Q2 2013 Earnings Call

Company Participants

- Arthur Farme d Amoed Neto, Executive Vice President of Control and Investor Relations
- Carlos Alberto Trindade Filho, Vice President of Automotive and Casualty
- Gabriel Portella Fagundes Filho, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Carlos Macedo, Analyst
- Gustavo Lobo, Analyst
- Henrique Navarro, Analyst
- Jorg Friedemann, Analyst
- Unidentified Participant
- Victor Schabbel, Analyst

Presentation

Operator

Good morning, and thank you for standing by. Welcome to Sul America's Second Quarter of 2013 Earnings Conference Call. Today with us, we'll have Mr. Gabriel Portella, CEO of the company. We would like to inform you that this call is being recorded, and all participants will be in listen-only mode during the company's presentation. Afterwards, there will be a Q&A session, when further instructions will be given. (Operator Instructions).

There will be a replay facility for this call for one week. Today's live webcast both audio and slide show maybe accessed through the company's Investor Relations website at www.sulamerica.com.br/ir, banner, webcast Q2 '13. The following presentation is also available to download on the webcast platform.

Before proceeding, let me share that any possible details that may be made during this conference call to Sul America's business projections as well as financial and operating assumptions or beliefs and assumptions of the company's management and also on information currently available.

Forward-looking statements are not assurance of performance. They involve risk, uncertainties and assumptions since they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors may also reflect the future events of Sul America and due to results that differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Gabriel Portella, Sul America's CEO, who will start the presentation. Mr. Portella, you may begin.

Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

Good morning, everyone, and thank you for joining us again for this earnings conference call. I'm speaking from our company's headquarters in Sao Paulo. And joining with us to discuss the results, we have Arthur Farme, (inaudible), Vice President for Other P&C, Life and Pension, (inaudible), Former Vice President of Life and Pension and now Vice President for the recently formed Vice President for (inaudible), Mauricio Lopes, Vice-President for Health and Dental, Marcelo Mello, Vice President for Investment. (inaudible) and he is Vice President for Capitalization, and Matias de Avila, our Commercial Vice President. Although the year has started more challenging than expected, in the second quarter we made use of all our tools to recover our projectory for its growth, profitability and sustainable results. Each one of these results will be addressed in more details in the following slides.

Let us start our presentation with slide number 2. (inaudible) dashboard with the main highlights of this quarter and year-to-date figures of Q2. The company increased almost 14% in premium in the second quarter of this year, vis-a-vis the second quarter of 2012. In addition to this increased improvements, our loss ratio dropped virtually 4 percentage points. These forms mainly from the good performance in our auto and health portfolios which will be further detailed in our next slide. As a result our combined ratio totaled 101%, the lowest ratio achieved at the second quarter since 2008.

Our P&L, however, was negatively affected by the volatile macroeconomic scenarios, particularly by the lower Selic average and the weaker equity markets. Despite of that, our profitability was 103% CDI this quarter, and almost 120% year-to-date, showing Sul America's investment offers good performance to manage the proprietary funds of the insurance company. Our net income this quarter was R$50.6 million.

Now, I give the floor to our Arthur Farme, so he can give more details on the result of each one of our operations. After the presentation, there will be a Q&A session as usual. Arthur, please.

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

Thank you, Gabriel. Good morning, everyone. On slide 3, we show our health and dental segment. The slide shows that this quarter, we had an increase of 14% in premium and also at six months, the company maintain a growth sales written and (inaudible), for these two premiums. New sales leading this growth. And there was an important component that stands from the SME or small and medium enterprises portfolio which grew almost 27%, as you can see in our earnings release. This lead to an increase of almost 4% in the gross margin, mainly due to what we saw happening in the improved loss ratios with significant result this quarter with 8.2 to 4.2. So a drop of 4 points on a quarterly comparison and also 1.5 points drop considering their immediately previous quarters.

So the second quarter was usually marked by a negative seasonal effect.

For this year, our loss ratio is well balanced, vis-a-vis the beginning of the year had improved compared to the second quarter of 2012, where particularly those portfolios at a higher loss ratio. The portfolio grew 7%, in the lower part of the slide, we show 0.7% growth. And this growth applies to corporate portfolios as a whole and also SME portfolio, as I said before, grew almost 27% in revenues. And in other portfolios that make up this group, also highlighting dental insurance with over 600 new members.

