Q3 2018 Earnings Call

Company Participants

- Gabriel Portella, Chief Executive Officer
- Mauricio Lopes, Executive Vice President Health and Dental Insurance
- Ricardo Bottas, Chief Financial Officer and Investor Relations Officer

Other Participants

- Eduardo Rosman
- Lucas Lopes, Analyst
- Rafael Frade, Analyst
- Rodrigo Garcia, Analyst

Presentation

Operator

Good morning. Welcome to the conference call of SulAmerica to announce the results of the third quarter of 2018. Today here with us, we have Mr. Gabriel Portella, CEO of SulAmerica, and the Vice Presidents of the company. This conference call is being transmitted live through webcast with an audio and slides that may be accessed in the company's website for Investor Relations at www.sulamerica.com.br/ri. (Operator Instructions) SulAmerica's conference call is being recorded and the audio will be available right after it ends on the company's Investor Relations website.

Now, I would like to turn the conference over to Mr. Gabriel Portella, CEO of SulAmerica, who is going to start the presentation. Please, Mr. Portella, you may start.

Gabriel Portella {BIO 18012687 <GO>}

Good morning to everyone. As usual, I am here together with SulAmerica's executive committee to announce the results of the third quarter of 2018. We have ended another quarter with very good results, demonstrating once again that we are capable of continuing a positive trajectory of performance, growing with profitability and sustainability. Over the past few years, we have been -- we have had to deal with many different adverse scenarios; high unemployment, economic recession, and a lower rate on basic interest rate even so we could use all the opportunity and SulAmerica's position in the markets where we operate.

The net income was 55% greater in the third quarter and our combined rate was 95.9% which again demonstrates a relevant improvement demonstrating that we are successful in seeking greater operating efficiency. Our number of members in health and dental insurance is still growing with a highlight for SNB [ph] and dental portfolios. The loss ratio in health is also under control at the lower level for the third quarter since 2010. This is a result of our initiatives of claims management, health promotion, and more recently care coordination which involves all participants in the supplemental health chain.

In the segment that is important, automobiles, it has kept its good performance in the year representing the growth in revenue and profitability, consolidating the recovery of volume in this portfolio. Life and pension operations go on with positive performance. The segment of life and personal accident had another quarter of increase in revenues. In pension, the revenues reserves have been growing consistently with another quarter with positive net allocations. In savings bonds, in spite of the slow recovery of the real estate market effecting our main products, rental surety insurance, the segment has presented a good performance with a growth in revenue, reserves, and better gross margin.

In asset management, we closed the quarter with a positive performance which represented throughout 2018 with an increase in revenues and margin, at the same time, increasing the volume of assets under management, which reached BRL38 billion. All of this keeping our main expenses under control in spite of new investments, launch of new services, using more and more lean methodology to improve processes and expanding innovation initiatives and digital transformation.

In short, another quarter of well-balanced and sustainable growth. And now that we have started the last quarter of the year (inaudible) announcement in October of the agreement for the acquisition of Prodent, the eight largest dental plan carrier in the country. Once this is done, Prodent is going to add another 400,000 members to our portfolio with an expectation of increasing operational efficiency and reinforcing our position in the segment of high potential.

Operator

Ladies and gentlemen, please stand by.

Gabriel Portella {BIO 18012687 <GO>}

We apologize for the technical problem. We are back on and I was talking about the overall results with another quarter with well-balanced and sustainable growth. And we have started the last quarter of the year with novelties such as the announcement in October for the agreement for the acquisition of Prodent, the eight largest operator of dental plans in Brazil. Once complete, Prodent is going to add another 400,000 members to our portfolio with expected increase in operating efficiency and reinforcing our position in dental segment.

I would like now to turn the conference over to Ricardo Bottas, our CFO and IRO who is going to mention the highlights of the quarter and then we will have a Q&A session. Bottas, please?

Ricardo Bottas {BIO 18071813 <GO>}

Thank you, Gabriel. Good morning, everyone. Now you can see the slides available illustrating the next point, going straight to slide two about consolidated revenue. We have recorded in Q3 2018 a revenue of BRL5.3 billion, an increase of 10.8% with a highlight to the growth that Gabriel mentioned in his initial comments.

