Q2 2021 Earnings Call

Company Participants

- Carlos Andra Guerra Barreiros, Risk & Compliance Officer, Gen. Counsel and Member of Executive Board
- Isabel Blazquez Solano, Chief Underwriter Officer
- Werner Romera Suffert, Chief Financial Officer
- Wilson Toneto, Interim President Chief Operations & Actuarial Officer and Member of the Executive Board

Other Participants

- Analyst
- Daniel Vaz

Presentation

Operator

Good morning. Welcome to IRB Brazil Second Quarter Earnings Call. Mr.Wilson Toneto acting CEO and Technical Operations VP; Mr.Werner Suffert, Finance VP, and IR VP; Ms.Isabel Solano,VP of Reinsurance; and Mr.Carlos Guerra, Conformity and Legal Department are here with us today. This teleconference is being recorded, and we're all in a listen-only mode. (Operator Instructions).

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Words such as believe, anticipate, hope, expect, project or other similar words, we would like to inform investors that several important investors or several market conditions, may impact future results and of course, they reflect upon the numbers presented in this presentation.

Under no circumstance to the company, its workers consultants should not be liable for any investment decision based on information currently available today. That may be specific or any related event. The market and competitive information, including market projections that I mentioned throughout the presentations have been obtained through internal survey, market surveys and public domain information, and business publications.

The references to run on -- runoff and non-recurring facts one-off are presented in a managerial format not audited, they're just for better analysis purposes. Mr.Wilson Toneto, acting President and Technical VP of IRB, Brazil, will start his presentation. You may now have the floor, sir.

Wilson Toneto {BIO 20892371 <GO>}

Thank you. Good morning everyone. Thank you for attending the call. We have analysts, shareholders, and our workers are here today to attend our second quarter earnings call. As I said, all VP's are available to answer any questions you may have.

The information has been made available for the quarter, according to the current legislation. It includes the company's performance details. This is just an executive summary of the main indicators that would like to point out to, all of you. I don't know who's changing the slides, can you move on to the next one, please?

These are all the definitions about discontinued business, one-off effects. It's important to read them through but first and foremost, it's important to mention that we are subject to seasonality. Just like we've said before, should take projections into, you have to take these effects into account in your projections Okay, moving on to the next slide, then.

A very important item to us is cash generation, of course. For the fourth consecutive quarter, we've been able to generate a robust cash flow, as you can see on the top of the chart. When you take into account operating and non-operating cash, it amounts to about BRL916 million. Fourth quarter in a row having positive cash generation, we haven't had that since 2017, the company hadn't generated that much cash.

We had important had important information, but we had negative balance as far as operating cash goes. It's important to pay attention to this item. It's important to our liquidity, but also to prove that the actions the company has taken, when talk about to the management of our resources and continues improvement. These things have you did this positive cash generation.

The second highlight is the increase in solvency. Solvency is the backbone of any reinsurer as you well know. We have remained solvent, and I would like to point out two lines, the total solvency, the first one, it's a market benchmark today. This is the amount, I have above my base capital.

This is according to regulatory demand that's the additional capital, to the necessary capital we need for activities that's according to the regulations. And the same type of calculations is used for regulatory solvency, but it excludes some assets that the regulatory agencies do not consider them.

So, we are at 273% in total solvency. Back in June was 180%, and now we are at 273% well above previous quarters and for the regulatory, so obviously that's determined by SUSEP. We have remained stable when compared to the previous quarter, but when you take into account the leverage, it's much better, when compared to the previous quarters. So the second good news is increase in solvency.

On to Slide 4, now. We can now see the main factors that impacted the first half of the year results, and also the second quarter. I'd rather start by looking at the chart on the right. It actually reflects the work that this administration has performed. It reflects the recurring results. The good work we have put in this period, it has remained solid, and we have these recurring results as you can see on your right.

In the first half of 2020, we had a loss of BRL732 million, and we're now have BRL57 million of recurring results. This is a good reflection of our demonstration. This is official information on the loss is BRL156 million for the first semester.

Despite being better than the first half of 2020, it contains several businesses that have been discontinued. We've already taken action in that regard. So we have important business, substantial business, that will impact our accounting results. There's nothing we can do about them. We have to accountant, we have to book them properly, of course, but when we look on the right. We exclude the effects of these non-recurring, these runoff businesses.

Now, we can have a better picture of what the situation of IRB today. The next index reflects again the same trend. When you look on your, right, that's a combined or recurring index that's a result of premiums, minus claims, commissions and expenses.

And of course, that further down from 100 that's better. We were at 134.9. We dropped to 26 percentage points. We are at 100% in combined at the very positive improvement. When you take the accounting results, another improvement of 19.5 percentage points, another important drop in the combined index.

Again, it's a positive indicator and it's important to show analysis and the entire market, we have been improving in a nutshell, I'm not going to describe all these numbers in detail. But this is our monthly claim rates. Total and run off, and run off again indicates discontinued businesses and the runoff claim rates. You don't have the final quadrant on the right.

