG strategy. C is for Clear. To clean up any harmful accounts according to their terms and maturities. Anything that disaggregates value in the company and that when it is under -- when it was underwritten was either seen from the wrong point of view in terms of how the business would develop or when there was an impact when the company was impacted by a two-digit premium growth, for example, then the underwriting criteria should be tightly followed.

So our mission for cleaning up has already started. And as we already mentioned in our quarterly report, we are already clearing some of these claims. There are three contracts that were maturing during this period. We analyze them precisely, retrospectively and prospectively. And we came to the conclusion that we should not have them in our portfolio because they don't add value. And in order for them to add value, we would need to increase the fees significantly.

The second part is once we clean up what we do not want in the company especially some contracts that are not so positive, what we want to do is to fix the company by using our competitive edges. And what are the company's competitive edges. We have three among many others. We have a better risk line than any other company in the world. For these projects to take off, we will need to be very well positioned to do what we have already done, which is to capture their results.

We have the basic sanitation project, which is the reason why we are receiving a new regulation for -- from the regulators for major risks. So that's the first project. And secondly the impact that 5G will bring and the need we will have to renew and modernize data transmission lines. And third the big concession projects that was approved by the government.

So fix would be to use our capacity, our technical capacity, which is fantastic. Our underwriters are top of the line. They are at the heart of our organization and this will be connected to our operational efficiency. In slide 14, we mentioned two contracts that we had.

One was in improving pricing. That's one of the strategy that we had with a leading company in this industry. And the other was with a major company in Brazil, which will be announced in the next days, which will allow us to develop ourselves.

With the entire accounting process for settlements, there's a lot of red tape and bureaucracy there. And this already happened. And this will be solved through blockchain. So on the medium run, we will be able to keep administrative expenses at a reasonable level. Even though at first, administrative expenses are not significant that doesn't mean that values won't go up. They have, in fact, decreased from last year. But we want to remove some premiums from the portfolio from these operations, which are non value-added premiums.

And the third part, once the company has already been organized and fixed then we will do what we were born to do. We will innovate and grow in different business lines, where we have the expertise and new business lines, of course, offering solvency in the Latin American market for small and medium-sized insurers, which is the traditional role of a reinsurance company. And this is what we have been doing in our region. We do it significantly in Brazil and we will do it in the greater region.

The next page shows a flavor of what we will have with reunderwriting. So we analyzed this carefully and we wanted to look at the last two months. In the last six to 12 months, we had three accounts that were really regrettable. So if we don't focus on what is abnormal or one-offs in these contracts, we'll see that our earned premium was -- but we will have to look at a higher number of months. And we saw that three accounts led to a disaggregation of BRL600 million.

And what does that mean? We had to cancel these accounts. They will not be renewed. They will not be included in our portfolio. And this also means that this is something that we already are doing. We are making up reserves for claims or aviation contracts and also foreign life contracts, which provide us with an improvement in recurrent businesses. So in a business that is here to stay, which will go up to the levels we mentioned in the presentation. Remember when we looked at the loss ratio slide, which was 67.5% to 63%.

So it's a trade-off at first. But once with all disclosures being made you'll be able to see the next criteria, what effects and what recurring results we will have from that for the company. And that will also reduce premium values. We'll have better premiums for the company.

Finally what can you expect from us on the short term. First, we are going to normalize the company's numbers. And this is the main -- our main suggestion, which is part of the transparency concept. We have a company with higher quality, more cash, more solvency. So our commitment to transparency is key and it's going to be kept.

Number two, our focus on ethics, sustainability and governance. And this is going to be one of the main pillars of our business strategy. So today just I think you may ask this question. We have a few controls, the controls that the company has today is absolutely sufficient.

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The company has a very, very robust control system, which has made it possible for us to work for 120, 150 days remotely without any major difficulties. It's fully digital in any way and be a part of our strategy. In terms of the business strategy, our commitment is to go further on the CFG.