Regarding health and dental, that grew 12.4% and then a combination of growth in a number of members and adjustment concentrated in regions which all effecting the third quarter. Automobile grew 7% in revenue and consistent recovery for the second quarter in a row of our fleet. Life and Personal Accident grew 9%. Asset Management Administration also increased its revenue by 25% and here, because of the increase in our volume of assets under management and also the mix of allocation that is more favorable, thereby contributing for the revenues. Year-to-date numbers represent a growth of 13% in total revenue with solid growth in all our business lines. And with a highlight on the participation of the segment of health and automobile which have a strong correlation with the growth that we have in this segment, representing 13.7% and 12.8%, respectively.

On slide number three, so that you understand the mix of revenue that materially has remained stable, if we compare to the same quarter last year, so it's BRL15.2 billion in revenues, 96% of total revenues are related to insurance operations. And then within the mix of insurance operations, 76% comes from health and dental, and 18% comes from automobile, and 5% from life and pension and 1% from the other business lines as I said, basically consistent with our revenue mix in the previous periods.

Now going to slide number four, which is the most important because it has many highlights. And going straight to, as we talked about revenue in the two previous slides, consolidated loss ratio had a significant improvement of 2.1 percentage points and the consolidated reaching 74.2% in the quarter. And then we show highlights of relevant contribution of the recovery of our automobile segment with a reduction of 4.7 percentage points in loss ratio which is the lowest loss ratio for a third quarter in a series that we have mapped since 2010. Health and dental also consistent results in the quarter with a reduction of 1.9 percentage points in loss ratio.

The segment of Life has also represent a reduction in loss ratio of 1.6 percentage points. Still on this table in gross margins, you can see a relevant improvement of 3 percentage points in gross margin which represents, if we take absolute numbers, an increase of margin in the quarter of 43.5%, result of a combination of increase in revenues and reduction of loss ratio we gained in operational efficiency. Year-to-date gross margin, the growth was 41.3% or BRL489 million in absolute numbers.

For administrative expenses, consistent and stable in the third quarter, showing operating leverage. When we observe the index of administrative expenses year-to-date, nine months compared to the previous year was 8.4% compared to operating expenses as to 8.8% of revenue in the same period last year. The combined ratio had a relevant improvement showing a consistent growth in the quarter and the nine months year-to-date of 3.1 percentage points. And the combined ratio expanded which includes the financial results being pressed and suffer pressuring by (inaudible) also had significant improvement of 1.8 percentage points in the 3Q18, so everything.

And the capacity to compensate with the operations for decreasing financial results because of lower interest rate, we closed the third quarter with 55% increase of net profit compared to the previous quarter of BRL234.6 million was our total amount of net profit. Considering the comparison with '18, our turnover average equity was 16%, much above the profitability, almost 3 percentage point above what we had used as a 12-month reference reported up to September '17 which was 13.1%.

Now briefly going over all our business lines, slide five, operating revenues of health and dental increased 12.4%. When we consider only collective insurance, the growth was 13.8% with all health and dental showing good performance. And an important highlight to dental which grew 30.8% and small and mid-sized company health had an increase of 22.8% increasing our level of customer retention and new sales in addition to the use of price adjustments that have been employed this year. We have reduced our loss ratio almost 2 percentage points as a result of our better management of claims and health and well-being. And we have seen it all in practice.

Looking in the long run, and it's important to highlight, our loss ratio is worth 80.9% year-to-date representing some significant improvement over 1.2 percentage points. We've experienced 11.6% increase in number of beneficiaries year-to-date compared to third quarter '17. Collective plans had growth of 13%, having an increasing number of beneficiaries of dental products 30%, and health small and mid-sized companies had 9%. In addition to recovery of our corporate and affinity with growth, net growth for the third consecutive quarter, about 30% growth specifically.

The increase in our gross margin was 41% for dental and health which shows the consistent growth of revenues and the very good performance we had in loss ratio. For automobile, one more quarter of the consolidation of our portfolio which started in the second half of '17. Third quarter '18 we had 7% increasing revenue with a reduction of 4.7 percentage points in loss ratio which resulted from investment in our (inaudible) and improvement. And we have the commitment of recovering the portfolio and improving profitability leading to a growth of 60% in gross margin in the third quarter 2018 and 107% when we compare the nine first months of '18 compared to '17. Our insured fleet showed also 8% growth compared to same period last year, exceeding 1.6 million cars at the end of the third quarter '18.