Let me just point that out to you, the total claim rate for the company came down from 92% to 85% and the runoff claim rates went down from 203% to 198%. It came down, but there's still an important component in that result. Our run-on claim rates, which is continued business, we are at 78%. It was 75.5% in the second half. We're still have detail, these discontinued business, and that's the message would like to convey today. It's an important factor still, but as you can see, we have a very nice slide to exemplify that. The trend is to come down even further.

On to the next slide. Let me shift, gears a little bit. Let me talk about the financial assets. We are at BRL9.1 billion. They are compatible to what we had in March, but they went up substantially in the past semesters. Despite this important component with foreign exchange balanced or guarantee.

In constant currency, they went up, but we have an important portion of U.S. dollars. We have maintained that number. The trend is that we are moving on to 27% to 35% of these applications is to have hedging of our technical provisions, because that was a major issue we had last year.

So it's completely hedged portfolio, it's very appropriate and it is consistent with is we've had an important increasing cash, there was a drop of Foreign Exchange exposure, but still it's very robust above BRL9.1 billion. $4.2 billion that's our total assets. That's a very interesting equation to all of you a very important information to you.

Let me point out that our profitability for both Q1, when we consider these U.S. dollars, assets 146% of what CGI and the second quarter 163% in 2021. Our covenants are appropriate to their suitable, there are no risks as to the debentures issued last year.

On to the next slide, here we would like to highlight our total written premium. If you take a look at our financial statements, and we will go into details on that soon. We did have a reduction in the premium volume of about 10%, and this was basically due to the underwriting how we clean that portfolio.

But just to give you some more detail on that, we can show you that in the domestic market, we have grown, and we've grown strongly. Therefore our portfolio as you can see in these last two graphs has turned around. So in the last semester, our portfolio was more based on titles issued abroad 55% and now they represent 44%.

So Brazilian issuance has taken protagonism in our premium, as we have disclosed in our last presentations. So this is in line with our strategy and except that here we had a foreign exchange effect. But, when you look at it in constant currency, we did see this switch, due to the entire process that we mentioned before; and Isabel will go deeper into this during this presentation.

So we continue to be a robust company. We have BRL22.2 billion in assets. We have BRL4.2 billion in equity and we do have an excess that is significant in comparison to regulatory requirements. So, we have liquidity. We've maintained a good level of cash, which is very relevant for our position today. And if that were not enough on the next slide, we see our compliance with sufficiency of reserve coverage, and the regulatory liquidity and in June, it was the peak of the problem we had, when we published the statements.

We had over BRL3 billion -- we were under BRL3 billion below the required sufficiency. So with all the actions that we took, and communicated last year, which continued this year and aligned to the potential cash, the powerful cash that was generated during this time.

We have advanced since December with positive levels, in March these conditions were maintained, they were at a very similar level to December and now in June, we're at an even higher level, 644 in a surplus of assets, available for guarantee. And we, when we consider that additional 20%, the required by legislation. We can see that our sufficiency is BRL335 million. That's very important.

And as you can see, we have the potential to even expand this efficiency and liquidity due to a number of factors that have been changed in our regulations. So besides these numbers, it's also important to state that we completed our reunderwriting process that was one of the main actions that the company took from the beginning.

We started in June last year, and Isabel will tell us about it. And it was concluded in, July 2021, and it was very successful from our point of view. We have all the numbers on canceled business, and we managed to maintain the business we wanted to renew.

And this was out of great level of around 85% of the business we wanted to keep, we did with better conditions, with better rates, with better adjusted terms, and moreover over you'll notice that we added new contract with better margins. So that is also a very important indication.

The next slide, although this might be trivial. Although people might say that this is in the financial statements. It true, on the right we have the financial statements for the first half of 2021, all the consolidated data. And you can find this in the quarterly results, and here we can see how the written premium dropped? How claims added a significant improvement? Underwriting was also much better than in the first half of 2020, financials results were positive and we had net loss of a BRL156 million this quarter versus BRL916 million last year.

So this was an important step up. But I'd like to highlight the claims ratio that was 76.8%, and last year when we made this presentation in September. When we present a results for the second quarter of 2020, we set a target, which was an overall length ratio of 68% to 73%.

We're now at 73.8%, the conditioning level has all been adjusted by non-recurring business. So non-recurring business has been excluded. This is based only on recurring data. So, you can see that our, that our efficiency is still very good. We have good financial results and also a good cash flow.

So I just like to show that this is a good snapshot of IRB. We understand that this is a very important basis to be considered by all analysts and this is going to be the solid path that we have already gone through and that we will continue to follow.

We haven't published any guidance yet, but this, it shows all the indications of the current situation, which in our opinion should be kept and improved as we'll discuss later on. So this is a quick summary of the main highlights that we'd like to show you.

