Q2 2018 Earnings Call

Company Participants

- Gabriel Portella Fagundes Filho, Chief Executive Officer
- Mauricio Lopes, Executive Vice President Health and Dental Insurance
- Ricardo Bottas Dourado dos Santos, Executive Vice President of Control & Investor Relations

Other Participants

- Domingos Falavina, Analyst
- Eduardo Nishio, Analyst
- Gustavo Schroden, Analyst
- Lucas Lopes, Analyst
- Rafael Frade, Analyst
- Thiago Kapulskis, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to the Conference Call of SulAmérica to Discuss the Earnings regarding the Second Quarter 2018. Today, with us are Mr. Gabriel Portella, SulAmérica's CEO, and the company's VPs. We would like to inform you that this event is being simultaneously webcast on the company's website at www.sulamerica.com.br/ir.

During the conference, all participants are going to be in listen-only mode. We'll then open for your questions when further instructions will be provided. SulAmérica's conference call is being recorded and the audio is going to be available soon after its end on the company's IR website.

Now, we are going to turn the call to Mr. Gabriel Portella, SulAmérica's CEO, that will start the presentation. Please, Mr. Portella, you may go on.

Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

Well, good morning, everyone. I am here gathering SulAmérica's executive committee to talk about the earnings of the second quarter 2018. It was again a very positive quarter, which reinforces once again the long successful history of SulAmérica. The major challenge of this period of low growth and reduction of the Selic rates has been overcome with the strengthening of our operating results, a very well-balanced set of actions. We kept our growth focusing on profitability in all business lines. The recovery of the Auto segment continues quite consistent and the investments we have been doing in underwriting have enabled us to continue our growth while we have a strong reduction of our claims ratio.

In Health & Dental, our customer base continues to grow in a combination of a high retention of customers and maturity of our prevention and health management measures and, therefore, we are a showing a permanent improvement in profitability. Life has shown growth in revenues, number of members and the launch of another product.

In the Massified business, we continue to grow, but we had an impact with higher frequency and claims ratio. In pension, we continue with a positive growth, a fruit of a diversified portfolio and a good development of our funds. Asset Management continues to grow, increasing revenues and having better margins.

In Savings Bonds, we have bettered with a good performance of the real estate market, which is our best product. In addition to operating improvements, we had profitability in our own assets, which contributed to our financial results.

Another highlight is the support that we are having from our more than 30,000 brokers - insurance brokers that support our operations. Also, we have permanent improvement of our profitability, reducing admin cost over expenses, reaching the lowest level of our history and keeping the level of investments, improving our processes by means of automation and the launch of new products and services. We have been proving that it is possible to grow through the most difficult times in economy with a more positive view of the future.

With that, I'm going to turn the call to Ricardo Bottas, the Vice President of Control and Investor Relations Officer to talk about the main highlights of the quarter and then we are going to open for your Q&A. Bottas?

Ricardo Bottas Dourado dos Santos {BIO 18808387 <GO>}

Thank you. Good morning, everyone. I'm going to start the presentation with slide 2, evolution of total revenues that reached BRL 5.1 billion in the quarter with an increase of approximately 17% with growth in all business lines. The highlight here - relevant highlight is the growth in the auto insurance premium of around 26% quarter-on-quarter. This is a combination of an increase of fleet and average premium.

In Health & Dental, we kept the pace of growth in recent quarters moving the increase that's in the base of closing of this quarter compared to the previous year, we have an increase of 9% almost. As for Life & Personal Accident, we had an increase in revenues of 15% above the second quarter 2017 and savings down 13% above the second quarter 2017. It is important for us to have a portrait of the evolution of the second quarter with an important evolution of revenues compared to the previous year with growth of 14.4%, consistent growth in all business lines. Here, Gabriel mentioned that I would like to reinforce the importance of our commercial structure and our brokers and partners in our improvement in revenues.

