

Q3 2020 Earnings Call

Company Participants

- Gabriel Portella Fagundes Filho, Chief Executive Officer & Member of Board of Executive Officers
- Marcelo Mello, Vice President
- Marco Antonio Antunes da Silva, Vice President, Operations and Technology
- Raquel Giglio, Vice President of Health and Odonto
- Ricardo Bottas Dourado dos Santos Machado, Executive Vice President of Control & Investor Relations Officer

Other Participants

- Fernando, Analyst
- Guilherme Grespan, Analyst
- Samuel Alves, Analyst
- Vinicius Ribeiro, Analyst

Presentation

Operator

Good morning. Welcome to the Conference Call of SulAmrica to announce the Results of the Third Quarter of 2020. Today, with us we have Mr. Gabriel Portella, CEO of SulAmrica, and the Vice President of the Company. This conference call is being transmitted over webcast with an audio and a slide deck that may be accessed at the Investors Relations website of the Company at the address www.sulamrica.com.br/ri. All participants will be connected in listen-only mode during the presentation and then we are going to start the questions and answers session when further instructions will be provided. (Operator Instructions). SulAmrica's conference call is being recorded and the audio will be available right after it ends at the Company's Investor Relations website.

Now we would like to give the floor to Mr. Gabriel Portella, SulAmrica's CEO, who's going to start the presentation. Mr. Portella, please, you may start.

Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

Good morning, everyone. I am here once again gathered with Sul America's Executive Committee although virtually and we are here to announce the results of the third quarter of 2020. This is a very sad period for all mankind, even longer than we had imagined initially, but it's very important for each one of us and each company to do our share to help the population.

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As we are a company always concerned with people, I'll start paying tribute to all healthcare workers and also to workers of essential activities who have exposed themselves to risk more than other people and it's being great in providing care to all population. Eight months after the beginning of the pandemic, the tripod that we have implemented right from the beginning is still solid, to make our employees safe as well as to keep all our processes working although remotely thereby assuring access to health to our millions of members and to assure that cash could support a difficult period and still guarantee the continuity of all our development process.

To all my colleagues and SulAmrica insurance brokers, our providers, and all stakeholders, thank you very much for making this possible. We have had important accomplishments over the past few months that mark a new period in the almost almost 125 years of history of SulAmrica and pave the way for a new cycle of growth. We have completed the sale of auto and P&C operations in July, three months before expected, for BRL3.2 billion, already fully received. We are using this fund significantly, providing return to our shareholders in the form of dividends and executing our share buyback program as we're always investing in opportunities to leverage our growth.

Since the completion of this transaction and the anticipation of the dividend announced yesterday, we have already invested BRL1.5 billion net funds that we received BRL1 billion meant for shareholders. Another important point, in September, we have completed the acquisition of Parana Clinicas, one of the main health operators of Parana. Here, I would like to welcome our new colleagues and to reaffirm that this investment is a movement that is highly strategic and strengthens our position, creating new opportunities for development.

We are still paying attention at other opportunities in the segments of health and dental that are aligned to our strategic model and especially that can leverage coordinated care and our strategy in more affordable tickets. After the recent changes SulAmrica has, it's starting a new phase, we're expanding our purpose and reinforcing our positioning focusing on the care of people, on the concept of integral health and looking after all aspects of health, physical, emotional, and financial of all our members. We are redefining the concept of care in all dimensions at all times of life with a human look and digital soul. We reaffirm here our commitment to the economic recovery of Brazil of continuing our investments in technology and innovation and with the offer wider and wider of products and services of good quality.

We move towards the end of 2020, assured that in spite of very atypical, this year served once again to show the consistency and efficiency of our operation, which at the same time that demonstrates itself to be experienced and solid, it is fast to adapt to adverse situations and also the challenges of current times especially with engagement of people and strong investment in innovation and technology.

Now I would like to give the floor to Ricardo Bottas, our CFO and IRO, who is going to address with more detail the main results of the quarter. Then, Raquel Giglio, VP of Health and Dental is going to talk a little bit about the acquisition of Parana Clinicas, strategies for products and markets, in addition to the initiative coordinated care and to briefly talk

about our results in Health and Dental; and then Marcelo Mello will be talking about the results of our life, pension, and asset management operations.