So, of course this is not only accounting counting. This is not only what we have to show you, but we also are giving you some expectations for the future. Isabel will continue on the next topic. And I'd like to ask you to please pay attention, because we have talked about the tale of the discontinued business, and what it will generate, what's the time and the effects that we have, and we tried to show it graphically to give you a better understanding of how it works.

I always say that we're different from a manufacturing company, like for example Petrobras. Tomorrow they could set an increase or decrease for gas prices. And the next day, they are already getting new income from the new prices. So their results are based on their prices.

But we on the other hand, we have to set prices and then have long and medium term contracts, which will then provide you with the results. So right now, we have a mix of businesses. Those that started in the past that still affect our results; and although, we have revisited them and renewals some canceled contracts will still remain in our basis for some time. So this is what we're trying to show you visually, so that we can we hope that we can convey, what is happening under our management.

So I'll pass it on to Isabel, who will continue.

Isabel Blazquez Solano {BIO 21843037 <GO>}

Thank you, Neto. Good morning, everyone. And thank you for being in our call. As was mentioned we're going to be talking about our reunderwriting strategy, and its cycle. And as a consequence, the importance that it will take in our recovered growth. We have to have a much more sustainable portfolio, of course.

On Slide 11, you can see the timeline for our reunderwriting strategy. It began in July 2020, and for the entire reinsurance market, there are three main renewal periods, April, January and July. So, after this reappraisal of the portfolio, we started cleaning it, starting with four contracts that we're analyzed meaning that they had significant impact on the negative results on our company.

So we discontinued these four contracts and in January 2021, we got better organized to continue this cleaning effort. In January, we managed to remove six more contracts, especially in agro, aviation, maritime and life segments. We continued in April and recently in July, but as you can see, we're becoming more gradual. As renewal dates get closer then contracts are being assessed and this becomes a recurring movement. So when we look at our year-to-date figures, we left 17 large contracts, 4 in 2020, and 13 in 2021.

The next Slide, Slide number 12 illustrates the effects of these discontinued contracts what we call runoff. Of course this is merely a conceptual image and we can still look at monthly changes up ahead. So as you can see starting with the renewals, so in July, January, April, and July, again, contracts were discontinued, and we start seeing them tail off, which is represented which is represented by the yellow triangle there.

So these tails' continue and still affect us in the following years. As you can see we have four renewal periods through our clean fixing growth process. And all of these tails' represent the total contracts, the 17 contracts represented below which still affect our financial results.

So during the 2021 financial year, we saw that there was a higher concentration of these tails, so you can see that these tails stack up higher and the effects of the discontinued contracts will be higher than of course, they will be in odd during the 2022 financial year.

On the other hand, what do we have? We have new renewed businesses being developed with new conditions, rates, and this is what we're showing here in green. This is what we call the fix portion of our strategy. So, this means that with the new contracts, what's going to happen is that it will dilute the negative effects of the yellow runoff business tail. So, as you can see for 2022, the positive effects of the fixed portion will be much more significant than the negative effects shown in yellow, due to the runoff business tails.

Slide 13, continuing with Slide 13. We see a gradual Improvement of our underwriting results. Recurring operational losses in the first quarter of 2020 look, excuse the second quarter of 2021 was BRL262 million. But if we exclude, the run-off effect its BRL55 million. So our run-off effect was negative by BRL208 million in our operational results. With the combined ratio on the right you can see how it will improved in the second quarter of 2021.

In the first half of 2021 our run-on was a 108%. It's important to highlight that we identified or excuse me, we excluded these questionable contracts in our run-off figures. But, we are analyzing all of this portfolio and our strategy and we are seeing how it affects our business. -- they don't add to the company's results, and this is clear on Slide 14.

With the closing of the initiative cycle, it was concluded in June of 2021. And as you can see, we refused a 107 contracts, excuse me, 27 contracts. While year-to-date, we refused 162. So our reunderwriting process looked at our entire portfolio, so it's important to highlight that we refuse 162 contracts.

Obviously there was a reduction in the portfolio, and on the other hand, it's leveraged by the new business that we have achieved. So '17 in the last quarter an 239 year-to-date. It's important to remind you that all the new businesses are already having different market conditions and fees.

So despite that we have to highlight that we were able to renew them with better fees in 84% of the businesses we wanted to renew year-to-date, especially in July of this -- even went higher to 87%.

So with that, we continue with Guerra who is going to tell us about it's about the new regulatory requirements. Thank you.

Carlos Andra Guerra Barreiros {BIO 21013633 <GO>}

Thank you Isabel. Good morning, everyone. I would like to mention two important items related two the company's solvency and its liquidity. On Slide 16, on your left you have the breakdown of our minimum capital requirement. According to SUSEP regulations these are individual calculations for each type of risk. Based on this calculation you have a capital of BRL1.5 billion and to match that we have net assets.

When you take into account BRL4.2 billion of total equity, we have BRL2.7 billion of surplus, that solvency calculate based on the total assets each common practice internationally. So SUSEP determines that we exclude a few items at the bottom.