Going to the next slide, talking a bit about our mix and share in revenues, still on a half year base, we have BRL 10 billion recorded in the first half of 2018, 96% of revenues with operations in insurance. And then you'll have in total revenue (00:06:43), 76% for Health & Dental, 17% with the combined revenues of Auto and Massified, and then 5% in Life and Pension, and 2% in the other business lines.

Going to the next slide, slide number 4, we have a summary table with our main indicators. We already mentioned revenues in the two previous slides. So I'm going to the third line, claims ratio reaching 77.4%, an important reduction of 3.4 percentage points. Here, basically encouraged by the relevant recovery in the Auto segment. Later on, I'm going to talk about that.

We had a reduction claims ratio in Auto of 7.8 percentage points and also a very good result in Health & Dental with a reduction of 3.1 percentage points in claims ratio. Also, an important reduction in the loss ratio of Life & Personal Accident, death (00:07:55) or casualty, that had a decrease of 3 percentage points. Those improvements justify our growth by 3.2 percentage points in our gross margin, which in practice accounts for growth in our nominal account of 70% increase of our gross margin, again, because of a high operation efficiency, low sub (00:08:21) revenues and reduction in our loss ratio.

We kept our admin expenses stable in the quarter basically as the previous one and remember that in admin expenses, we have lots of investments in innovation, digitalization and improvements of problems and practices. (00:08:41) launches, efficiencies all recorded in here. As for our operational efficiency are talking about the investments to improve the company's efficiency as a whole.

We have also a reduction of 4 percentage points in our expenses and also 3.1% reaching the combined ratio at 98%. So, all together, those offset the reduction of 21% in the financial results, which was expected because of the reduction of Selic rate. So, the combined ratio closed at 95.5%, an increase of 2.4 percentage points compared to the previous years.

Net income BRL 135 million, an expressive increase of 68% compared to the previous quarter. The average return on equity in the period of 12 months closed in the second quarter was 15.1%, an increase of 1.7 percentage points compared to the previous year.

On slide 5, going very quickly to our business units and later on, we are going to talk about admin expenses and portfolio. I would like to highlight the increase of 14.8% in operating revenues in the quarter with relevant growth in all portfolio, especially the small and medium businesses with an increase of 25.5% and dental, 15.8%, a fruit of strong pace of new sales and a high retention of customers. Just for you to have an idea in the corporate portfolio, our retention is almost 96%.

We reduced loss ratio in health, as I mentioned in the overall comment, even in a quarter that is impacted by unfavorable seasonality showing the consistency of our operation. It's important to say, and SulAmérica is always talking about that that we have (00:11:03) a longer period to monitor the loss ratio of a portfolio who's characteristic is to have a longterm behavior. That has to be observed. And, therefore, you may have seasonal issues that can affect the rate. But still thinking of not only the quarter, but the whole half year, we had a reduction of loss ratio of 0.8 percentage points. Those of members in health also be highlighted 7.7% plus in this portrait of the first half of 2018 compared to the first half of 2017.

If we just think of collective plans, we are talking about a growth of 9%. Again, dental, 15% up, and small and medium business, 11% up, in addition to an important recovery of the corporate portfolio that's had growth of almost 4%. Also, I would like to highlight, in addition to new sales, the evolution of existing portfolio, existing customers, existing contracts, for the second consecutive quarter, we had net additions of members in existing customers which represents for the second quarter in a row a modest but positive signal of (00:12:27) economic recovery. But you complete in this portfolio, we had an increase of 75% in gross margin in the quarter, combining growth of revenues and less loss ratio.

In the unit of Auto, it's important to highlight recovery in revenues and also loss ratio, approximately 26% in revenues and reduction of loss ratio of about 7.8 percentage points compared to 2017 as a result of all the investments that we have made in the past 18 months using new pricing tools, maintaining our claim control and recovery of profitability of the portfolio with a gross margin progression of 125% which has contributed relevantly to the results and the earnings of the company. In three months, we have had a significant increase, BRL 160 million of extension of margin in this portfolio compared to the half year of 2017. In Auto, after three quarters of stability in the size of our fleet, in the second quarter of 2018, our fleet has had a recovery of almost 5% compared to the first quarter of 2018, totaling 1.6 million cars at the end of the second quarter.