Ricardo Bottas Dourado dos Santos Machado {BIO 15006106 <GO>}

Thank you. Gabriel. Good morning, everyone. So, starting on Slide number 2, presenting the revenues of the company here just talking of Sul America's continuing operations, just considering auto and massified, I would highlight the total revenues, health, dental, life, pension and asset worth BRL5.1 billion in the third quarter of 2020, a growth of 5% as compared to the same period in 2019.

I would like to make the following highlights in the breakdown of the result. Health and Dental has presented revenues that were 4% greater than the third quarter of 2019 totaling BRL4.6 million. This growth goes along with the performance of all collective plans and the higher number in the period. As a reminder, the revenues from Parana Clinicas are not yet booked because the acquisition was at the end of the quarter.

ASO also had a good performance with an increase of 80% in revenues, which have added about 50,000 lives in the quarter as compared to the third quarter of 2019. It's also important to highlight the booking of adjustments that have been suspended by ANS at the beginning of the pandemic with voluntarily suspended or delayed our annual adjustments for the SME portfolio, Affinity and Individual for 90 days as of May. And in August, ANS suspended for another 120 days the adjustments for all modalities, with the exception of that, corporate plans above 29 lives could be billed and adjusted once the customer company accepted, which has been the case of most of our customers. So following the orientation of the auditors in ANS, we have made the accounting recognition per competence except for the adjustment of the individual portfolio.

So the suspended price adjustments voluntarily or by the termination of ANS have added BRL136 million booked as accounts receivable to be effective in collection as of 2021 as determined by ANS. For this component, conservatively, we have also made adjustments regarding our expectations of higher bad debts or default rates applying a 5% factor over the amount that was booked, and our expense of default rates in our Health portfolios oscillate between 0.5% and 1%.

In Life and Personal Accidents, revenues were 5% lower compared to the previous period. In more recent quarters, it is more impacted by travel insurance because of the measures limiting travels and imposing social distancing. Pension is already presenting a growth in revenues this quarter driven by the better performance of VGBL the segment had 80% growth in revenues as compared to three quarter 2019. In Asset Management, revenues were 3% higher, with a good performance of admin rates in spite of lower performance rates.

On Slide 3, you can see the breakdown of revenues and you already showing the new breakdown after the completion of the transaction of the sale of our automobile and P&C lines with Health and Dental accounting for about 93% of the company's revenues and 7% operations of financial protection, life, pension, and investments.

Now moving briefly to Slide 4. These are the main indicators for the third quarter of 2020 as I talked about revenues. I'm going to go straight to the loss ratio consolidated and then Marcelo Mello and Raquel Giglio will be talking about their operations specifically. It has reached 75.1 in the quarter, a reduction of 4.2 percentage points, still reflecting a lower frequency of claims in Health and Dental in the quarter because of social distancing and lower exposure to environmental -- to hospital environments because of the pandemic. So we have this consolidated index reflecting our life, insurance portfolios, which also had an impact over revenues and claims.

The operational gross margin has presented a gain of 4.7 percentage points, driven by better loss ratio in the period, totaling BRL755 million in absolute terms, an increase of 52%. Admin expenses was 7.1%, a slight increase of 0.3 percentage points as compared to the third quarter of '19 already demonstrating a level without the extraordinary effects related to vehicles and P&C.

The financial result was BRL14.5 million in the quarter, a reduction of 86.5%. This performance goes along with a drop in our basic interest rate as compared to the third quarter of 2019, down by 240 basis points, which has impacted the whole year of 2020, and in this period of nine months, we also had a negative impact in variable income, which did not have a positive contribution that we had in the second quarter of 2020. This is also a specific effect that we have observed specifically in September, marking to market of funds with LFTs that are indexed by the Selic and the contract marking to market that has been -- that has been used over the past few weeks of those bonds. The losses that were not booked and they were both fixed and based on LFTs, they are unrealized losses considering that there were no redemptions and our expectations as it's been happening over the past few weeks is that these positions will recover their prices.

So combining all these performances led to the net income of continued operations of BRL286 million, a 40% growth in the Company as compared to the third quarter of 2019. Year-to-date number BRL755 million, 24% greater than the previous period. The consolidated net income, here, combining the discontinued operation, the extraordinary gain resulting from the sale of vehicle and P&C lines, was BRL1.7 billion in the third quarter and BRL2.3 billion year-to-date numbers in the first nine months of the year.