On slide 4, we address our automobile segment. Premium this quarter grew approximately 20%, 19.7, as you can see on the left, with 24% in this half of the year, latest probable data available to the market. So the market have been growing 24% by May, and the company grew 28% over the same timeframe. So this quarter as a whole is very good for the auto portfolio, and later on, we can go deeper into details. That results coming from fleet, you can see at the bottom of the slide to the right an increase in fleets. Both vis-a-vis the immediately previous quarter and also in the same quarter of last year, significant fleet increase and also pricing conditions and under writing which as a whole characterize this portfolio.

Please note, this is not a result achieved this quarter alone. But it has been built in recent months. Based on our policy to align prices and also to rework on margins that the company had already started in the second half of last year. And this is leading to this performance that we were showing now in the first quarter or in the second quarter as a whole.

Now on slide 5, we show property and causality. Premium include this quarter was slightly more than 16% or lower than 10% this half of the year. When you look on the right or the bottom of the slide, you can see a breakdown of our revenue for our massified products, 23%.

In this portfolio, we had very strong growth, (inaudible) SME packages and portfolios and primarily due to an adaptation of products and devices for brokers for selling purposes and also the whole capillarity offered by Sul America's network. This altogether has led to a very strong sales fall in our results. For marine portfolio and property portfolio, the company also has experienced and in successful trajectory when it comes to underwrting ability and good reinsurance agreement.

We understand this is fully in line and also potential possibilities to passing to new opportunities in this segment in the future. Loss ratio had a slight increase compared to the previous quarter. That did also show the drop when compared to the second quarter of 2012, therefore, showing that quarter-on-quarter, although we see some volatility quarter-on-quarter, we see improved performance in this segment.

Now on slide 6, we made comments on life and personal accident segment. Here you can see a drop in revenue about 14% both this quarter and the half year. This drop comes from the company's decision to improve its share in some policies that did not have return or loss ratio in line with our expectations. This decision proved to be successful from the normal when we come today with a more proper or suitable portfolio to be able to start delivering, and therefore, contribute more significantly to this portfolio as a whole. (inaudible) as an opportunity, we may comment later on. We've been through a review of our structures and operating systems. And now we can better use them as of this year. And this stands from a project that company had been engaged in and ready for more significant growth, not only in terms of infrastructure in this segment, but also vis-a-vis the products that was been developed and is to be delivered through our brokers to the markets.

Loss ratio comparing with the second quarter of 2012 and 2013, there is an increase and it is mainly or partly due to reasons outside the portfolios, sometimes insurance or some adjustments this quarter.

For private pension plans on slide 7, the next slide. Quarter-on-quarter contributions are virtually stable. Year-to-date figures show an increase of 12% and we are particularly addressing VGBL and PGBL. Our reserves grow by 10% this quarter and balance from the expansion of VGBL and PGBL considering our company's positions. And this is mainly due and driven by the contribution or the new contributions that has been added. Not to mention the profitability behind this portfolio.

The next segment is asset management now on slide 8. The total volume of assets under management goes down 14% particularly in the third-party front segment as you can see on the chart 6% increase, and this has to do with redemption made by some of the customers whose asset we managed and not exactly to performers the need of timely need compensating customers. The company's portfolio grew 6.4%, vis-a-vis the operational performance and the profitability of these asset and also the inclusion of Selic's asset is a a way that now makes the proprietary front portfolio.

Now on the right, you see the allocation of brands that Sul America investment is on, more than top related to such income, but we also have a growing component of go-to-market products and also based on stock and equity, in line with the strategies or the development strategy by the company.

Now capitalization on slide 9. This segment, we are introducing for the first time. SulaCap's capitalization was included or included by the company as of May, so we have two months in our consolidated figures with SulaCap. The transaction was concluded in May, April and since April as to now, we've been promoting the integration of SulaCap's operations or SulaCap's team and also officers. Gabriel announced (inaudible) participation in this call. In recent years, he has been the man in-charge of capitalization in Sul America's capitalization area and now he is responsible for the capitalization segment within Sul America.