Slide 7, additional areas relevant increase in our revenues, 8.6% increase, maintaining our pace of expansion that we have observed in the last quarters; a gross margin with a reduction of 36%. We have heard that before, about a greater frequency and stability of some specific claims, especially in our corporate portfolio.

Slide 8, Life & Personal Accident, there has been a significant increase in revenue, 16%, more businesses in individual and travel insurance products. We have improved profitability almost 3 percentage points in loss ratio. It has contributed to significant expansion of our gross margin. In this quarter, we had a reversion of a contingency of BRL 80 million and that has contributed to improving our margin. If we consider that new provision, the growth of Life & Personal Accident still will be very representative of 230% compared to the same period in the previous year.

In terms of Pension, we had a growth of almost 10% in revenues. Strong pension reaching BRL 6.6 billion in reserves because of the greater volume of contributions and a positive balance of portability, positive in the second quarter of BRL 27 million and BRL 33 million in the first half of the year, really strengthening our brand, attractiveness and profitability. Operational revenues had an increase of 21.6% resulting from VGBL (00:15:53) increase in revenues and 15% in reserve.

Slide 10, our Savings Bonds, there has been an important pickup and recovery of the market increasing revenues 13% compared to the previous quarter with the rental assurance, and we are improving our commercial relationship and really trying to reach better and greater earnings as a result of the economic recovery of the segment.

The gross margin in the quarter was impacted by greater expenses and a contingency of liabilities from operations that were discontinued, but still impacted the margin for the period. Excluding the specific effect of the quarter of a provisioning of discontinued operations, our gross margin would have been 6.7% as opposed to 7.3% in the first quarter last year.

Now, Asset Management, slide 11, we have had an increase of 12% in the managed assets reaching BRL 38 billion. Following the growth of volume of assets of third parties, 11% growth; and our own assets, we had 18% progression; and also private pension which has had a growth of 10% as we've heard before. It's important to highlight, in Asset Management, (00:17:25) share of multimarket funds in our third party portfolio had 28% increase in the second quarter compared to 2017, growing to 47% in the second quarter 2018 reaching the same proportion and the same share of funds, 48% which is very expected in this situation of low interest rate. It has all contributed to a growth of 24% in our operational revenues in administration fees and performance management and an improvement of 36% in the gross margin of the quarter.

Now on slide 12, administrative expenses, we still focus on continuing cost - controls our cost and expenses. Administrative expenses reached 8.5% in the quarter, stable compared to the last year. Gabriel has already emphasized our investments in process efficiency, modernization, all accounted for as administrative expenses.

The evolution of administrative expenses in the second quarter, which was about 90% compared to last year. We had some specific events which are absolutely expectable even during a normal year. Different levels of provisioning depending on the period and we have had more cost as a result of taxes because in advance of our own capital for use in subsidiaries, not at the holding level. It has an effect that it impacts part of the results that result from our own operations and on capital and equity and it did impact - we're talking about (00:19:23) different tax rates, but they are more than compensated by our expenses with social charges and income tax.

These two effects are responsible for 10 percentage points of the increase of our administrative expenses just to explain how the quarter operated. Additionally, in expenses with personnel, we had 20% increase and there was another component that impacts the recovery of the expenses from third parties. So, we are internalizing a strategic operation in dental. As a consequence, part of that will be accounted as a reduction in the decrease of the line of third party.

Year-to-date, and it's important to emphasize, consistency of our decrease in administrative expenses, 8.3%, improvement of 0.7 percentage point compared to the first half of 2017, and an increase of total expenses of 5% as opposed to an increase of revenues of 14%. So, this is exactly where we have had operational leverage and the opportunities that the company has to improve still its (00:20:42) administrative expenses.

Slide 13, our investment portfolio, we want to keep on improving our profitability of portfolio. We had a yield of 111.6% of CDI compared to 102.5% over CDI in the second quarter 2017. It has been all driven by the good performance of (00:21:07) assets considering that in relation to inflation, minimizing the yield of our portfolio, minimizing the impact of our financial results and the interest rate. There is also some diversification of our portfolio, some international investments which has also improved our yield in the period.