Here, return on equity of the company recurring already discounting beyond one-off non-recurring and gain was 17.3% of return on equity.

Now I would like to give the floor to Raquel Giglio, VP of Health and Dental.

Raquel Giglio {BIO 21963986 <GO>}

Thank you. Bottas. Good morning, everyone. I hope you are all doing fine. Let's go into Slide 5. Acquisition of Parana Clinicas. I'm going to tell you about acquisition of Parana Clinicas completed in September, a very strategic operation to Sul America. It added 94,000 beneficiaries especially in corporate plans, but it also expanded our market share in the region, bringing a platform of expansion including learnings and synergies with our initiatives which are already ongoing in Health Management and Coordinated Care.

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In these first months of operation at Parana Clinicas, the impressions of the operations are very positive. We are very excited and confident with the opportunities brought by the asset, it's going to drive our presence with an average ticket product offering, more affordable prices and speeding out not only the growth of mid-ticket, but also our strategy of Health Management and Care Coordination as pointed out before.

Parana has seven clinical centers and one-day hospital to primary and secondary care, which is part of the loss ratio management of the company. There is also a unit in construction close to the Airport in Curitiba to be ready by the first quarter of '21, in addition to maintaining the long-term contract with Hospital Santa Cruz which is one of the reference hospitals in the region. This clinical centers have different sizes ranging from basic primary care, lab tests to small surgeries, and a day hospital of mid-level complexity, also including a recently opened infusion center for oncology cases. With transaction and organic growth in the region, we have achieved more than 5% of market share in Parana where we have improved 12 positions in the market ranking, where we can see huge opportunities to lever our sales in the region, including some cross-sell opportunities with Dental which need now to be explored with Parana Clinicas, really speeding up our strategy of average ticket using this sector.

On Slide 6, and the strategy of Coordinated Care, we can show you once again our access arch which includes all the entry points of our beneficiaries into the healthcare system with our virtual verticalization strategy, making it possible to provide closer care to our beneficiaries with more strategic know-how added by Parana Clinicas. Many initiatives have evolved during the period of pandemic and they were essential to ensure meeting the needs of our beneficiaries both in cases of COVID-19 and all the other demands and treatments using intensively technology and connected medicine, so health on the screen. Using app, WhatsApp, use of telemedicine and also telephone, patient education fast track with partnering hospitals, everything grew very fast adopting our health app as much as possible evolving to an effective better form of access to health to our beneficiaries.

Among our key news, I would like to show you the pilot of our digital lab called Lab-In. Together with Grupo Fleury, we will integrate medical data of patients with the reports of tests, providing better understanding of the beneficiaries, and more precise analysis in addition to monitoring of test results. We started the initiative with a selected group of beneficiaries from our Health Management Group. But our strategy to expand somewhat fast, generated structured data for complex analysis, which provide a positive impact. It's important to point out that we are in the closing phase of negotiation with other large analysis labs throughout the country, so that we can reinforce the strategy of the Lab-In [ph].

In Slide 7, Coordinated Care and Digital Care. I would like to point out to the major breakthroughs we've had in the use of digital tools in-house. We've had an exponential growth in the beginning of the pandemic, and now they are at consistent levels of utilization. There were over 400,000 remote sessions since March 2020, over 320,000 tele consultations and tele therapy very high in resolution above all, offering quality satisfaction to our beneficiaries, which ranked an NPS over 80, area of excellence for individual initiatives and also for the program of Coordinated Care at large.

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We've been reaching more beneficiaries, thanks to this strategy. Since the beginning, 670,000 people were impacted with 530,000 active beneficiaries in our Coordinated Care base. Our strategy to promote greater engagement of medical providers has been the right one. There are 2,300 physicians in our Coordinated Care. We have used and met the challenges of pandemic very quickly. We've used the technology and engagement of our partnering physicians. So our continued investments in Coordinated Care have proved to be essential and it reinforces our trust that we are on the right path being an integrated healthcare management company.

We've maintained the monitoring of health of our beneficiaries, despite all the restrictions that the pandemic has brought on our society because of social distancing. We've been focusing on continuing developing these initiatives making use of new projects and full alignment among our private partners and the example of (inaudible) as I just told you can really show how we've been doing it, working in the short term, but always focusing on the long term.