So what do we expect for July. In July there was a loss influenced by the canceled accounts, but in recurring terms already indicate a clear recovery path. August will be -- there will be an even lower loss and confirms the trend. In August, we decided to provision or practically everything that we felt was the size of the brand that we provision in August most of it so to speak.

And in September if there is no abnormal accident or anything major happening in September, we will be very close to break-even in the month not for the quarter. Because for the quarter, there is a carryover from July and August and September. So what we are seeing here is that September in itself will look like the new normal of the company. So in a month that will be close to break-even in spite of all the difficulties that we have today in terms of profitability and investment for everyone in financial market.

So in short the quarter with a deficit, but tending to zero. And I would like to emphasize that July, August and September already showed a new company. And most importantly the past is past. And now we have the chance of looking into the future. After we did our homework here with all our projects, the seven projects, the renewal of our management, renewal of the Board and of our executive management.

Thank you all very much. And now I would like to give -- to start our questions-and-answers session.

Questions And Answers

Operator

Ladies and gentlemen, we are now going to start our Q&A session. (Operator Instructions) Our first question comes from Mr. Otavio from Credit Suisse.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Good morning, everyone. Congratulations on all the new initiatives that you are implementing to enhance transparency, to update contracts. Along those lines I would like to understand after this review what do you see is a sustainable growth? I think that in the short term, we'll no longer see the growth in premium, double-digit growth in premiums. And if you don't mind my asking, what can you disclose? What are the standards or the requirement for you to call contract profitable? Thank you.

A - Antonio Cassio dos Santos {BIO 6471873 <GO>}

In terms of growth, and thank you very much for your question. And as you are well aware, the insurance business all over the world is shrinking. So this is related to the GDP, it's directly related to that. So the macroeconomic scenario does not allow us to do much with

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that regard. I believe that the projects for Brazil and most likely for some countries in Latin America will have some competitive advantage for this project because of the size and solidity of our company. But to give you numbers, it's very difficult. It wouldn't be reasonable.

A - Werner Romera Suffert {BIO 18657101 <GO>}

Now what we can say is that our clean-up process is a process that has started now. But we already identified where problems are and we are dealing with them and there are some contracts that we want to eliminate.

And at the same time, from now on, we'll think of replacing this production, which will be taken out in the future with new contracts because practically in the last three or four months it's kind of shy for a company that has 37% market share, we cannot be sick in home or closed in our homes. And then we want to be players and we want to be hard players. And we are here to play hard ball. And this is our vision and we can do that.

Just complementing, in terms of premium, there is the effect that reduced the premiums then we had a negative margin. But on the other end, we have the hard market. And we said this before, we have renewals with increasing premiums. And so this premium increases with quality. So the vision of written premiums might not, you might not be able to see such a strong expansion recently until September.

There was a positive effect of the dollar affecting the written premiums of the company on the whole in the first half of 2020. But in terms of underwriting results and here we have the underwriting and taking out the contracts that did not provide the results that we wanted. It needs to be very clear that our focus is to keep growing and the right result. And this is our main objective.

Considering the market as a whole, as Carlos said, our Reinsurance VP is going to complement the answer.

A - Isabel Blazquez Solano {BIO 21843037 <GO>}

So complementing the second part of your question about loss ratio and loss an acceptable loss ratio, I think, it's important to think what's going to take place next. So we signed the contracts and there are some optional parts.

So when we are talking about these optional parts, we want to avoid major risks. So this type of risk is more subject to volatility. Now when we talk about contracts and the optional ones, it's difficult for us to tell you what would be a normal range. And it will depend very much on the account or individually.

And some things depend on the contract terms because this is how we consider our combined ratio. The combined ratio needs to be lower and we need once we consider everything in the contract. And then we think in terms of loss ratio even so we want to have a positive margin. And that's why we talk about sustainability. We go after positive results in our contracts.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Thank you very much. Your answer was very clear.

Operator

Our next question comes from Carlos from Eleven.