At the footnote, you can see those items that have been discontinued. We have therefore, an adjusted equity of 2.7, which means that was still have a surplus of BRL1.2 billion. That gives us a way better situation, which much more comfortable, the situation than that we had last year. That's 175%, therefore.

Moving on to the Next slide on Page 17. This is the regulatory liquidity, as you well remember that was one of the major problems we had in 2020. That actually SUSEP be imposed, that special supervision that ended back in April, once we complied with all their requirements. So when we talk about regulatory liquidity, we compare the number of assets that can be used to cover technical provisions, be them guarantee or a reducer of those provisions.

In July 2021, provisions that had to be covered amounted to BRL13.9 billion, and qualified assets added up to BRL14.5 billion, BRL644 million in excess therefore according to SUSEP regulation, they require a cushion, a 20% safety margin that amounted to BRL209 million.

So, when you perform the same calculation, this is what SUSEP uses to analyzers. The regulatory -- liquidity is BRL336 million way better when we compared to last year's numbers and which we suffered for some months just like Toneto showed us at the beginning of the presentation.

The peak of that problem was in June last year. We have a very important additional item that has to do with that regulatory adaptation of SUSEP has conducted for about 3 months. Several regulations have been published to strengthen our industry.

That's regulation section 34 that introduced two important elements, number one, it does away with the need of those 20% safety margin of above BRL309 million to calculate regulatory liquidity. Ever since then or from then on insurers will use their own methodology for that cushion, but there's no mandatory requirement.

As of August, we'll be able to use resources abroad as reducers of that calculated liability. As you remember in previous calls in the past, we had double guarantee, double collateral for some partners. So as of August now, we'll be using some of these assets, of course, abiding by the limitations imposed by the regulation itself. Those will then strengthen our liquidity, because we'll be able to use more assets.

And number two, we'll be able to bring costs down. We've already started that process, we'll be transforming some letters of credit in what we call Trust Accounts. These are cheaper instruments, easier to manage, and they can be used as reducers.

Okay, so when we take into account, the limits we have today for both those 20% mark safety margin above the regulatory and those foreign assets will have some leeway in our liquidity, up to BRL644 million. So this is good news to all of us. It's great news for the company, will give us some more leeway so that we can operate more comfortably in that sense.

I'll turn it over to Werner, he'll be talking about the results and financial indicators.

Werner Romera Suffert {BIO 18657101 <GO>}

Good morning, everyone. Slide 19 now. This is the breakdown of what Toneto mentioned initially. That's the normalized net income excluding the run-off businesses, just like Isabel put it, and some one-off impacts, we'll be breaking that down for the semester and for the quarter. But number one, we were at when in BRL156 million, when we exclude the runoff, run-on is BRL53 million positive, when we could one-off BRL57 million of net income of our operation, when compared to the first half of the year last year. It's an important comparison that's where we're coming from, right? First half of last year.

The profit was minus BRL621 million, when you exclude them BRL732 million, that was our loss back then. So we have come a long way from 2020 to 2021. And these are the main impacts the run-off issue, we've already explained that. We have specific claim that was the BRL76 million effect that is the run-on, it hasn't been separated. But this is an event. That was a one-off. It's an important impact, and it's important to point that out.

For the one-off -- for the runoff, when you take into account. The industries are the segments that had the most important impacts in the renewed contracts. That's in yellow, this is aviation, life, maritime and international, and we separate some FX, some one-off FX.

They are described PIS, COFIN, some taxes, and some other items BRL3.8 million. The most important impact in our net income that's the run-off, that's the tail effect just like Isabel explained it. And of course there's the positive effect, this is something we'll benefit from on a monthly basis.

On the next Slide, the same thing, but quarterly. We had these BRL656 million loss. The total amount was BRL17 million. With the one-offs, we would have a BRL31 million a loss for the quarter, but again when compared to the second quarter of last year, this is vary. Our position was BRL657 million losses. That's the comparison basis from BRL657 million, the bRL31 million loss for the quarter. The same effects ended up impacted these numbers here, just like in the previous slide.

On the next Slide, written premium. I think it's important to point out, what Toneto and Isabel said, written premium in Brazil, both on a quarterly and on the half-year basis, almost 12%, BRL2.3 billion and the first half of 2021. And, those that were written abroad will have, we significant decrease, this is been explained by the effects devaluation. It went down 33% on a quarterly basis, 27.6% back to BRL1.8 billion in the first half, reaching BRL4.1 billion of written premiums in the first half of this year.

On to the next Slide now. Another very important part of our strategy. That is the reduction of retrocession expenses. We have now lower exposure, and better performance in acquiring from BRL278 million in the first quarter of 2020. We're now back to BRL165 from BRL292 to BRL210 million now, on a half year basis.

The index was 20.1%, 11.7% abroad, major decreases in retrocession expenses overall from 32.8% to 26.4% and again a major drop from 2020 to 2021.