Now taking a greater leap so that we can open to the Q&A, let me now show you our administrative expenses, it's slide 12. So, revenues and expenses, it was stable, 8.6% of operating revenue. And it's important to bear in mind, and Gabriel has already pointed out in his initial remarks, that our administrative expenses include the investment that we have made in operational improvements, new products, in service and innovation, which are accounted for as expenses because of the way we account for and make our investments. So maintaining this index is in considering all the volumes of impacts that we have made, very strong and consistently, indicate how well we've been managing our administrative expenses, SG&A.

We had 10.7% increase, and differently from previous years, in the third quarter, similarly to the second quarter '18, we had interest on equity in subsidiaries up to the level of the holding. But we still haven't included interest on equity by the holding which is going to be done on the fourth quarter and then it's going to be regularly done as in previous years. Part of the benefit of interest on equity has already been anticipated compared to the previous period and the contribution to the net profit. But specifically SG&A, this group of expenses has an anticipated burden because there are taxes and social contributions on this interest on equity which are detected as administrative expenses and accounted for whose benefit is going to be offset by reducing the expenses of income tax and social contribution. In the quarter, we had net benefit of BRL3.5 million and year-to-date nine months the net benefit, considering the effect of SG&A resulting from tax and all that and the benefit on income tax and in term of BRL7 million net benefit nine months. Year-to-date, we have reduced the amount of our SG&A going from 8.4% -- or going from 8.8% (inaudible) to 8.4%. Now talking about our investment portfolio, and our different strategies were consistent to the previous quarter, and the performance of our portfolio reached 110.3% of CDI in the quarter as opposed to 102.4% in the previous quarter -- last year. Year-to-date, average profitability of 111.2% CDI.

With that, I close my presentation and I believe we can go into the Q&A. Thank you.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Mr. Eduardo Rosman from BTG Pactual.

Q - Eduardo Rosman {BIO 16314825 <GO>}

Good morning, everyone, and congratulations on the very strong results that you are presenting. I have two questions. Number one is about seasonality. I know that the insurance business has a strong seasonality. I remember that in the first quarter, the quarter was not as good and I think that the shares dropped considerably in the day after. And you made it very clear that the snapshot didn't look so good, but the trend was still very good and I think this was confirmed along the second and third quarters. So couldn't Q3 have been kind of a too strong snapshot? Or is the trend -- you have an improving trend and you kick this profitability over future quarters. This is number one. And the second question. Could you give us an update of the regulation environment in health. I know that there is a public consultation to change the solvency model. There is another bill in the lower house to change the way physicians are paid by health plans and technical, many technical issues that might change. Could you give us an update in terms of what is being discussed in the regulation environment of health?

A - Gabriel Portella {BIO 18012687 <GO>}

Hi, Thiago, [ph] can you hear me well?

Q - Eduardo Rosman {BIO 16314825 <GO>}

Yes, I can hear you very well.

A - Gabriel Portella {BIO 18012687 <GO>}

And you did not specify the segment or the business line, but I am going to give you an overview because I imagine you are talking about health and automobile and issue of seasonality as you mentioned very appropriately. It's a feature of our businesses, in all our business lines. But as we explained and you confirmed that we did not see a trend in those numbers, but some factors that contributed and we were going to follow our regular trajectory.

When we look at the performance of the quarter, and I'm going to let Mauricio talk about health and Dal Ri about automobile, but we have had a good performance in the quarter. Doesn't mean it's normal. We also need to bear in mind the seasonality of the quarters. Normally, this is one of the strongest quarters we usually have. This is the time when we usually consolidate many adjustments, a cycle that usually starts in the second half of the year rather. So we have been capturing good results with automobiles and everything that we've been investing, so we improve our underwriting processes.

Now I'm going to turn it over to Mauricio to talk about health that undoubtedly the trend is of recovery and we are confirming the numbers in this quarter are positive. This quarter usually has its own typical features, but the challenges that we have in the future, we're always ready for what is ahead in the future. So I'm going to let Mauricio and Dal Ri to talk a little bit about this.

A - Mauricio Lopes {BIO 21675846 <GO>}

Hi, Thiago, this is Mauricio speaking. So, in health, I would like to answer the first question about seasonality and then Dal Ri is going to talk about seasonality and then we'll move to your second question, so that it's not too long.