So compared to the first quarter and 6-month, this is just to give an idea of the magnitude of those increase and also the potential capacity to be capped in capitalization, with a pretty good spend of the total collections of saving bonds and also reserves of 650 million already included to our assets, and that income of capitalization was about 29 million this quarter, out of which 9 million or likely less than 10 million account for the consolidated share, consolidated at Sul America standing from a small share. SulaCap still has a loss ratio was very bullish with the possibilities that can be excluded in the future for the capitalization segment, considering the natural synergies with insurance products.

But above all, due to the fact that SulaCap account now on the whole distribution capacity or the distribution network and Sul America's national footprint been able to go for new opportunities to this product that was introduced in 1939, when SulaCap was founded as a pioneer.

And the administrative expenses on the next slide, there is an increase in absolute terms of approximately 17% related to collective bargaining agreements and other agreements that had an impact indexation and this period, there was a drop of the index, vis-a-vis the revenue. Our operating efficiency ratio improved, vis-a-vis the first half of 2012. The company with 9.1% in administrative expenses and routine premium ratio. We've been heavily invested in order to go for opportunities to boost our expense control, profit review without compromising the investments required for infrastructure, IT et cetera and needed to support the company's growth.

The combined ratio was 101 this quarter, 101.8 or slightly above 100%. Well, that's a good number for this quarter. As you can see compared to 104.6 that we had in the second quarter of 2012, and 102.8 at six months in 2012. So improvements in both comparisons when it comes to our operating efficiency ratio.

Financial result of P&L on slide 12. As we usually do, the upper part of the slide shows the behavior and also allocations and strategies excluding assets or life and pension reserves with 5.5 billion are invested in Selic. A little bit also linked to IPCA, and a smaller share in the group with no significant changes compared with what we reported in the previous quarter.

These are government bonds and the company maintains about 20% of corporate bonds and stock accounted for 2% of our portfolio. Checking the P&L now. We have the company's decision in mind in order to stick to a strategy and allocational policy grounded and based on the protection of our liability position, in terms of our bond portfolio as much as possible. So this portfolio primarily has fiscal in mind.

Now, I'll give the floor back to Gabriel, and later on we can to go back to decisions.

Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

Thank you, Arthur. To conclude and summarize, I would like to say that the results achieved this quarter actually reflect the efforts of all of our business units to offset any deviations we had in the first quarter and put Sul America back on track. Forward growth and operating improvements and also seeking potential opportunities in the market. This quarterly results reflect measures that are the inclusion in our daily business ever since last year. So we are ready for following quarters on a very reliable manner.

Thank you for your attention, and we open for questions now.

Questions And Answers

Operator

We're starting the question-and-answer session now. (Operator Instructions). First question is from (inaudible) from Brasil Plural. Please go ahead sir.

Q - Unidentified Participant

Good morning, everyone, and thank you for taking my questions. My question is more theoretical. Over the last three to four years, the result of the second quarter usually is the weaker seasonal results for the year, maybe considering prices that are lagging behind due to the reversal or maturity of agreements and what we consider the announced (inaudible) to the third quarter and also due to seasonal reasons.

Now this year, we had significant results considering quarter-on-quarter and year-to-date figure. So what change this year, vis-a-vis the last two or three years? Well, there is a rupture in the trends for results, I'm asking you this because economic indicators in Brazil by in large are not doing very well. Top generation has a slow down and also the same applies to economic growth and you managed to have good results despite adverse scenario. So what change this quarter vis-a-vis the previous year? And then I have a second question to ask. Thank you.

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

Thank you, Philippe[ph]. In reality, this is a positive snapshot. This quarter last year, we had a competition of many factors and we don't have a silver bullet or a single explanation, a series of control measures were made for health for instance and maybe (inaudible), you can give more details on that. The good and the right underwriting factories, that Carlos Alberto can also give more details for automobiles, the measures, but was not taken actually now, but last year. So when you look at the quarter, please take into account that we had a positive solution of a series of efforts that were made, not only now, but over time.

So there is not a single explanation that's why I give the floor to Carlos Alberto and perhaps you can start by addressing the positive impact of auto this year and later on (inaudible) can also may comment about health disclosure, copies of that.