Said that, I think now we can open for questions and answers. Thank you very much for your attention.

Q&A

Operator

Our first question comes from Thiago Kapulskis, BTG Pactual.

Q - Thiago Kapulskis {BIO 19187926 <GO>}

Good morning, everyone. Thanks for taking my questions: The first with regard to Auto because I believe this is the segment that drew the most of our attention in this quarter with quite significant improvement. I would like to understand a little better the increase of fleet, if you could give us a bit more color on this 5% quarter-on-quarter which is quite considerable, where is this coming from?

Are you operating in regions that you were no longer operating with all the problems of private safety, it's a private security that we're having in the country? Are you engaging in a different strategy that you were before? And I would like to understand if this number that was quite significant could be repeated because you're talking about almost 17,000 cars plus?

And also I would like to understand a bit about your loss ratio. This improvement of 800 (00:23:03), that was quite significant. Are you thinking of this level of 61%, 60% of loss ratio as something that could stay for the remainder of the year? This is the first question.

The second question is about Health. If you could, again, give a bit more color on where you improved in terms of a loss ratio? Was it in individual life, was it group, was it frequency, and also thinking of the first half year as a whole because perhaps that's a better picture for us? Thank you very much.

A - Operator

Okay. Thiago, I'm going to start with Auto. This is Eduardo (00:23:50) speaking. Well, we have been talking about Auto along the whole of last year as you know. We are leading a crisis, especially SulAmérica. The market was also very much affected in the first half of last year. But what's happening? I'm going to talk a bit about growth first. What's happening in growth is that first we are maturing investments that we made on prices and they explain part of our growth and part of our loss ratio, I'm going to talk about that later on, and also investments in distribution. We are more efficient in distributing in regions that have lower risks that we wouldn't have access in the past, and that's partially because of our commercial capacity, and also because we are having a better price segment. We are inserted in a better price segment. Again, thanks to all investments that we made on pricing tools.

So, this growth is substantial, but it's also explained by the decrease that we had in the quarter last year. If we compare the second quarter 2017 to 2016, there was a decrease of 13%. So, somehow, we are picking up a portfolio. The brokers already have this partnership with us. At some point in time, they were affected because we were regaining margin, but they also wait for the best time to bring the customers to us, and this is what happened now, clients that were ours in a point in time and are now coming back. So, this growth happened because it did have an important decrease in the previous quarter, so – I mean, the quarter – the year before.

As for loss ratio, well, thanks to all the maturity of investments made in operation, we could talk about how the best capacity we have to manage claims today. And that is showing in average claims – less average claims and also impacted by better prices. We have a new pricing tool today. We are using a lot more predictive capabilities of models and that shows strongly in loss ratio. This is a project whose rollout started in July last year. Along the year, it was implemented in new sales, and we are now reaping the fruit of this project. Most of our portfolio is already being influenced by this new pricing model. And that explains the strong drop in the loss ratio. I think it is – thanks to the investment that we started way before this year. So, everything was very much planned for and thanks to the assertive investments, we are collecting good loss ratio rates.

A - Mauricio Lopes {BIO 21675846 <GO>}

This is Mauricio. You asked about Health. Thanks for the question. The drop of loss ratio appears in all lines of the business. No exception. Portfolios even with no active commercialization with active commercialization as small businesses, all of them decreased the loss ratios consistently.

Q - Thiago Kapulskis {BIO 19187926 <GO>}

Okay. Thank you very much. Thanks for your answers.

Operator

Our next question comes from Gustavo Schroden from Bank of America.