Q - Carlos Daltozo {BIO 20931375 <GO>}

Hello. Thank you for taking my question. First of all congratulations on the call and what you are reporting and everything that you're doing as a company. But as to previous years, what you were doing, especially considering the COVID effects. And are we going to see new amounts in future quarters with regards to that and in terms of how we classify everything? And the second question regards to your contracts and the contracts that you classify as profitable, satisfactory and unsatisfactory. So what were your criteria to do that for the classification and the effects? So how can you classify the entire portfolio were satisfactory?

A - Antonio Cassio dos Santos {BIO 6471873 <GO>}

So I've never, in my entire experience, have seen the behavior that people have. And of course you have to put yourself in the position of someone in Chile, in Mexico or in Colombia getting all the information on what was happening that, thank God, is already in the past.

So the natural reaction, of course, is you have credit and you would rapidly take this credit back so that you could close the reports, talk to your regulators, put pressure on regulators, so that reports came in, and this was supposed to be what happened. It wasn't just one company or one country, but many at once.

So fortunately, I think, this is in the past. Was this going to come in the future, of course. But it would come in as a normal situation. In one way or the other, reinsurance is quite inefficient because it's still very much based on paper and that's why we're investing so much on blockchain, so that we can remove that need.

And you had a question on the future. Honestly, when we look at the month of June, there's nothing, and the month of July, there's nothing similar to that in history. So we have to understand that what took place in June has all the technical characteristics of a one-off.

If something like that happens, again, we'll come back and explain it as we have in the past. But I don't believe that in the short-term, this is going to happen again, only if we have a different crisis in the future, but that's something that we need to get ready for to look at this kind of situation. But just to answer your question, we feel at ease about that.

So to answer your second question about the classification of the three categories with risk being a possibility in the contract. It's very common to see that in insurance and

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reinsurance companies, this is something done every year. And it's a process that is different this year because we are doing it much more closely and carefully, especially in stage one, where we're focusing on the impact of accounting.

Otavio mentioned these three contracts that were high volume and that had a high impact to our portfolio results especially in the foreign line. But unfortunately we could not say why, excuse me, we could not say which ones because we are classifying them as satisfactory or unsatisfactory without providing greater details.

But we are trying to increase rates for these contracts that are not so profitable on the short-term. And they have been not profitable for some time. So we will step out of these contracts, but I just want to reinforce that I think it's important that the hard market is helping us in all our lines. Yes, and I think we'll see that in the next call once our portfolio is normalized.

Q - Carlos Daltozo {BIO 20931375 <GO>}

Just one more quick question about SUSEP regulations. Is SUSEP providing you with the drive for their decision or a term?

A - Antonio Cassio dos Santos {BIO 6471873 <GO>}

No, there is no term established for this investigation, but there is a term for the regularization plan for the liquidity plan we presented, which is December 31st this year. So all the measures that we have laid out on this plan will be carried out or are planned to be carried out before December 31st. And they are being done at the right time. So we feel very comfortable in executing the plan. And we're very confident about it, too.

Today is a special day for us because the main part of the plan has passed. We have five activities, but two of them are already organized. And we are very confident that we will not have this problem I mean it won't be a problem to comply with SUSEP.

Just one point about SUSEP. The plan doesn't have as its goal to only comply to the regulations, but rather we want to create a regulatory liquidity cushion. So we want to create some security, so that we can provide security to the regulators, but obviously not stopping only at that. We also want to create a regulatory liquidity cushion for the growth of our portfolio. So this is also a part of our view according to the plan that we have for SUSEP.

Operator

Our next question comes from Ms. Karina from Citibank.

Q - Karina Martins {BIO 21718601 <GO>}

Hi, everyone. Good afternoon. I just like to know, I saw that the occupation rate was higher for this quarter. What do you expect for the longer term? Before we talked about this ratio and I just differently and I'd just like an update on that.

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A - Isabel Blazquez Solano {BIO 21843037 <GO>}

Hi, Karina. This is Isabel. To answer your question if I think I do feel that it would be good to and the first would be the contract and some parts are optional. And sometimes you want to increase your line in your businesses and also in terms of property.