A - Carlos Alberto Trindade Filho {BIO 19272855 <GO>}

Good morning, everyone. Let us briefly address the results for automobiles. Results for auto. As Gabriel mentioned before, these results stand from several measures and also from a strategy that we developed about a year ago. In terms of portfolio positioning and there've been a lot series of actions related to pricing and also with regards to improvement in the operations.

Cost-wise, we also were strongly engaged to control costs related to service the customers on particularly losses and claims. And also several changes in the commercial strategy that were implemented with Matias. And there was a very significant impact, not only on this quality and better and more suitable prices, but also increasing popularity and the number of quotations. So with a massive expansion in our production capacity. And this combination all together led to those results. So as Gabriel mentioned in the beginning, the results achieved now did not come from a short-term move, but rather it has been worked upon for quite a long time now.

I understand there won't be any changes in our plans for the future. We always consider our capacity to generate results as a front line and not quitting at any cost as a strategy. So we can't stick to this line of result generation and also trying to find room and also the strategy, but there will strategies. Then we can increase our portfolio size and also our ability to deliver. We still have a lot homework to do. Obviously, I'm not going to talk about that now, because that could give hints to our competitors. But we have many projects underway right now. Our strategy is very well set and we understand that we will still read on more (inaudible). And for the market and maybe you had this question in mind or many of you may have this question of market in mind. I understand that market is in ready condition at a new price level, not only due to previous results which were very poor, but also considering the policy cost whatever was concluded and the update by new prices.

So all these have been observed and we could see a market environment that is very healthy nowadays. But the industry is concerned to deliver operating results. Since, all the interest rates moves have shown how volatile the process may be and how it can add to our activities, not as a driver only, as when we touched the market perception regardless of the interest rate growth that we are beginning to see.

Our belief is things have to (inaudible) mature, I'm not saying that processes will disappear cost wise, but I believe there will be milder and obviously for those who had like to venture that is the price to pay in the future, because in our business while getting in this cyclic standard is -- what is the high cost and we are not willing to go.

Now (inaudible) to talk about health.

A - Unidentified Speaker

Good morning, Philippe. Thank you for your question. That is generally to auto. There is no other silver bullet this quarter or a substantial rational, vis-a-vis previous quarters. But we receive a caliber effect that we explained you in the first quarter which was an increase in loss ratio due to a transfer of the losses from the first quarter of 2013 in our network. Also combined to a strong actions can do work on premium and control our portfolio and loss ratios. There is a series of projects that have been used over the last couple of years and so we've improved now some of them faster, others slower, be there will it be materials or health management or pension. So we have a broad menu. So they are delivering over time and they're gradually having moving return than we expected from some of them. So, be it in that medical management or loss ratio and adjustment we have good results combined with a caliber effect of the previous quarter with (inaudible) ratio you saw. That was an outline.

Arthur would like to make an another challenge. That's a pretty question. A comment for the quarter as a whole to some extent it validates the multi-line model adjusted by the Sul America within portfolios not related to among themselves or different behaviors and contribution at different quarters.

What we see now is very good performance in the auto portfolio. It's not only premium volumes lines, but also a reduction in loss ratio contributing to the operating margin and net income. This quarter our health loss ratio behavior was improved compared to what we typically expected for this quarter. So that's a comment I would like to make and I wanted to make about a multi-line strategy adapted by the company.

Q - Unidentified Participant

Perfect. Thank you very much for so detailed explanation. Now the last question is very good. Historically, the second quarter seems to be seasonally stronger compared to the first quarter and due to the renewal of health agreement. Is this expected to happen in the third and fourth quarter, becoming better and better or any reason why this would be reflected or does it make sense to assume what happened if it is here will happen again in terms of seasonality and and improved results? Thank you.

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

Gabriel speaking. (inaudible) There is no reason not to believe that the second half of the year will not bring the same volumes we had before. We're aware of seasonality that is positive, we have the adjustment and we keep on having strong new sales, we keep on selling well. So there are many opportunities in-house. There is no reason whatsoever not to believe that the second half of the year will be as strong as it has been so far.

Q - Unidentified Participant

Perfect. Thank you very much.

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

You're welcome.

Operator

Next question is from Julia Kurnia [ph] from Credit Suisse. Please go ahead.