The 23rd Slide now, Slide Number 23, this is some more color on what I was talking about the claims. On a quarterly basis and on a half year basis when you look at accounting information and the normalized or run-on information. In both scenarios, we have major improvements in the ratios, 39.7% drop to 57.72 -- to 50.7% run-on from 135% to 85%, a 50 percentage points drop, and the half-year basis we see a major drop of 180% to 85 -- 23% drop, and that comparison of 70% last year that number was an 108% -- 30.2% drop in claim ratios. That helped us improve the most important indicator in our industry.

It's a combined, at drop in the combined accounting or run-on vision to there was a major drop 37% drop for the quarter. From 164% to 218.7% and the quarter 47 percentage points reaching 117% in the second quarter of 2021. And now for the half the semester.

The combined was a 20% drop reaching 116% and the normalized reaching 108%. That's the semester view from 135% and almost 27% drop. It's very clear the size of the recovery of our company. In accounting numbers, but specially just like Toneto put it, in the normalized run-on. Moving on to the next slide.

With the financial results, we can see that it went up to BRL90.6 million and a BRL194 million in the first half of the year. So this was a significant result from difference from what we had before. If so some of the important impacts that we have still to come and which we will face in the second half of the year, is the impact of higher financial revenue because we have a financial stock -- capture that we had last year.

We issued a debentures and also the operational cash generation that Toneto mentioned for four consecutive quarters with a strong generation. So this, helps us to have a higher net level of assets, as Toneto said. And these silly rates are still going up. So the curve is still signaling that it will grow from the level we have today, and the cycle after the focus survey comes out, will be at about 7.5% for the year. So when we look at the financial results at this level of interest rates, and with the percentage we got from our investments. We can see a very robust financial result and that will definitely improve the company's results.

On the other hand, we have to see that our administrative expenses are also improving. So we expect to have lower expenses than what we have right now as Guerra said. The main expense line has to do with our credit portfolio. And with the operations we have in SUSEP that we can change our guarantees, and this is also going to bring a significant savings in our financial expenses.

So, this is a cycle that will start now in August, and after we migrated from credit to other strategies we'll also see a significant reduction in our financial expenses for the next quarters, and this will come as a result of this strategy. So, continuing with administrative expenses, here we can see that the company's efficiency is maintained or slightly increased 6.1% for this semester, and 5.4% in the quarter.

We had already covered the one-off effects, but the administrative expenses are quite positive. This is a good level or benchmark for the industry, the company will continue to improve its efficiency in administrative expenses. So we have BRL37 million one-off impact, and our administrative results were a BRL168 million versus a BRL149 during the first half of 2020.

So one final comparison that's important to draw as we have in the last quarters is to look at the company's obligations, and also our client's obligations with the company. So this is a comparison and an update of our equity. It's important to highlight on column B, where we have our credit rights with our clients.

We have B2 showing the provision to be covered with liquidity and its BRL7.8 billion. And on column H, we see our high liquidity assets representing BRL9.1 billion. So this efficiency Guerra as said, was generated by the company's movement since June last year, when we got at the most critical level. And we managed to overcome and create a considerable level of comfort.

So we continue to be robust in assets, BRL4.2 billion in total equity, so we remain a solid company and as Guerra said, we have excess regulatory adjusted equity BRL2.7 billion and when we look at, at the -- and we can see here that we're liquid with the cash of BRL9.1 billion. So the company continues to be robust and liquid so, we'll continue with Toneto, who will give his closing remarks.

Wilson Toneto {BIO 20892371 <GO>}

So thank you. We went a little bit over time, so we just have one final message for you some other highlights I'd like you to see on Slide 28. The first is the payment of interest on capital. It had been approved in July of 2020 and has been postponed because of the company's liquidity situation.

So our Board of Directors on the 13th approved this payment of our interest on own capital, and we expect to pay it on September 8. So this will be corrected according to the SELIC rates and this is good news for our shareholders. We executed this because of the company's new level and our current situation.

We have some other highlights I'll go through briefly. But we there's always questions about the company's share repurchase process. This process was approved, and it will be effective until tomorrow. So last year, we repurchased a number of shares, but right now the regulatory conditions required to continue with the repurchase process and to maintain the program are not possible. So, we have a number of conditions for this program to continue, and they have not been met. So that this possibility is no longer there.

So what I'd like to say is that, since this is a topic about which we get many questions. I just like to say that the company is not discussing repurchases now, because regulatory conditions do not allow us to. So, this is not a possibility. When we no longer have these limitations, this might be up for discussion. But right now, it is not.

Another important matter that we have to comment is the extraordinary general meeting. So a positive point is that on the 28th of July, the new Board of Directors was approved for the next two years. So this is a Board that has a very important term which will ensure that the company will have good governance, and so that we can continue our restructuring process that we started in the past.

It's also important to highlight the improvement in our governance, due to the approval of amendment of Article 27 of the bylaws. So this will provide the company with more governance in several aspects. So after the new Board has been nominated and approved these changes to the bylaws and the process that was on going to define who the new CEO will be, will no longer have any roadblocks or conditions and it should be announced in the next weeks. This is what we expect at least. But this is something that will be under our Board of Directors. Another thing I have to comment on is our guidance.