In fact, the third quarter is the quarter when we fit or we allocate most of our adjustment, renew the biggest contracts of the company, so we adjust the massified portfolio, notably individual and affinity brands. SME is uniform. It's one-twelfth along the year and we have major contracts in June and July and August for this portfolio. So what you are seeing here is that we were able to fit a volume of adjustments that were really right and really matched our needs and in line with what we had been doing in previous years in terms of keeping the profitability of the portfolio. So everything has been working very well. So SME is about 88%, corporate 95%, and more importantly than that, our NPS for the company, and it has been recurring, and the retention for SME is about 60% -- 60 points rather.

So in addition to our ability to retain, well, the process of retention has been very good for all our customers. If you add everything up, sales teams have been bringing on many savings. We have lots of sales that we have accumulated during the year, much greater than we had in 2017 when we add lines and mouths [ph] if we talk about dental plans. So for three quarters in a row, we are having an organic growth, it's very good. So with positive movement when the company hires more than they fire, which is very good at helping loss ratio and in productivity at the time when they get their car, get to know the network, it gives us some time but more than that there are two actions that are more structural. So we do very good work of retention and sales and customer satisfaction and customer service. But additionally, we have better inflation and loss ratio has been dropping in all portfolios in a very good way, even for individual plans that used to be a concern. And this adjustment as inflation, that inflation goes down in our product and operations with care and everything. But there is an adjustment of our network that -- and according to what we plan this year, and this has been very good, very satisfactory.

So we are structuring very good partnerships with our network, the teams of providers around the country. We have been able to make agreements with the network of hospitals, physicians, and labs that are longer-lasting, packaging everything more rapidly, dealing with drift more efficiently, with more robust packages which has translated into better loss ratio. So this is what you are seeing as a whole.

I'll stop here and I'll turn it over to Dal Ri. So before turning it over, I apologize, Eduardo is going to speak now.

Q - Eduardo Rosman {BIO 16314825 <GO>}

Eduardo, this is Eduardo speaking. I mentioned the wrong name, sorry. So during the year, naturally in the second half of the year, it's always better in terms of loss ratio than the first half of the year. So at least historically speaking, not just for SulAmerica. What had happened in automobile, all the investments that SulAmerica has made and SulAmerica has been able to have more of an improvement because we are coming out from a crisis that was slightly more intense than the market. And our loss ratio now slightly smaller than that of the market.

But the market has also gone better this year, and the market has improved almost four points. This is the result of slightly more stable market in terms of price and looking in a more rational way, when we look at the relationship between cost and risk. So basically, SulAmerica had a better quarter than the market because we are somehow maturing, aspects that we have been mentioning over the past few calls from pricing that we were able not only to learn in our underwriting policies, better understanding of the risk and its variations. And in terms of production, we are recovering production that we lost last year when we worked with more appropriate prices because the market was slightly more aggressive and we didn't want to go into crisis.

And this year, this customer has already broke which came to our company once again and submitted -- approached to us bringing back customers to us. And now we know better our customers, we can make better choices of which customers we are going to retain and recover. Additionally, and still talking about production, that internal work, so intentionally with our results, we have launched a new quoting system. When the broker has an interaction in terms of calculation with us and that's just handed to our sales area, working closer to us, being more proactive. And that has also led us to increase considerably the numbers of calls submitted to SulAmerica and this has increased our capacity to choose our customers which led us not only to have the better customers, but to somehow be able to increase premiums. So it's not just about the seasonality of loss ratio, which is slightly different from health, so our seasonality in the market comes from a bigger seasonality and now it's recovering and SulAmerica is not different from that, only that SulAmerica has a more intense recovery. I hope I have answered your question, and I will turn it back over to Mauricio to talk about -- to answer the rest of your questions.

Just a minute. If you have a question about seasonality, and in my presentation, I briefly presented the component to explain one item of deviation of SG&A. Even though the index is under control, there is one component there which is the interest on the asset base. It was immaterial, so the statement that we have presented by subsidiary on the second quarter and third quarter, doesn't have a material effect in terms of seasonality because the most relevant effect results from exactly the interest on equity by the holding.