And the last item is expansions of retrocession in the portfolio. That item is related to the market to the hard market we've been talking about. Our capacity of retrocession is the same. So when we see that we are operating in the reinsurance market, we are talking about some guarantees and protections that needs to increase.

So when we go to the retrocession market, these higher fees are also transferred. So I think that, in fact, yes, we do see an increase specifically resulting from retrocessions and it increases gradually and will likely continue to increase. And as I said the capacity in the global market is more scarce. And this is a result of catastrophic events and complications that we had in 2018 and 2019.

And in 2019 there was an increase in reserves for the reasons I said before. And of course this was transferred to the markets both in reinsurance and retrocession. And it increased obviously because of that. And we are having very high loss ratio internationally such as petrochemical lines for example.

Operator

Our next question comes from JPMorgan.

Q - Domingos Falavina {BIO 16313407 <GO>}

Good morning and thank you for the opportunity of asking a question. About your housekeeping and everything that you're doing. So we need to think of the clearing of your history and what you're doing. This is important for the question. So it's good that Isabel Solano is there to talk about retrocession and explain everything about that. I would like to have a ballpark. 40% of the premiums in our model when we look in the long-term, thinking 2012, '13 and '14, it was 30%. We're expecting it to go down to 20%. But so is it more like 20% or 30% of the premiums or more towards 40%. And the second part of my question, to Cassio, in a normalized month, in September, you say that you might break-even, zero loss, assuming that there will not be any major surprises. So your normalized loss ratio with COVID one, two, three show about 70% effect. So if there's a retrocession of G&A and then break-even with Selic at 2% or it's different from having it at a Selic of 6%, 7%. Is that what you think will be the new normal September with zero profit and Selic at 2%?

A - Werner Romera Suffert {BIO 18657101 <GO>}

Hi, Domingos, this is Werner. I'm going to first talk about the shortening of this retro. I just have to make it clear that the claims we mentioned are free of retrocession.

We separate retrocession when we provide information to SUSEP and that gives us net information. So when we look at that it's more comparable to the insurance point of view

when you have claims there that are already with net premiums and other expenses.

So you don't need to subtract more there. Nothing needs to be subtracted with retrocession because in that account we showed it's already net. So you have the acquisition cost. There's some expenses. And there you will have the loss ratio. So the main components there are already free of retrocession. So that's the first point to mention and Isabel will continue.

A - Isabel Blazquez Solano {BIO 21843037 <GO>}

You had asked about break-even, right, the break-even point. Of course, I don't think we're going to tell you what you want to hear, but I can give you an example. Let's say we're on a flight that has a lot of turbulence and it was believed that this plane was going to fall.

We control the airplane and now we are landing. So what is the message I put in slide 20, excuse me, slide 30. That's exactly it. We are landing. With the rest of the data you have in the presentation, you can infer what that means. That is what's going to be the short-term flight. Let's say it's a very short flight that we are planning, but we're still landing the plane. But we already have some flight plans for the next flights, some shorter flights and some longer ones.

So I think we've shown you with all the transparency we could have, with the drive that we have, it's not very common to see this in the market, but we thought it was important to do it right now. We were able to provide some important information, so that you can infer what will happen. Sorry not to answer your question, but we are available if you have any other ones.

Yes I'll talk about some protections. Going back to retrocession, this is made up of three parts. Financial investments, facultative investments and portfolio positions. When we look at the portfolio position, as you said, we see that costs are trending upwards because of the market.

And of course because we're trying to protect our portfolio in the best way possible so that we can overcome the volatility we're seeing. Since our protections are US dollar denominated, they will increase as they already have. But this index, of course, is dependent on all the different behaviors and reciprocity that it includes.

So the percentage will be variable because it depends on the composition of our portfolio. It will depend on the other items I mentioned and we have to look at all the factors to be comfortable.