Q - Victor Schabbel {BIO 17149929 <GO>}

This is Victor Schabbel from Credit Suisse. Thank you for taking my question. Actually my question is related to the recomposition of the margins and the management's effort to protect the companies cost stability in a more challenging scenarios. I know that obviously there are many efforts to be taken down the ground, but is there any room for administrative expenses and the percentage of earnings premium or regarding component of the combined ratio?

Any room for that index going down over the quarter, the first quarter, considering the efforts that you are implementing right now in terms of cost control and obviously another composition for margin? I would like to know, there is room for that or the bulk of whatever growth have been captured has a negative capture? Thank you.

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

Victor, Arthur it is. Thank you for your question. With respect to anything in the short time frame, I think the company has been included the index. Now we have investment that we need to make to support our investment and to form. To cost optimization, we should optimize G&A as a whole. We have actions underway that will drive to an improved index.

I would like remind you that two key portfolios. Half scale issues to be (inaudible) to administrative expenses, but they contribute more to retain premium and consequently funds will be include if we move or change those components. So expense wise, this quarter we already included Fuller Cap expense scheme. Fuller Cap is integrated to our expense schemes. In other words, the lower index will be higher.

Secondly, we have more expectations internally -- again, from the project fees where changes in operating system in a short time frame ended, expected to happen within the next two or three years from the November weekend with the benefits of these projects. So that's a great index. Obviously, it is a heavyweight in the combined ratio as we show them. But in the short run, I would say that would be stable, slightly selling down -- for improvement down the road.

Q - Victor Schabbel {BIO 17149929 <GO>}

Perfect. That was a very clear explanation. If I may, just another question. I have a question. We've been seeing that dental has been helped to increase volumes despite more challenging performance, not only at Sul America, but also in other carriers, in other segments as well. If possible, could you give more details about the room for this additional performance in a corporate or dental a year ago, accounted for 30% of the corporate as a new portfolio.

And now, we have almost 40% or 38%, any targeted lines for cross selling for instance? Have you then found that up, because certainly there is no room for that. So I would like to have a better understanding about this potential. Thank you.

A - Unidentified Speaker

(inaudible) is speaking. There is a lot of room for improvement. We've been checking the growth in the dental portfolio both for new sales and in-house in this portfolio. We've been really making efforts to help us with cross-selling both from new sales and also for those who are writing at the portfolio.

So the new adjustment negotiations particularly in a complex environment, as we said in the previous conference call, this allows to have dentals combined. So we are in the negotiation package. So there is not reason, no reason not to believe that we're very close to our full potential.

There are many more products, more life insurance and more revenues to earn. Now for quotation agents, well, we have about 50% of our quotation volume and these quotations already include all the potential, all the tools required to sell dental insurance together with health to our customers.

And we've been very successful in this arena. Not to mention that dental growth which alone already has a market. If you grow dental alone, it would grow anyway and now combined with health, there was an even bigger potential.

In our adjustment conditions, there is a lot of compliance for the dental, but later on, possibly we can sell even more dental costs.

Q - Unidentified Participant

Thank you, (inaudible). Thank you for your acclaimation.

Next question is from Gustavo Lobo from BTG Pactual. Please go ahead sir.

Q - Gustavo Lobo {BIO 18719996 <GO>}

Good morning, everyone. In the first quarter, you said your health result was very poor. But even considering the calibar effect, it will remain weak. So possibly it would take a very strong adjustment in the new cycle. Now we're ready, almost getting into August and I guess no negotiations have already took place, so what about the adjustments and what about your customer response?

A - Unidentified Speaker

Gustavo, thank you for your question, Maurice is speaking again. The tools is good, I think the main argument behind this good response, if you can break that down to some components, the brand remains a good brand, the level of fair growth is still very strong and customers acknowledged base.

In a better climate environment of better retention of company's employees, we believe that Sul America brand still makes a very good differentiator and we can see that in the low churn out rates that we can see lot of adjustments.

Now the second driver to our favor is that the market at large has a very high large rationale behavior. In the quarter you could see data disclosed on EMS, in the first quarter it had been regarded strong.

For those environment of lower loss ratio in the market at large, these all player who have advised sustainability measures. So our "peers" also have a more defensive approach.

And their customers are more oriented to reviewing the policies and to remain with us.