Now Slide 8, we can see the results of Health and Dental for the third quarter. In terms of revenues, I would just like to share with you the numbers of the quarter, BRL136 million of the price readjustments of Group portfolios for during the exercise whose charges were postponed to 2021 in criteria to be defined eventually, as Bottas has already shared with you. We've reached over 4 million lives, including 94,000 lives brought by Parana Clinicas. We've had 3% increase in collective plans over the third quarter '19 and 8% in the second quarter '20. Organically, we've also performed very positively in our plans with the stability over the third quarter '19 and growth over the second quarter '20, driven by the increase of number of lives in the Affinity and in the Corporate business. Once again, we showed that we can keep on growing even in a challenging macroeconomic scenario, as a result of our commercial effectiveness and the close relationship we have with our clients in (inaudible) sale maintaining very high levels of retention combined with gradual recovery of new sales, as we've seen happening in recent months.

In Dental, there was net increase of 190,000 beneficiaries over the second quarter '20 especially because of the implementation of dental plans for Affinity compensating the impact of the retail channel especially in the second half of the year -- the second quarter of the year, better say, because of the social distancing.

Slide 9, we can say can see loss ratio of Dental and Health, on the upper left-hand side, we can see the loss ratio in recent quarters, the third quarter of '20, we had 75.1% with a 5 percentage point improvement over the third quarter '19. As mentioned by Bottas, loss ratio still reflects low frequency of procedures in the period due to social distancing and all the safety measures set by the COVID-19 pandemic. Despite we have expected a recovery of frequency as compared to what we observed in the second quarter '20, which was the peak of the pandemic. This result shows a process of an increasing frequency of procedures, so visits, tests and elective surgeries and that has started in June '20 and it was distributed throughout the quarter considering more flexibility and social distance guidance especially in the key regions of the country and a progressive improvement in the situation of the pandemic, reducing the number of COVID-19 infection hospitalizations, so that loss ratio is moving to levels closer to normality after the marked decrease in the previous quarter.

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We expect to have the process to pickup continuously more gradually and we can see the main group of procedures now with frequencies close to their pre-pandemic levels except for emergency department visits, which are still below the level and it's probably a long-term effect of the pandemic. It's important to highlight that the frequencies being recovered in the third quarter '20 already include part of the frequency, which was -- had an increased demand because nobody would go out of (home, in addition to the increased frequencies of associated treatment and tests that results from the infections from COVID-19. With that, I close Health and Dental.

Marco Antonio Antunes da Silva {BIO 19109942 <GO>}

And Raquel, if I may add something, this is Antonio speaking, I would like to make a comment, if I may.

Tele consultation, digital platform, digital lab, all of them are in compliance with the digital laws, data privacy and personal data protection law, all the platforms are complying with what the general law of data protection is expecting of us. So from now on, all our services will be covering that in terms of dental, privacy -- sorry, sorry to interrupt you.

Raquel Giglio {BIO 21963986 <GO>}

Thank you very much for making this comment, very useful. Let me now hand it over to Marcelo, our VP of Asset Management, Pension and Life, who is going to tell us about the results of the segment in the quarter.

Marcelo Mello {BIO 21963995 <GO>}

Thank you. Raquel, Antunes. Good morning, everyone. Now going into Slide 10. We can see Life and Pension BRL126 million in the quarter, BRL364 million year to date, showing a reduction in both periods compared to the previous year. As Bottas has shown, still impacting what we have observed due to COVID-19 especially in travel products because of social distancing and restrictions to traveling.

Loss ratio was also impacted by the pandemic and as you all know, because of a diversion of revenues and also because of the increased number of claims associated with COVID-19, reason why we included to have them in our policy, so COVID-19 cases were included in our policies and this was a voluntary measure. Up to September 20, we had 400 claims related to COVID-19 with a financial impact of BRL19 million.

Next slide, we can see a recovery in revenues of the quarter with a growth of 18% in the third quarter '20 over 2019, as a result of the positive balance of net portability primarily of VGBL main product in the market. Year to date, revenues were BRL605 million, 11% growth, showing that our commercial strategy and our relationship with brokers and investment platforms had been the right one. It's important also to emphasize that we have a specific portfolio of products, which is growing monthly with very consistent performance, and it helps in increasing the purchase of products. So we've seen very good performance when we compare to the performance of the industry. It's also

important to point out how we've been analyzing the health of our clients, including also financial protection.