Operator

Our next question comes from Bank of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning. Thank you for taking my question and congratulations on your initiatives. As to your large businesses associated to your clear strategy, which categories regained share as opposite to which are the ones, agro and how long are the contracts. What is the term of the contracts and what should we expect in terms of runoff. And could you give us more color on your dynamics especially in the second quarter and from now on?

A - Antonio Cassio dos Santos {BIO 6471873 <GO>}

So I'll answer the first part of your question. In the very short-term, what we see is international portfolio with a reduction in our life businesses relative to pension holders and pension funds that want to add value to the company.

So it's life international. And other lines will drop. So we want to focus our businesses right now on the businesses that have higher underwriting capacity. So it is a combination of reunderwriting of our current portfolio and new businesses where we have competitive advantage.

And then as part of the competitive advantage that are the traditional lines of IRB that we want to make the most of the opportunities that come up and the opportunity that we'll have soon with anti-cyclic projects for Latin America competing as we have always competed strongly. And when we talk about infrastructure projects and they start in a guarantee and go all the way to engineering risks. So it goes through the whole chain of a process that is traditional process of construction.

And then the run-off time. Main thing for you to know is the following. In these new operations that we agreed to, we don't have, usually have long times. So what might happen is that at first, and we are preparing ourselves to make the right, to set the right provisions. So at first there is an impact and the impact dilutes itself. For example, in life, it's a 12-month impact and the major impact or most of the impact is in the beginning.

Now in other areas, the time is slightly longer. It may be eight months. So it becomes marginal as we replace some businesses by other businesses proportionately. And about your last question, last part of the question, Isabel is going to answer.

A - Isabel Blazquez Solano {BIO 21843037 <GO>}

And I think just stressing the effect of times or the tails, it's important to emphasize that IRB has a large portfolio in order to avoid the risks. So there is a whole process of underwriting and sometimes it has an impact in the short-term and there are. Some lines, average time, sometimes other contracts are longer.

So going back to what we were saying we mentioned, as we said before, the three high-impact contracts that were taken out from our portfolio and they impact our bottom line. They are related to foreign life as we mentioned before also some PA and aviation.

As the second phase that we are talking about underwriting, this is where we're focusing our strategy. So when we talk about our strategy, obviously, we want to diversify and we are also looking and trying to see whether it makes any sense for us to continue on a

given business line or not. And then sometimes we need to reassess our participation on certain lines. For example, aviation, that has a high -- that has had a high loss ratio in the past few years.

So it's important to mention that this line in the international market as a whole has been affecting the results in the last three or four years. So in fact we are having very, very high loss ratios and this is one of the lines that we need to look into very carefully.

And last, as the effect of margins, I think it's important to mention that we are looking in ways for us to reduce costs. Just another point to mention here is that comparing ourselves to the rest of the insurance market. There's difference in it. And times is important for what we are doing now.

So once we are restructuring and changing things, it's much more effective for a reinsurance company that has a shorter time than for international reinsurers that have longer tails. So this needs to be taken into account in order to have a more accurate analysis.

Operator

Our next question comes from Mr. Thomas from BTG Pactual.

Q - Thomas Peredo {BIO 21712295 <GO>}

Good afternoon, everyone. Thank you for taking my question and congratulations for the initiatives you delivered. My question is a follow-up actually. I just want to ask for some more details on what really affected your property lines. What are the main contracts there that were impacted? Was there any kind of impact in the significant kind of impact in that segment. I'm just trying to understand the underlying mechanics in that segment?

A - Antonio Cassio dos Santos {BIO 6471873 <GO>}

Hi, Thomas. How are you? About the property line, obviously, this is due to the non-recurrent factors. This was something that we didn't see in previous years. But besides that, we had a relevant event in a mining company that was also affected in the first half of 2020. So that was the main reason and it had also been affected by nonrecurring events before. Okay. Thank you, Thomas for your question.

Operator

(Operator Instructions) Our next question comes from Mr. Eduardo from Ibiuna Investimentos.