The company has its short, medium and long-term goals. We have our goals very well lined out, and we've concluded an important effort where we gave you indicators and recurring results at unimaginable levels. We don't imagine that this will decrease in the future.

So there is a great indication that it will continue to go up. So we published our guidance so far. This is something that has been analyzed by our Board, and as soon as we have a new position, we'll communicate it to the market, but it's important to show what we've done so far.

I think the guidance was very clear, when we look at our recurring results. And looking at the future on the next slide. We've discussed our strategical review of IRB. This process has been concluded, and we now have the project to transform the company, and it involves 80 employees directly who are building and implementing several initiatives related to our company's strategy.

Some structural initiatives involving claims, other areas, the company's efficiency. We have been well supported in doing this and we are convinced that as soon as this project is implemented we're going to have added value for the next year's which will be very important for the company.

So I think this is a highlight that we have to make known, we really believe in this project and we believe that it will provide great contributions to our results in the medium and long term. We don't believe that we will have any problems and quite contract, we believe that solvency and liquidity will remain at high levels. It will remain robust and without any kind of problem that we can foresee for the next years.

I think we overcame this stage and we're very well prepared to improve our indicators. This is what we believe in and this is what we're stating. Of course, we have some concern about our costs. The main one is claims. This is a part of our business and we're working on that in operations, but also underwriting as Isabelle said as we go through this transformation project, but there's a second grade cost line, which is our retrocession expenses.

As you've noticed, we had an important proportional reduction of retrocession expenses we'll have an important renewal in October with the group protection panels that we have for IRB. But now we have lower international exposure, lower exposure to catastrophes due to the underwriting, reunderwriting process. So we project that this will be even better on the medium and long term, just as we are obsessed with efficiency and costs. This will be boosted by the innovation processes, so this gives us a positive signs of cost reductions.

Finally not only did we have a great environment in privatizing concessions and investments in infrastructure, but they will continue to generate opportunities in several segments for us. Of course, we will see that the pandemic will slow down as we all hope it does, which will contribute to our country's economy.

So, what I'd like to say as a conclusion is that regardless of any seasonality we might have in our results and of course, it could happen just as it did in July, right? We didn't go into monthly figures, but when we look at monthly results versus April you can see that June was, had a big impact due to a number of factors, but even despite these seasonality is.

We predict that the results of the businesses that we are continuing, and that we have reunderwritten. That we have redefined their terms during this period will overlap with the discontinued business results. That graph, that Isabel showed, although it was only a visual representation, really shows how we will have results overlap at being on the short and medium term. And with that our projection is that there will be a gradual reduction in claims and improvement in our combined ratio.

The estimated time is well, we expect it to happen in the middle term of course, there will be a tail, which could result in some volatility, but this indicates that this will happen gradually without a doubt and you'll notice these movements. So I think that's what we had to share with you, and we'll now pass it back to the operator, who will run on the questions and answer session. Thank you. And we're now expecting your comments and questions.

Questions And Answers

Operator

(Question And Answer)

Excuse me. Ladies and gentlemen, we'll start our Q&A session now. (Operator Instructions) Daniel Vaz from Credit Suisse asks the first question.

Q - Daniel Vaz {BIO 20331316 <GO>}

Hi. How is everything? Looking at this reunderwriting strategy, we had a growth of committed premiums in high claim rates. I have two questions. Do you expect to increase top line as 2020? And despite that speed do you believe claim rates would be brought down to normal levels that was 68% to 73% according to a previous guidance? That was the question. Thank you.

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

Hi. This is Isabel. Well, actually, we don't expect after this re-underwriting stage and after all the changes we made. We don't expect that it will accelerate it go back to the same levels. Reunderwriting, does not mean that we are looking at the same condition, so basically, if we increase the lives on this -- in all of these contracts, and the next year's, they will be in -- at much better levels. So we'll have other premiums and other conditions that will not take us back to the same claims rate that we had before. This is on one side.

But talk about canceled businesses or canceled deals, they have been canceled. And as you saw in that illustration, they still have a contract tail which is negative and which will affect our results for 2021. But it will be diluted gradually. So, we have these two events. We've stepped out of these contracts and we expect that it will drop down and we expect that it will be diluted and abandon in the next years.

A - Wilson Toneto {BIO 20892371 <GO>}

Yes. This is Toneto. And I just think it's important to highlight a change in policy. Our current policy really does, put results first. Of course, it was a very competitive market, and that affects our premiums, but we understand that we can remain in the market with expertise, with quality, and having a very strict policy of focusing on results and not on issuing, and that doesn't mean that we're not going to grow. Of course, we're going to maintain our business, but we're going to grow healthier, and the governance process for the contracts. I believe is very important.