In September, we launched as a pioneer service, Telemedicine of SulAmerica for Pension and Life products, and we've also launched and it was a launch in August, a product called Financial Assistance, SOSPrev, for our pension plan clients, showing very specific conditions of credit lines for those that needed without having to withdraw or redeem their pension plan.

In terms of Asset Management, Slide 12, the volume of managed assets at SulAmerica investments reached BRL46 billion in the end of September, growth of 3% over the comparison of previous year, maintaining SulAmerica Investimentos among the top three independent management companies of the country. The revenues of the third quarter presented an increase of 3% as well following the revenues due to administrative fees that offset the lower performance rate in the period impacted by increased volatility observed in the market in comparison to the previous year. In terms of Asset Management, there was also an increase in the portfolio of multi-market products.

With that, let me hand it over back to Bottas.

Marco Antonio Antunes da Silva {BIO 19109942 <GO>}

Marcelo, this is Antunes again, sorry, one more add-on comment to make. In the third quarter, we also have 100% digital issuance of life insurance, which is an important landmark and it really helps set us apart in the market.

Marcelo Mello {BIO 21963995 <GO>}

Very good point, Antunes. Life insurance and pension plan insurance. So individual digital signatures for both. Let me now hand it over to Bottas to carry on to share the additional lines of results. Thank you.

Ricardo Bottas Dourado dos Santos Machado {BIO 15006106 <GO>}

Thank you, Mello. I'm going to very briefly comment administrative expenses, Slide 13. General administrative expenses of all our continuing operations and also the expenses resulting from the conclusion of our sales of car and massified, in the third quarter we have accounted for in the results of discontinued operations. So therefore, they are not here. There is just one small component that I'm going to explain to you. On the third quarter, we had S&A that represented 7.1%, a slight increase of 0.3 percentage point over the same period last year, Just with the same line of business and operations, which are still ongoing. This increase is explained primarily by a contract of service provision that we made with Allianz as part of the transaction, which includes provision of services to support some specific areas of the operation for up to 24 months. There is a component of cost that is maintain administrative fees as well, But there is also a component of additional operating revenues, not from premiums of course, which are not part of this indicator. And they are all considered here.

In this quarter, administrative services amounted to BRL20 million in terms of revenues and expenses, year-to-date discounting the extraordinary impact of the transaction, they totaled BRL45 million in the first half of the year and if we exclude the effects of the contract that we maintain for service provision in terms of administrative expense, the number would have been 6.9% over revenues stable over the same period of the previous year.

With that, I close my initial considerations and now we can open for the Q&A session. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we are now going to start our questions and answers session. (Operator Instructions) Our first question comes from Mr. Samuel Alves from BTG Pactual. Samuel, please.

Q - Samuel Alves {BIO 18720076 <GO>}

Good morning. Gabriel, Bottas, Raquel and all directors. I have two questions to ask. Number one is about SulAmerica Direct. Could you give us an update and comment about its share and the sales dynamic in the new markets where you have recently implemented it?

And the second question, could you tell us more about churn in the corporate portfolios, because we have noted that the company has kept to keep a flat margin quarter-on-quarter. So what has been holding it. In terms of SME and affinity plans?

A - Raquel Giglio {BIO 21963986 <GO>}

Hi Samuel, this is Raquel. Thank you for the question. So first, I'll talk about the directive, this is an update. So we launched it first in the middle of last year only available for groups with more than 30 lives, because that was test by period we were piloting it and then we had other launches, and then we launched it to retail in March 2020. And then we had the pandemic. Even so all brokers were trained and the commercial team too and we are seeing exponential growth month-on-month of our sales, more notably in retail, but more notably as a good tool to retain this period that it slightly more recessive.

So it's part of our expectations and responding well, when it is within the pandemic context. Now talking about our retention strategy, our logic and what we have always said to you, it's the same. So we do not make very short-term partnerships. So the customer comes in and wants to stay only for 12 months and leave or 24 months, we always look at long-term partnerships, some years will be better and others will be worse. But we make a point of keeping our customers for as long as we can because we go together through crisis and come off crisis. So using the logic of aquarium, even though those customers might have some impact in terms of dismissals and everything, you can keep the customers in the portfolio, when they grow again, we grow again with them and without

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having to leverage commercial compensation costs that will be higher to acquire a new customer.