Q - Eduardo Alhadeff {BIO 16956954 <GO>}

Good morning, everyone. Thank you for taking my question. I just like to refer back to the loss ratio. It was at 70.8% at the normal rate without the COVID impacts. Do you think that's going to be normalized at that or do you believe there will be an adjustment. My

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second question is about claims. Your claims, if I understand it correctly are not -- don't take so long to be included in the balance sheet. If you look at some specific quarters for example, in 2016, there was one in which you had an impact. And why does it take so long to recognize these claims. Was this because of the previous management or was it caused by COVID this time. I mean 2015 are very old claims that should not be impacting your claims right now. And looking at the liquidity that is still missing, how are you going to solve that. I'd just like to know if you have any initiatives in mind that you can share with us? Thank you.

A - Antonio Cassio dos Santos {BIO 6471873 <GO>}

As to your -- the model of operation of reinsurance, it works more or less like this. There are claims that are very, very complex. Whenever we look at the portfolio, as Isabel was saying, that there are optional parts.

Usually in infrastructure projects or complex coverages for engineering risks and so on and so forth. What may happen is that if the risk takes place at a given point in time, as things evolve based on the inspections and the back and forth of lawyers, our party and the other party and there is a back and forth process until an amount is defined. So an amount that will be booked in their financials and this is the criteria that will be used.

Sometimes you may do something about it. But other times you need to be very cautious in doing that. But strictly speaking let's take a claim, for example, an oil rig. It will take two or three years to identify the real cause and the amount.

So there is a question or a doubt in the coverage of a given platform or rig, oil rig, whether there is metal or not, what is really covered. And it's very complex, but not every claim of a reinsurance company are like that. So those are major risks. So it depends on the kind of risks that you are underwriting and sometimes we have some anomalies so to speak in these events as part of our business.

One thing that we can do in the future is to show the triangles, the claims. And then you can see, well, the claims that occurred on a given year. So there was a claim in the market on a given year and where they were allocated and so on and so forth. So it's part of our activities. And this may be the main difference between an insurance company and a reinsurance company.

And the second part of the question is about regulation. And thinking of the triangles, as we mentioned, so you take the financials and you can also observe all the movements. And Eduardo if you have any questions after our Q&A session, please call our Investor Relations department and they might explain it to you.

So in the beginning of our call, we said that we wanted to facilitate understanding in explaining everything in our financial statements. And this is not the problem because our business is complicated because sometimes even between us, insurers, sometimes we're not so sure about a few things. When I first arrived here, I had some questions to ask too. And I thank you very much for your question and I hope we have answered it.

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So you're asking, we have not yet submitted our plan to SUSEP and we have many actions that are being planned. And for strategic reasons, we cannot disclose all of them, but we are monitoring everything. And obviously we have many control actions that we are following up. And we believe and we are confident that as part of the time line that we mentioned, our actions will be enough to solve the regulatory liquidity insufficiency that we have.

So if we look at what you said on page 18, the table on page 18, and we extrapolate. So we have approximately BRL1 billion, it's smaller than what we had in December 2019 and it's smaller than what we had in the first quarter of 2020. So it's been going down and this is positive. So, in a nutshell, the receivable structured operations and the sale of non-financial assets that are part of our portfolio.

Operator

Our next question comes from an Investor, Tamitis Joliveda [ph].

Q - Unidentified Participant

Good afternoon. I would like to praise you for your actions and everything that you have been doing and your transparency. And as an investor I have a question about what is coming in the future. I have read about your trends and your activities. Are you ruling out the possibility of a new capital increase as I have read in some sources in the press. And I would also like to ask to public hearings or consultations about resolutions about issuance of debt bonds. What is your positioning about that and how does that impact the IRB and your businesses. That's it. These two resolutions that I would like to hear. Thank you very much. Congratulations on your good work.