A - Mauricio Lopes {BIO 21675846 <GO>}

In terms of regulatory affairs, we have to divide that at federal level. I think nobody can really anticipate or predict what is going to happen in the Congress in the upcoming months. There are going to be new Congressmen and women. Shortly, there are a number of deals going on at the same time. New agendas will be brought to our attention. So what I know for sure is that there are many topics competing for attention of the Congress. Before, I do not have great expectations in the short run. Within the executive branch and the agency, there are some topics currently being discussed. It's not something at the decision level yet. There are some proposals for discussions, work groups, for pricing, for relations among providers, compliance, so all regulatory issues have started its cycle of discussion. And I really do not know when we are going to come to its end either.

We have been participating at all forums represented by FenaSaude our association discussing technically all topics. Some of them seem to be more promising than others. But this is of course depending on our own circumstances. If it's something which is going to increase the requirements for capital, it might be good for SulAmerica because this is going to compensate markets. However, that won't be something to other companies. So it's really difficult to have any kind of input understanding about all these issues because the market is highly heterogenous. And we have representation by FenaSaude with the federation. So of course, there are also specific issues in its agenda. So to emphasize, we've been part of all of the discussion forums.

Q - Eduardo Rosman {BIO 16314825 <GO>}

Wonderful. Thank you all very much. Thank you for the team and for your very detailed answers. Thank you.

Operator

The next question by Lucas Lopes with Credit Suisse.

Q - Lucas Lopes {BIO 18956724 <GO>}

Good morning, everyone. I have two questions. First about health. Can you please elaborate on the company initiatives for mid-ticket? We know that the company has a combined ratio that is similar to notify [ph] with a lower premium paid in your non-verticalized structure. And I'd like to know whether it is possible and whether you have been exploring the possibility of reducing the average ticket. So not only operating at the premium level, but really compete with HapVida and the market which has been growing significantly. And secondly, a question on automobiles. We've seen a reduction in premium in the market and in the company results. And talking to people in this industry, I was given the impression that the prices of automobile prices have been going down and this has been a trend in the second half. So have you been observing the same? Is there more competition on the second half of 2018? Do you think that this competitive situation will impact your growth of insured fleet? Thank you very much for your answers.

A - Gabriel Portella {BIO 18012687 <GO>}

Lucas, I'll start and then Mauricio will take over. You are right, we have had data from September and there was a decrease in premiums. Year-to-date, it's 13.6, one of the worst. But when we're talking about price war, and I've been in the market long enough to know that it happens all the time. There is always new incumbents or some companies going more aggressive than others. I don't think there is a price war. I think that are smaller things, there are fewer customers in the market and this is why companies are making more and more investments to reduce this impact by offering more services, more products, better cost benefits to attract clients. We have suffered a lot in the automotive industry with having reduction in sales of new cars since 2016.

Last year there was some positive numbers of sales than this year, but still not enough to deal with our insured inventory which goes from zero to 10 years and then we have annualized measures. So yes, you have a point, there is some level of price war. As any open market, there are at least 20 insurance companies fighting for the same customers. But at the same time, there are fewer products in the pool because the fleet is getting older and some clients are leaving the market and some players are leaving the market until we have a renewed fleet.

So it really reinforces what I've just said. We have to make investments, we have to continue measuring better, our risk and work to attract more clients not only to our SulAmerica brand, but all the value attributes we can offer. In September, there was a decrease in September because of the number of working days. There were 19 working days in September, so probably we are going to have some increase in the market for October. And a 3.3% increase will probably change. We expect to reach a somewhat higher growth. But there is going to be a challenge to increase average premiums and to expand the insurance market overall. This is going to be a test to all of us.

So if you are satisfied with my answer, now I'd like to hand it over to Mauricio.

A - Mauricio Lopes {BIO 21675846 <GO>}

Well, Lucas, for the mid-ticket segment, SulAmerica does not think that reducing the network will reduce the loss ratio enough to go into mid-ticket. And it does not -- it's not enough either to open, to extend the network for the ones that have a smaller network. It's more than that. It's effective control of loss ratio and it's an effective network. It's not tailor up or down the network and that's going to change the way you perform in the segment. And why am I introducing it like that? We started a journey some years ago to go into a mid-ticket segment in addition to maintaining our premium segment. And this is why we use MTS and this is why we keep on testing and measuring to make sure that we have satisfaction levels that bring in tickets and also good levels at mid-ticket.