So we have been using very much the logic of retention based on long-term contracts. Well, yes, we have some flexibility in terms by adjustment rates, looking at longer term maintenance extending contracts for another two, three years, sometimes even six years. The strategy of working more and more within the concept of what is a more wide range and more complete or comprehensive offer. So I want to extend contracts, for example, dental contracts, which might be with the competition, and when we bring it in home, we analyze loss ratio as a whole, and this is reflected for the customer and this logic is more and more incorporated in Life and Pension. So the strategy is kept and obviously it is reinforced as necessary during the pandemic.

Q - Samuel Alves {BIO 18720076 <GO>}

Thank you, Raquel. Have a good day.

Operator

Our next question comes from William, Credit Suisse. William, please.

Q - Fernando {BIO 16866139 <GO>}

Hello, good morning. This is -- William is here with me, this is Fernando. Thank you very much for your time. Along the same lines of Samuel's question about the expectation of Direct, some investors have been talking about elasticity of it, you are going to different lines, to have gross profit, probably you need more volume. So how do you see this logic between the elasticity volume and ticket?

Secondly now that the pandemic has created this culture of more telemedicine or just trying to use telemedicine before going to emergency department, do you think that this is positive because we are going to reduce unnecessary journey to the patient, maybe even reduce risk, and you've launched the credit line product. What do you think the potential of it is?

A - Raquel Giglio {BIO 21963986 <GO>}

Well Cepeda [ph], nice talking to you, this is Raquel, I'm going to start and then I'm going to ask Marcelo and Bottas to jump in. Concerning your first point, in elasticity Direct, which has a lower average ticket as opposed to volume. It's important to point out that nothing has changed in our strategy, we still have a concentration in levered average ticket products, those that reflect the logic of insurance in terms of free choice and broad network, knowing the strategy of Direct and the acquisition of Parana Clinicas, we can have a broader range of offers. So I see it as a positive point for our future. We see Parana Clinicas as the lab where we can reinforce this logic that we have a Direct product of a let's say slimmer network with compensation models that make sense to the chain, primarily to providers, and once again, the numbers are showing very good results, especially when we consider a situation of crisis, the whole strategy is very successful with all care management strategy, also claim management that you know. But with a lower

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average ticket in Direct, it can be further leveraged and expanded based on the learnings that we have from Parana Clinicas where they have management of their own clinical center because they offer primary and secondary care.

In telemedicine, as you've seen, numbers have been very high, they skyrocketed since the beginning of the pandemic. It's important to emphasize that we had already been thinking about telemedicine, even before the regulation in 2018, we purchased Docway and the managing control of Docway and it used to provide medical support over the screen, which had utilization rate which was low before the pandemic, it was about 500, 700 users per month only, but once the pandemic started, the average daily use is of 1,200 which used to be 500, 700 per month.

So as you can see, we have very stable service provision now through telemedicine, and there are three pillars 24/7 where physicians on duty, which is really what replace unnecessary visits to emergency department. There is telemedicine which is focused on the therapy, but then of course I reinforce the importance of psychology because this is one of the main lines of business we have telepsychology and we have Coordinated Care physicians providing televisit as elective visits primarily for chronic cases, patients who could not stop being cared for during the isolation, during the social distance and maintained that over the telemedicine.

The experience so far, I have to stay, has been the following, 89% to 90% of that 24/7 teleconsultation, almost 90% of them do not require a on-site visit, so they were not eligible to go to an emergency department; 10% to 11% of the population that calls the teleservice is referred to an emergency department or to hospital since it's -- that's the strategy of fast track that you can see in our representation. If the person has the need to go on-site and be seen by a doctor, and this is observed by telemedicine, we identify the hospital, we identify there is a bed available and the person is there waited for. So it really provides much better service and the patients feel more welcome better.

Now, Cepeda [ph], let me ask the second part of your question concerning financial support and our strategy. SUSEP has allowed the use of this product as of the beginning of August, which has to offer a credit line using as a collateral part of the reserves that pension plan clients have with our insurance companies. We were the first insurance company and I think the only one so far to offer that. It is a risk-free product because you have the collateral in hand and it's a very easy service to contract, it's all digitally based six clicks and pension clients going to have access to the credit line to a low one.