So, we're changing our guidelines. We're looking at governance. And we have a sustainable growth policy now. It's not that we're not going to grow. Quite the opposite, we think that it's important for the company to continue growing, but maybe at a different pace than we saw so far. In the past, when you went into the international market, it responded very quickly. So we're not going to grow at any price. We will grow, but we're seeking sustainable growth. This is the direction that the board has given us, and this is our understanding, and what we want to deliver to the market.

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

Yes. And if I can add something, if you look at the year-to-date figures on Slide 14, we've presented that there are 239 new contracts there, in our portfolio for 2021. So, if we consider that we stepped away from some renewals. And with the entire reunderwriting process, we refused 2 billion in premium. We can see that. We have already recovered 1.6

billion of the premium that we lost through our reunderwriting program. So I think that answers your question.

A - Wilson Toneto {BIO 20892371 <GO>}

Yes. I hope that answers your question, Daniel.

Operator

(inaudible) from Banco Inter asks the following question.

Q - Analyst

Good afternoon. Thank you for taking my question. I actually have two. The first one has to do with claims. The second half of the year, especially for the life and rural segments and we did not see that reflection at IRB. Is that a matter of time, a matter of contracts? Or are we supposed to expect those impacts in the quarters to come? And my second question is about reunderwriting, should we expect, are we to expect some signs from the market or the international market? Can you expect some sort of stability for premiums abroad, along the lines of the reunderwriting effort in 2021?

A - Wilson Toneto {BIO 20892371 <GO>}

So Martell [ph], let's start with your first next question. The market has been presenting some results in life and agro, which are not in line with what we have forecasted, but I just like to say that in the case of life, IRB has a very good reinsurance program. So, it does not pay claims related to the pandemic which really affected the insurance market, right? So our contracts don't foresee that we will cover the impact of the pandemic and we have contracts that are only for the very end of elevated levels. So, not everything that happens in the life of the category will necessarily affect us. Of course, we tend to capture the positive changes, like price increases and so on.

And in agro, we have an important share of the market, but I think these are movements that have good provisions behind them. We have very good protections through our retrocession. So it expected that will have some natural changes in the Agro category, but we're not expecting any significant impacts. Isabel, do you have anything to add?

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

Yes, I do. So specifically on agro, during the second quarter, we saw an increase of our claims ratio to 75%. So this is due to the better crop of all the summer crops that are being harvested. Right now, we're looking at the winter crop, and there was a drought. So what the market expects is that, its performance will go down now for the next quarters. However, IRB's portfolio is - well, winter crops are -- excuse me, summer crops represents about half of our portfolio and they have been harvested and they had good results. So what we can expect from the drought will now be a lower impact than the soybean harvest that we had earlier. So, I just wanted to add that information on agro.

Regarding your last question about question about reunderwriting, if we have concluded the process or not. Well, what we've concluded right now finished a cycle. So from July to July, we managed to review all of the contracts that were yearly in our portfolio. Most of them are yearly. So we looked at 95% of our contracts. All the ones that are yearly, we stepped away from many of them or we improved better rates and fees. So we can say that we have reunderwritten most of our portfolio, 95%. We have of course, some multi-year contract, some construction contracts, so that will still take place. We're still going to analyze it until and it will take some time until we can review these contracts, but when they come to term.

But from now on, well someone might ask is about ROE done? Is IRB going to visit our portfolio? Well, of course, we always review our portfolio with every renewal. So it's not, it's going to continue, obviously not, as we did so far because we were very detailed in our reunderwriting process, and now what we're going to do is just make small adjustments and changes to the conditions that, if we believe that the contracts are not behaving the way we expect them to. But this cycle, the first cycle is already over. So I think that answers your question.

Q - Analyst

Thank you.

A - Wilson Toneto {BIO 20892371 <GO>}

Thank you, Martell. We hope we answered your questions.

Operator

There's a web quest. Eduardo Nishio, Genial Investments. Could you please elaborate on the movement of positive cash generation vis-a-vis the losses? The two lines, shouldn't the two lines be aligned or at least have the same signal?

A - Wilson Toneto {BIO 20892371 <GO>}

That's a great question, Eduardo. Good afternoon. I'm going to share the fact that our cash flow and results should be in line. And we believe that it will be aligned on the medium term. And as we said, we expect to have a longer tail that will affect our financial results, but you did capture it clearly. If you look at the previous cycles, when you look at the statements that we published, you can see that our results were positive, but our cash was lower and we felt the effects of that now. Now, we have the opposite situation. We have great cash with some run-off business. So I agree with you, this is a trend. It should follow us and now we're seeing a disconnection between the flow comparing cash and results, but this is a part of the nature of our business. This is essentially, what is happening?

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

Well, when you look at the companies cash, the operational cash, both Mario, as of 2018, we have generated positive cash. Just like Toneto put it and your remark makes sense. Cash is what happens before, so the long-term trend is just like you put it. So, extract results and it's distributed later. And that's distributed to stakeholders through several different means, but in the long run, you see that happen, but we are at that turning point moment. Then you have the first impact as the cash, and then the results, that's what we expect to happen. That's what we have in our forecast, that's the trend. We'll have consistent positive cash and then results will come and its wake.