And the third driver, in today's environment and consider how we struggle to retain beneficial exchange in the insurance brings a lot of function between employers and employees. So they are more persistent to stick to the health benefits they currently have. They can -- their supplier are more comfortable.

Q - Gustavo Lobo {BIO 18719996 <GO>}

Okay. What about the order of magnitude of adjustments? Last year adjustment was very strong and apparently that would take -- also take a strong adjustment or even greater this year. How about that?

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

Adjustments remain strong. As in the previous cycle, I guess, right responses to the amount last year to the market as a whole was not enough within the market loss ratio. So the market position right now is strong again. There is no sign to show that it would get worse or better than the previous year, because we're much in line with whatever happened already.

Q - Gustavo Lobo {BIO 18719996 <GO>}

Thank you.

Operator

The next question is from Henrique Navarro from Santander.

Q - Henrique Navarro {BIO 16188960 <GO>}

Good morning, everyone. Many of my questions were already answered. Now one final question. Competition, the market was trying to manage the position and if it would be more aggressive or not. How do you feel competition not only for insurance, but also competitors? Any change in this scenario?

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

This is Gabriel speaking. Are you referring to any specific line or of launch?

Q - Unidentified Participant

One specifically for the auto segment, that would be more interesting to see that.

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

It is very cold so far, that's why I have a cough. The temperature is better today. Anyway, I can see that we're closing the cycle or the operating cycle in a very positive manner. Nothing severe or -- nothing severe has happened. Now the growth in the auto segment have been also strong over the period, but nothing considered to be an outliner. So they are benefiting from the synergies. And price wise, I can tell you that the policy of these under my perception, the policy is very much in line with the brand's policy and also in a very healthy manner.

We're not trying to grow auto cost or price, so we're working on all those clusters without causing any major impairment to the market. I'd like to add some materials to add on to my comments. But there is not a greater perception of big moves of the company groups or (inaudible) business as usual.

A - Unidentified Speaker

Good morning, (inaudible) speaking. What we've seen in the auto market, if we consider the market grow as a whole like (inaudible) mentioned in the policy cost and also develop in auto cost required the loss ratio, particularly in the XCDs [ph] Now like, Arthur mentioned, we'll be fine to address with the lot of technology in some of the risk, risks of auto everything work one by one and also observing the profile at risk and also regionalization very carefully. And as a result to our broad base, 13,000 brokers, we had very significant information and this allows Sul America to have a very strong component, vis-a-vis the market and our brokers, also competitors.

We haven't seen any problem or a specific problem with any of them and everybody has been extremely careful in order to protect assets, to protect portfolios and as a result, the market remains competitive, but also volatile.

So, there has been a maintenance in portfolios and also growth accompanied levels that are adjusted to the company's behavior and by the way, that's why the gross margin is very much in line with our actions. And improvement is known, we have high sales believe it or not in that industry that is still under development with very strong sales due to it's five factor LTI. That's conclusion of this comment. The market is developing and like better to explain, we conducted a plan last year, we will position the company and now we're reaping our fruits. Now the company strategy is very much connected item by item, risk by risk with each one of our process. So it can really be comparative and have an extremely profitable portfolio.

Q - Unidentified Participant

Thank you.

Operator

The next question is from Pedro Zabeu [ph] from Banco Fator. Please go ahead sir.

Q - Unidentified Participant

Good morning. First of all, congratulations for your results. I have two questions. One is with regards auto and the other health. Let me start with health. Of all the indicators, which indicator was more positively affected by the measures you've taken lately? Was it the control of procedures or perhaps with the cost that will increase or any drop in the use of plans? So where do you think it really make sense? Which indicator in your opinion lead to those surprising reduction you found or you had quarter-on-quarter?

A - Unidentified Speaker

(inaudible) is speaking again. Thank you for your question. What we've been seeing and working heavily on when it comes to our revenue breakdown, well, we are being very consistent, as we've said before, the main driver in-house is medical management (inaudible) we've been spending a lot of our efforts in the bulk of our expenses period by doing direct sales or working on specific set of networks of compensation measures or lines of alternative products. So we've been very much engaged in recent years.

In 2012, we did intensify our direct sales efforts very effectively and we're reaping good results now in 2013, and the outlook is to improve our year-end, vis-a-vis the previous year. We also had some systems that really change the quality of information to negotiate with our integrated network. In the past our packagers were more flexible, before most of them want information and it was easier for the provider to have or include another kind of expense inside the medical bill. And now within range our data base and now that we have our personal train and under the same format.