The main strategy is to obtain retention and to improve the experience of our clients. We know that the pension clients just try to avoid as much as possible redeeming their reserves. But if they do it because they need it and during the pandemic, we've noticed an increase in the volume of these redeemed pensions. So having this credit line help our clients maintain their reserves, maintain their building up of reserves for the future. And at the same time, improves patients' or clients' journey and you've also talked about retention in Health. This is also we retention strategy. We have many clients in Pension. Our volume of withdrawals or redemptions are following -- there is large number and then we have an opportunity because we have a new strategy of increasing retention

offering a better journey, offering better experience. And as a consequence, we can maintain financial -- line of financial revenue that we didn't use to have before.

Q - Fernando {BIO 16866139 <GO>}

Thank you very much for your very clear answers. Thank you.

Operator

Our next question comes from Mr. Guilherme Grespan from JPMorgan. Mr. Grespan, please, you may ask your question.

Q - Guilherme Grespan {BIO 19926617 <GO>}

Good morning. Gabriel, Bottas, Raquel, and Marcelo. Thank you very much for taking my question. I have two questions. One is more related to the mid term. So when we think in Health and so the ROE is about 20% and we have been seeing the change in the capital requirements by ANS, in a simple calculation so your 95% is going to drop to 75%, the ROE could maybe go up to something like 24%-25%. I would like to hear from you, how you are seeing this in 2022-'23? Do you believe that this gain in profitability because of lower capital allocated is going to interfere in a pricing competition for you? So should we assume that structurally the Health ROE, and you're going to prioritize the increasing the market and price transfer to customers?

And the second question regards digital which you have mentioned briefly, but I am curious, you have more than 300,000 telemedicine appointments and I want to separate, how much of this is Coronavirus and how much isn't? And I know that those who are not -- the Coronavirus customers were turning to customers for other services, but you could -- could you break it down, how many of those calls are related to Coronavirus and how many of them are not?

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

Thank you. Guilherme, for your question. As to capital, well, we can't give you any guidance especially for '22-'23 but you're seeing effect which is significant. Yes, it does generate a provocation, in terms of the competition for the use of the access. What is important for us is the company's position that in fact we have the expectation of having a capital relief that is what is defined in a model and the proposal of ANS to migrate from the traditional solvency model to the risk-based capital model and we need to wait for all the publications of ANS for all types of capital. So recently, we have heard another discussion and publication. The expectation is this, if there is a relief and also, if there is a confirmation that macroeconomic landscape and the cost of opportunity that should they has a capital cost in Brazil that well below what it used to be in previous years, I would tell you that it's likely to become a trend that this reduction in capital cost to become increasingly a potential new component in a discussion of price competition, this is what I believe in, how fast this is going to happen and who is going to go first and who is going to be more intensive in its utilization, we need to wait.

I would just like to say that we are very well positioned in terms of our operational efficiency and our consistency in returns so that we are well positioned in the competition landscape.

Raquel, if you could answer the other question, please?

A - Raquel Giglio {BIO 21963986 <GO>}

Yeah, sure. Guilherme, thank you for the question. So there are two things. Early in the pandemic, we had to confirm that was general the whole population was concerned and it couldn't be any different. And also, interestingly, of the service that we launched based on a temporary decision that are approved the use of telemedicine in Brazil what used to be just a video orientation became effectively an appointment, because you can work out with a QR code that is a test request and even antibiotics.

So that was utilization for physicians on duty and then a few weeks later and we started elective care to treat chronic patients. So the mothers who needed to talk to a pediatrician, oncology follow-up visits, geriatrician, and everything else, all specialties. So in the past, undoubtedly, most of the context that we received were people who wanted to ask questions about COVID who wanted to hear if the diagnosis was compatible or not and a long-time this went back to normal levels. And I would tell you that the vast majority of the elective appointments has nothing to do with COVID. For the physicians on duty, there is still an important part of COVID, but there's also a very significant share that has nothing to do with COVID.