So we have been managing loss ratio, managing health, and now we are in third movement, more than 150 people involved in developing a number of functionalities that can provide appropriate management for quality and frequency for the providers we think are more efficient which is something that we have been doing for a while. It is what we call coordinated care. We have almost 100,000 lives being managed by that and it's helped produce excellent results.

In terms of patient satisfaction, the NPIs of coordinated care is about 85 which is very high for an NPI score and it also have maintained a control of loss ratio much better than we initially expected. So this has been an alternative to work with mid-ticket more efficiently. We have had two small pilots (inaudible) We are observing the performance in both mid and long term. But there is also an expansion of national footprint involving providers in commercial area to provide greater coverage in some regions where we were not represented, where we will have mid-ticket more efficiently and better. It's a journey. We've already started. Results are good. We still haven't got to the level we wanted, but we have started it. It's a process that we have to get on board and observe on a monthly basis.

Q - Lucas Lopes {BIO 18956724 <GO>}

Thank you very much and thank you for your answers.

Operator

Our next question comes from Rafael Frade from Bradesco.

Q - Rafael Frade {BIO 16621076 <GO>}

Good morning to everyone. I would like to go back to Rosman's question to maybe word it differently. As you have your results considering seasonality and importance of Q4 in performance as a whole, there have been situations and we had a weaker third quarter and a very strong fourth quarter or the opposite. I would just like to discuss here, how can we imagine this. We have had a very good third quarter, but maybe what will the fourth quarter be like? How should we think about the fourth quarter and the evolution in the fourth quarter? And the second question regards as you presented a profitability that was around 16% year-to-date numbers or the last 12 months. So profitability was around 15% for SulAmerica. So looking into 2019, it's not really a guidance, but a discussion. So maybe there will be a reduction in our tax rates and also in interest rates. Should we think the profitably to be around 17% or 18%? And how do you see the possibility of keeping on increasing profitability?

A - Ricardo Bottas {BIO 18071813 <GO>}

Hello, this is Bottas. I'll try to answer your two questions in one together, because somehow they are related to one another. So there is a component of your question that talks about events in the third quarter, except for what I talked about, interconnectivity such as breaking down amounts because they are immaterial because the holding has not yet made its statement which would be an advance in terms of what we did last year. This component which in net terms for the nine months are about 7 million in relation to what is not in the basis for 2018 because it only happens in the fourth quarter. This is the only material effect in the third quarter. As to operational issues, the numbers of the third quarter are the third quarter numbers.

As to the fourth quarter, it's not expectation, it's given. And so seasonality remains with a behavior in the health loss ratio notably in health that historically has a lower loss ratio in the month of December and this keeps. And as you helped me answer, as we do not give guidance, what we do to try to illustrate the behavioral seasonality, and that's why we talked about the return on equity over -- average return on equity for the last 12 months was to capture the profitability of the last 12 -- nine months rather, but also seasonality. There are other factors that may affect our performance in the fourth quarter, but we need to wait.

The market, as it's been very well explained by my colleagues, and that are affected -- while we see and we are monitoring the data from AMS and (inaudible) there is no expectation of reversal of trend. But we cannot give you any guidance for the third quarter and let alone 2019. For 2019, there are some things that we are taking for granted, but they are basic assumptions. For example, the change in tax rates which today there is one scenario and maybe the scenario will remain the same and will change. Likewise things that are related to capital is the denominator of the equation which are related to regulation factors which are not under our control. So in order to have better profitability, we want to have greater efficiency. But I can't tell you whether we are going to change our levels where it's going to X, Y, or Z.

Q - Rafael Frade {BIO 16621076 <GO>}

If you will allow me, just in terms of seasonality, there is one factor that I would like to understand whether it might impact or not which is the closing of a quarter. So it ended on a weekend and we know that one or two days sometimes make a big difference in loss ratio. So when I talk about a forecast for the fourth quarter, maybe some claims are carried over to the fourth quarter because of the calendar effect. Is this relevant or not?

A - Mauricio Lopes {BIO 21675846 <GO>}

This is Mauricio. Thank you for your question. Well, not in principal. Everything that we have been monitoring in the year is absolutely the same. Nothing in terms of deliveries or workdays, everything is business as usual. When we closed the cycle as there were no holidays, there were no atypical movements.