Particularly, there are some negotiations, our packages were closed and more specific and from our control. With that -- we're in many hospitals particularly in San Paulo and Rio and also moving to the North East and we're lowering the number of loses. (inaudible) could give you a more straight forward answer. It is that the bulk of our actions are on loss control combined with a long-term effort in health management. Health management programs authorizing, we'll have more than 3000 on life insurance, our geographies of a better team, COPD with a very positive return. So these are the details. Thank you.

Q - Unidentified Participant

What about the auto markets?

A - Unidentified Speaker

Our perception is that price adjustments, particularly last year in the second half of the year and also the first half of the year was very strong. When it comes to automotive policy renewals. However, our loss ratio after this strong reduction is flat and stable in the market at large, not only for you, but also for some of your peers. This change in competition that happened in 2011 was also related to the high single grade, how would you compare the last result? And to what extent can it affect loss ratio and also the competitive environment down the road?

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

As I said before, we have the cycle and peak. There is a relation. As you can see that my perception now is that the level of the mix, even though it shows the direction for about 9% of interest spent, the market still looks at its release as something that perhaps would not happen on a long-term basis considering adjustments over next year. Therefore, we don't see a move by the margins with lower prices due to this liq- rate, we're right to say that the rate is very strong.

Q - Unidentified Participant

Thanks. First question in order to -- low prices in an attempt to gain market share, however, what was happened?

A - Unidentified Speaker

The market as a whole destroys and that is difficult to go beyond, whatever is expected or possible on this kind of move with the nearest value and the liq-rate also has its own cyclic need and then recovery can be very painful.

But what I think, is that today the market is more mature and eventually understood that it's not because we have 1.5 or 2 that we can just go down and gain market share. And therefore maintain the results, and also profitability move does not lie on the liq-rate around.

It is also factored and the fact, medical costs, the value of costs for instance where there is another by the (inaudible) can move in that phase of lower crisis or into the Selic rates and considering the comeback of ITI valued effects your whole portfolio (inaudible) and we were not pricing for that purpose. So it is not a move that is so simple today would expect to the Selic rate. Obviously, it does have an impact, those who are not so to think might take the risk. So the cost of sales has not been low considering all the stories in the past of those who jump on the back. I think the margin is more matured today and I understand there are too many variables into the auto operation leading to more grow teens.

So considering all these growth in terms of price adjustments with the inclusion of policy cost et cetera. However dual ratio is very good. And by the way, this was even included as an in-house growth. So we understand the market is stable, the market is healthy and we manage to add a lot of value in our profit.

And as a result our renewal rates are even greater. I'm very bullish for the future market and particularly when it comes to Sul America because we have been managing to move forward in so many fronts, with so many new things taking place. Well I don't believe this to be a short timeframe, but a long time frame as to very promising for auto.

Q - Unidentified Participant

Thank you once again, and congratulations for the good result. Thank you.

Operator

Next question is from Carlos Macedo from Goldman Sachs. Please go ahead sir.

Q - Carlos Macedo {BIO 15158925 <GO>}

Good morning. I have just one question. Regarding individual health, in addition to seasonality, in the second quarter and if you consider a loss ratio of the last 12 months with this specific portfolio, it has been maintained about 90% since the second quarter of

2012, starting from -- well, 82 and 83. So I believe part of the reason why it has been at this level about 90 has to do to your initiative refrain an increase in loss ratio. That could be worked perhaps with the same indicator in the future, in other words, any perspective to have a significant improvement or at least partial improvement in the loss ratio of individual health or this 90 has a level that we've been maintaining considering the peculiarity of this settlement.

A - Unidentified Speaker

Thank you, Macedo. (inaudible) is speaking. Couple of important points to address. Everything that we do in terms of loss management and health management is in our portfolio. So we have synergy in the operation and therefore, (inaudible) our agent sticking to our concept. The health management programs more specifically or prevention of some disease or health prevention, while we concentrated more efforts in the individual portfolio, because it needed more program, a couple of years before. But we had more results in this area in the individual cost spending, when it comes to lower or to loss pensions.