So I think that your question is, when COVID is passed, will the telemedicine trend go away or has it already been incorporated in the culture of members? So I am much more leaning towards the second alternative, so telemedicine and its use has been expanding. So it started very much concentrated and focusing on COVID, but then it spread. I would also like to draw your attention to psychology appointments because now during the isolation burnout and mental diseases have gone way up and we all need to pay attention. And if there is an app that provides the possibility for the person to have their therapy session with the psychologist using the app, it's something that is very disruptive and it's been very, very well accepted by the population as a whole, both [ph] HRs massively implementing it on companies, but also members finding this and finding this on the app asking for it and using it. So this is something that is really here to stay. Thank you, Guilherme.

Operator

The next question comes from Vinicius Ribeiro, UBS. Vinicius, please.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning, everyone. Thank you for taking my question. I'd like to talk about the postponement of the price increase to 2021. I know there is uncertainty about what's going to happen in fact, but what has been the discussion, were companies and regulatory authorities considering everything that is going on? Secondly, also talking about 2021, I would like to build up on what Raquel pointed out, providers are under a lot of

pressure because of a potential second wave, which would be even more serious than the first one. So negotiation with service providers, when we think about new business models, new payment structures, let's say, a closed network, this kind of conversation that has been taking place in recent months, will it also go into 2021, should we expect for new products, which are more affordable, low entry level products beneficiaries?

A - Raquel Giglio {BIO 21963986 <GO>}

Hi Vinicius, this is Raquel again, thank you very much for your questions. So price increase as Bottas pointed out in his part, the price increase, which was -- which had to be postponed according to ANS, has been interrupted and it's all accounted for. We are just waiting for the conditions. And in 2021, we would be allowed to collect it again, but we are still waiting for the instructions of the regulatory agency. Concerning corporate over 30 lives, so SME, the regulatory agency said that we could use price increase if the contracted part agreed on having price increase. And I'm going to share with you the numbers we have of contracts over 100 lives, there are four clients who said, no, no price increase, and just postponed it to January. So a corporate clients, primarily the large ones, they don't want to postpone it too long, they would rather have the discussion right now and starting from right now a based on good faith really is the fact that we have always had very long term and collaborative discussions with them.

So I think this is something really important. We have never been just stating or complying by contract clauses and semi -- informal communication. No, we consider track record of the client, we consider what's going to happen, we always use the contract dispositions and together we come up with a solution that would be acceptable for both players. This is why we have managed to maintain the price increase of some of our clients, corporate clients and for retail, we are still waiting what ANS will tell us to start doing as of January.

Concerning the question about providers, have providers been under pressure, is it any difficult to negotiate with them into new models? Well, I think it's exactly the opposite, Vinicius, providers had been approaching us, they wanted to talk about new products, they wanted to talk about new models of compensation, including capitation, payment by bundle, single daily payments and I see providers want to do it more and more. I think it's good news, not only providers concentrated in large cities, but outside Sao Paulo and Rio, last week, for example, we signed a contract with global daily rates with a provider from Feira de Santana in the countryside of Bahia. So I haven't seen them hesitate, quite to the contrary, they are very much willing to do so. Of course, those which were first attacked in the new compensation models, those who were invited to join us were the largest ones, and now we are moving into farther regions or smaller hospitals where there is not that much utilization, but so far, we've been very successful. I don't think we are going to change our strategy. Thank you very much for the question.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Great, thank you. My point was more about really acceleration, I never thought you were going to reduce it, right?

A - Raquel Giglio {BIO 21963986 <GO>}

So, yes, you're right, we have increased it.

Operator

We are now closing our questions and answers session. I would like to turn the comments the conference back to Mr. Gabriel Portella for his closing remarks.

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

Well, first of all, I would like to thank my colleagues, Bottas, Marcelo and Raquel who didn't let me answer any of the questions, but they answered all of them very correctly, with a lot of knowledge, maturity. So -- this is once again the time to thank all my team and our employees who have made personal sacrifices and have made SulAmerica to keep its development plans providing care to the members, the process working and always looking more and more and paying more attention and very optimistic about the future.

I would also like to thank all our partners, who have been making it possible to have this trajectory, our brokers, shareholders. So this is a time to thank, because this is a time of union, a time of sharing what is good and what is bad. And now we are looking into the future full of optimism but we are grounded and we want to get better every day. So thank you very much and have a good day.

Operator

SulAmerica's conference call has now ended. Thank you very much and have a good day.

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