A - Antonio Cassio dos Santos {BIO 6471873 <GO>}

Tamitis, thank you for your question. It's a pleasure to have the opportunity of answering to individual investors. Tamitis, so the first part, it's not necessary for us to seek a new capital increase because we have a surplus of free assets, excess of free assets. Back in March, in the presentation of Toneto that we had, we had BRL1 billion. That was the number we had back then.

The first vision that we had. Had we done that back then, we would have solved it ourselves. If we take the presentation and if you look at the month of April, you will see that we were already analyzing the problem. And as we had the inspection, the markets were slightly more cautious because they wanted to understand what the investigation was about, but we have excess assets.

So there are some receivables that are for which a decision has -- a court decision has already been made and it's final and unappealable. We don't want to take a jump start to, if you take or to do things that should be done afterwards to do it before. So if you take our receivables portfolio, you will see that our position in terms of capital changes greatly. Because in the past, to work on a discount with the other party, once we have sold that, we'll be on an equal basis, we'll be equals.

And it's more feasible and cheaper for us to solve everything. And undoubtedly the possibility of swapping our businesses for other businesses that's also easier. So it doesn't make any sense for us to call into take in more capital now as it does not make much sense for us to try anything that might be convertible into shares or stock.

A - Werner Romera Suffert {BIO 18657101 <GO>}

I just have a comment for Tamitis. Hi, Tamitis. About increasing security, we still have to look at that. That's one of the decisions that we have to make. We doubt that we will need additional investments with the capital we have in the Brazilian market, we believe that this is already well structured.

So we have already been operating with insurance liquidity abroad. And it does come at a low cost in comparison to what we usually have with reinsurance because now there's a additional capacity offers are higher, the supply is higher. So that complements our protections. There are other protections that could be included, but this is a point that we have to analyze. Thank you for your question, Tamitis.

Operator

This concludes our questions-and-answers session. We'd like to give the floor to Mr. Antonio Cassio for his closing remarks. You may proceed, sir.

A - Antonio Cassio dos Santos {BIO 6471873 <GO>}

Thank you, everyone, for your time and for your questions. I hope we've clarified things to you. And I just want to conclude by saying that the past is in the past. Let's leave it behind. Let's focus on the future because we are confident on the competence of our team, the 400 families that depend directly on IRB.

Our business is about people. Our business is about people. Once again, our business is about people, really, because the quality of services of our underwriting and the added value that we generate is generated essentially by our people.

Our vision for the future is quite simple. On one hand, it's based on underwriting, the decisions on what to do, what's good or what is not good for the company and the challenges that we have right now to provide financial results.

The industry of institutional investors is facing many challenges in all the world, not only in Brazil. This is because of low interest rates as we've seen in Europe for many years and the US. And we have to be creative in order to make this challenge something of the past.

The third pillar for this confidence we have is our people who are generating quality information for our investors and for the market as a whole. So the quality of our financial reports are first line. I've never seen so many details.

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If you take a look at any insurance or reinsurance company in the world, they wouldn't tell you one-fifth of what you have in your reports. So this makes me feel very relaxed because in very few quarters, we were able to move forward. And our confidence finally also comes from the competitive and comparative advantages that we have.

The speed in making decisions and something that was very clear now, we are an insurance company that speaks Portuguese that speaks the language that Brazilians speak. Decisions are made in Rio de Janeiro, right in front of the Santos Dumont Airport or right here where I am on Faria Lima Avenue in Sao Paulo. It's not in Paris or London or in the US. And it's not in Germany or in Switzerland. It's here in Brazil and it speaks Portuguese. It's close to you.

So what we want is to be close to our clients. What we want is to continue to support our clients whether they speak Spanish or Portuguese. And if necessary speaking English to our fellows abroad. But if you are an investor here in Brazil and if you're a client listening in, remember that. We hear a lot of criticism about the last few months. And of course this is a part of competing. We work in a competitive market. But do not forget that we are a truly Brazilian company that speaks your language.

Thank you very much, and we wish you all a good day.

Operator

This concludes IRB's conference call. Thank you very much for listening and have a good day.

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