Q - Rafael Frade {BIO 16621076 <GO>}

Thank you.

Operator

(Operator Instructions) The next question comes from Guilherme Palhares, BTG Pactual.

Q - Rodrigo Garcia {BIO 16804384 <GO>}

Hi, everyone, this is Rodrigo Garcia. I have two questions. The first one concerning premium segment, and I've heard from some HMOs and some providers in the market, a greater pressure of downgrading of healthcare plans throughout the months. Some in 2015, '16 and some greater pressure as of 2017. So I'd like to hear from you about downgrading of healthcare plans and the products that you have developed throughout the past quarters which is going to give some flow to that demand. Do you see any version of this trend, having some improvement, some reduction of downgrading? So this is the first question about premium segment. Second question is your group health rate. How much do you think the improvement of the loss ratio in recent quarters is due to the partnership with Healthways and the better B2B analysis that you've been doing with them? What's the percentage of your because customers have really joined and complied with this program and can have interesting preventive programs. So this is what I would like to hear, your partnership with Healthways.

A - Gabriel Portella {BIO 18012687 <GO>}

Welcome to our call. So let me tell you what we've been doing for the premium. This is a difficult equation. It is a fact that there have been some upgrading and downgrading in portfolios and we've said that a number of times throughout the quarter. This is not number one or the first time we do it. But we have had a consistent growth in our portfolio, so even though there is some downgrading in parts of some contracts, we have been absorbing parts of other contracts or the same contracts that have premium populations. So it would be difficult to say that downgrading is really relevant in premium or not.

Our premium portfolio has been increasing. Quite to the contrary, we have been having an increase in premium customers. It's because we have contracts in which we had half of the pyramid top down, now we have the top of the pyramid or a contract that we didn't have growth yet, but when they see online access, physician at home, online ID, map network, the premium customers get more attracted to our product. So it's difficult to try to set things apart. The premium of the market as a whole I don't know if it's going down or not. In our reality, it has not been downgraded.

In terms of Sharecare which is the name of Healthways, Healthways was sold to Sharecare some years ago. It has a number of large investors such as Discovery, Oprah, Dr. O and it's a much larger company. And we own 49% of the shares here, we are not controllers, we are users of the company. And we have had excellent results with the clinical programs. Almost 90,000 lives in clinical programs going from coaching, a well-being coach to more complex ones such as heart conditions or dysthademia, diabetes. They have provided very good results to the loss ratio. It's really invested. The return of investment range at about 2.5 up to 4.5 depending on the program. In the beginning of the year we launched the new digital platform, it's the engagement platform for well-being. It is starting to show the first results. People are downloading and we've been observing performance. But more important clinical programs or platforms, and I go back to coordinated care, what we manage is the journey. For many years we used to have actions which were standalone action. So we had a complex case management, just manage independently, direct purchase of materials, everything separated.

What we have done in the past 18 months in our new cycle is to start creating a common structure for all initiatives. And the interrelation of the initiatives help us generate more synergies and this is what we call coordinated care. This is what we have been observed. So the chronic disease management which was clear is going to be even more maximized when it's connected with our network of providers, Level 1, Level 2 physicians, complexity management, material purchase and so on and so forth. So this is what has generated more synergies as this would change the focus, going from focus on programs to having a focus on the patient. We have a patient centered care and not program centered care anymore.

Q - Rodrigo Garcia {BIO 16804384 <GO>}

Excellent. Thank you. Thank you for your very clear answer.

Operator

(Operator Instructions) As there are no further questions, I would like to hand it over to Gabriel Portella for his closing remarks.

A - Gabriel Portella {BIO 18012687 <GO>}

Thank you very much for being here with us during our conference call. I would like to thank all the VPs and Officers here representing a team of over 5,000 staff members who have helped and have done all this work that we presented today. I'd also like to say that getting stronger and stronger our partnership, and my special thanks to the over 30,000 brokers who distribute our products. And more than that, they contribute daily so that we can improve our products and services. We are highly satisfied with the results of course, but it results from a lot of effort and dedication of our team. So thank you very much for the partners, for my coworkers, and I wish you all very good day.

Operator

The conference call for SulAmerica is now closed. Thank you very much and have a nice day.