A - Wilson Toneto {BIO 20892371 <GO>}

Yes. And it was not by chance that we started the presentation speaking about cash generation. So the company's health its longevity of course will be based on that. And this reflects -- this is reflected in our results due to the nature of our business. So I hope that answers your question.

Operator

Another webcast question, Luis Fernando Azevedo from Banco Safra. Good morning. Looking at Slide 12, I had the impression that the duration of major contracts is between 12 months to 24 months. Is there an average duration, because it may impact 2022 numbers? When do you believe you'll be able to bring claims ratio back to 68% to 73%? The next question is, what is the criteria to qualify a contract as substantial?

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

Hi. This is Isabel. So the most important thing here is to remember on -- from Slide 11 that we had aviation and rural contracts and life contracts, and we should not mix them. Some of them have longer tails, for example, aviation has civil liability, so that it takes longer to pass. So, what I'm saying is that some airlines have a longer tail, but for example, life have a much shorter development. So, what we'd like to do here was just illustrate this graphically. (Technical Difficulty)

Operator

You may proceed please. Please hold, we're still reconnecting the speakers line. Excuse me, we're still trying to reconnect the speaker, please hold. I think we were disconnected. Anyway, I think Isabel will answer Luis Fernando again.

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

I'm using a different telephone. I don't know how much they've heard from the previous answer. Can you please repeat that?

A - Wilson Toneto {BIO 20892371 <GO>}

Hi. I hope I don't get disconnected again. So I'll try to answer the entire question again. So about tails, it's a bit complicated to know exactly what the average is of these tails. So we have some business lines like aviation that have longer tails due to the nature of the business. They have civil liabilities. So of course, they will have longer costs than tails like for example, life or agro, which have much shorter tails.

So what we did on that slide was just to illustrate it roughly, right? We understand the that these effects will remain until 2023, and they will of course, be much lower end by 2023. Considering our claims ratio, we -- as we saw on Slide 9, we will basically be between 68% to 73% throughout 2022. This is what we expect. So, I think that answers your question. I'm not sure, if I left anything out and if I did, please let me know. I got a bit lost here after I was disconnected, but I think I answered your questions, right? Well, let me known that -- let me know that I've answered. So, thank you.

Operator

Another webcast question, Carlos Daltozo from Eleven Financing. With the runoff claims ratio above 100% in Q2 2021, are we going to review contracts in reunderwriting? Are we done in July? With the problems in the harvest of corn in 2021, what should we expect in terms of claims ratio in the agro contracts in the second half of the year?

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

Well, as -- this is Isabel again, okay. So we don't expect to revisit all contracts in depth again. We did all of that for one cycle as we had said, so all the changes have already been made. So this should already improve as time passes.

A - Wilson Toneto {BIO 20892371 <GO>}

So this is Wilson [ph] speaking here, so just to add something on run-on. As you know it doesn't capture every movement, because there was that green part which was improved premiums, which has not been captured yet. So there will be some time in which the results from the reunderwriting process will improve our top line. So the part of it will be in July and the remaining portfolio will be after six months. So once this matures in our portfolio we'll still see a significant combined effect. So this will be seen gradually as business continues.

Of course, there may be some volatility, it's natural, but the reunderwriting effort as finished after the first cycle, and this is very well grounded in the company so, all of our underwriting metrics that are related to reunderwriting and not to the top line. So, through the next renewal cycle, we will also try to improve our underwriting, right? Of course, we want to grow with good quality. So I just wanted to add to Isabel's answer.

And there was also a question about agro contracts. The cycle there is also seasonal. You have winter and summer crops. The company has good provisions for all of that. So, the claims ratio should be within expectations. Of course, we're still waiting for monthly data, but when you look at the crude data, this will be within expectations. Thank you.

Operator

This concludes the Q&A session. I would like to turn over to Mr.Toneto for his final remarks. You may go ahead sir.

A - Wilson Toneto {BIO 20892371 <GO>}

Well, thank you all for being here once again. I hope that we were able to communicate the company's main messages. We continue to work intensively, so that we can show to you the results of our efforts. We've made many achievements, and we believe that in the next months will continue to bring you positive news and developments.

As we see more results from our continued effort overlapping, we expect that the company will continually improve, so we improved most of our operational indicators. We have robust cash generated. We expanded into great geographies into new businesses. We did great rate reunderwriting. Of course, it was very successful, but there's still a tail. We have many transformation projects connected to the company's new business strategies and also cost savings, this is what we're presenting and this is the trend that we are expecting to see in the future.

So finally, I'd like to underscore the payment process to our shareholders as we discussed. And I'd like to wish you all a great afternoon, and thank you for your attention.

Operator

This concludes IRB-Brasil earnings call. Thank you for attending, and have a great day.