Another important point that they remind is the way of the portfolio that has been coming down gradually 6% or 7% over recent years with no significant changes. We do see some oxygen with the inclusion of new independent or new issuers that are born for the portfolio as a whole that has been a reduction. Now we just had recent news of postpayment plans and portfolio and also the cost payment plans, pleased to remind that 80% of the repayment, 80% of our portfolio is for pre-payment.

So we're still trying to stay within our profit sales or authorization of profit sales and once we come to a figure, we can better expect the future behavior of the portfolio prudent wise as the loss which only relies in our sales, we've been focusing a lot of efforts to have a better performance in this portfolio.

We can see the loss ratio for life in this portfolio. But we don't have an idea of (inaudible) loss in the life. I'm coming down to medical. I believe the extension of efforts to lower the frequency in those initiatives. Considering this dynamic, our prices and take into accounts the impact vis-a-vis inflation.

Q - Carlos Macedo {BIO 15158925 <GO>}

Would you say or do you expect, in other words, do you think prevent a more consistent improvement in loss ratio?

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

The portfolio is stable. There is no impact of internal or external factors that might have a negative impact in our loss ratio this portfolio. I believe all players want to have a portfolio working in one format or another. So any pension adjustments that might bring more premium in the portfolio associated to all the set of initiatives being carried out up to now. We have no reason to believe why this portfolio wouldn't have a very aged [ph] metric behavior compared to the previous year to another portfolio. Well it does have and inclusion of beneficiaries over time and a gradual drop in its portfolio about 7%. So we have a seasonal effect.

Q - Unidentified Participant

Right. That is exactly my question. Do you see a scenario of that of loss ratio or stable loss ratio considering the initiative that is made, those will be offseting a premium increase that was not enough or not a good idea of what it is.

A - Unidentified Speaker

We have been heavily investing in loss control. Improvement remained inline and loss control proves to be effective, we'll have a positive outcome.

Q - Unidentified Participant

Perfect. Thank you.

Operator

Next question is from Jorg Friedemann from Merrill Lynch. You may proceed sir.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Thank you. Congratulations for the results. I believe most of my questions were already answered. I would just like to address a topic related to your financial results. I wonder, if you give us some color about the reasons behind this drop this quarter. Well, volatility is related to our equity and future interest rate. Am I right to assume that? And considering this scenario, I wonder, if the outlook begins to show some kind of improvement once we have a recovery of these factors in July?

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

Thank you. So it's Arthur speaking. Well, this quarter when it comes to equity and also vis-a-vis our results, we do have that market exposure issues and the rates were not positive. In that sense, we'll add these two aspects contributing to worst results and worst yield compared to what we had before. We had 119 this quarter, 103. So basically, a combination of these two elements. I also said in the beginning that the company strategy caused by potentially its liabilities.

We can see that only one side of the equation is been focused here, but we talk about the financial results. Now considering our market exposure at the equity market, well, I have (inaudible) next to me -- as a management or a portfolio manager, I'll ask him to give comments on what is happening in the area?

A - Unidentified Speaker

Jorg, thank you for your question. Now considering, this half of the year as a whole, a significant fact in result portfolio just made our first six activities. And the portfolio performance tends to be in line with high Selic rates, so we might expect positive results and where we have with respect to the equation rate which is also significant share of the portfolio around 20% or 25%. We can also expect slightly higher inflation rate for the second half of the year as we have the positive results as well.

As our Q2 results with a low equity exposure, it's hard to predict anything, but any impact or another negative half of the year for the capital market, the impact tends to milder in percentage wise. We have 2% allocation in this portfolio. So to sum up, we can expect a positive financial result considering a higher Selic rate.

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

Well, just to add to Marcello's comments, even with a yield does not prove to be so higher, the rial volume expected in the higher due to the exposure and also the inflation components highlighted by Marcello. So what about a flow of results from SulaCap.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Okay, okay. Got it. Thank you.

Operator

(Operator Instructions) There are no further questions. I would like to give the floor back to the company's management for the closing remarks.

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

Thank you all for joining us. I hope we've answered all your questions. We remain at your service with our Investor Relations team and the officers of the company to clarify all your questions. Have a great day.

Operator

This concludes Sul America's Conference Call. Thank you all for joining us today. Have a great day.