Q - Gustavo Schroden {BIO 18713982 <GO>}

Good morning, everyone. Thank you for the call. I have two questions. The first one, I would like to explore further the increasing number of beneficiaries in Health. We have been observing positive numbers in recent quarters, especially in small and mid-sized enterprises. This is obviously related with a relative improvement that we have observed in the economic index. It's a better situation than what we had last year. So, what I would like to know, what is the level in which we are in this improvement curve? Do you expect to have an increasing number of beneficiaries in the near future? Is it a level that you expect to increase? And do you expect that affinity, corporate, health, insurance get to the levels that you have achieved in SME? So this is the first question.

The second question concerns the product mix of the company. If we look closer to health, business and auto insurance, on the one side, we see an increase in the top line of health as a result of increasing number of beneficiaries. But operationally, we have seen that get better at the outlook segment. If we realize that the impact for loss ratio improvement in Health would be limited, of course, that you have achieved a level of 80% with a very good level. So, I don't see a lot of improvement in the loss ratio of Health. Conversely, for Auto, you have observed consistent improvement in loss ratio. So, wouldn't it be interesting for the company to increase somewhat its share in Auto in the mix of (00:30:05)? So, how do you anticipate proportion of mix with Auto and Health, your product mix, and what can we expect in the near future?

A - Mauricio Lopes {BIO 21675846 <GO>}

This is Mauricio, Gustavo. Thank you very much for your question. Concerning number of members, there is a combination of four factors: First, which is the most relevant one, first and second one in fact, is the fact that we have new portfolio being launched. In the past two years, we have had a lot of interest in them. So launch of portfolio is not only a design of product, different network and reimbursement, but the way we've been selling that. One year and a half ago, we changed the format for SME. We reduced commercial expenses and we changed the way we were selling. We just had an easier system for brokers and for our members, so easy date of entry or the processes have been streamed. So it has meant an increase in this product line.

We are going to have new products now. We just launched two more products in June, one in affinity, the other one in corporate. So we have got prepared to work with two other levels of products being (00:31:38) profitably, one is called Itau, the other one is called Xtra (00:31:40). We started selling one month ago and let's see how that's going to be in the upcoming months. So this is for products.

Concerning geographic distribution, the commercial area has been increasing, the number of offices and branches all over Brazil and the network has been working very hard to really compensate areas where we had gaps. So we have adjusted payment models of some providers as well. So as a consequence, we are now in areas where we didn't use to be. So, for us, it's greenfield. We are implementing greenfield in areas where we haven't operated before. And it has really produced good results.

The third item, which is equally important, is retention. When we see the volume of lives being increased and voters (00:32:31) emphasize that, retention is working fine, both sales working beautifully to maintain customer and operations delivering a product with very good quality and innovation. And what we have had in innovation before, the way we managed loss ratio and the way we provide services with online reimbursement, physicians at home, all these items are giving the perception to the customer that this is the product that it's worth to retain and to maintain. And this is the price for SME, for corporate, for affinity or for dental.

And finally, I think that what is maybe not so important to us is movement. As we've heard, for the second quarter, we have had positive results, so small. In June, only 1,500 lives migrated, very small compared to the amount of members as a whole. As the economy is picking up again, the contracts will be closed shortly, but we have to wait until it happens.

And then it comes to the second question you have, so what kind of mix we expect in the future. Depending on how the economy perform, I think the corporate portfolio can be better than what we had in the past. But it really depends on how the market will develop, how fast that will be, and when exactly. So, on our side, we have a commitment to maintain the contract as if waiting for the moment the economy will expand again. We are going to maintain our own variety (00:34:29) and also adding innovation and offering more things to the customers. I think that is something that we really can do, so how can we manage the loss ratio in Health, but at the same time emphasizing easy use, additional products and better experience to our customers.

So, thank you. And with that, I hand it over to Gabriel to answer.

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

I would love to have the ideal mix to our company, but we have to bear in mind that this is a competitive market. We cannot always come up with the ideal profile that we'd like to. So, we have to see each segment observe opportunities for growth. How can we help the channel, which are the regions that still need – which are not very well explored as Eduardo (00:35:25) pointed out, but always maintaining our main characteristic which is grow with balance and profitability. And we've been doing that. We had low penetration in dental, so we expanded that. We went over 1 million user. We had a problem of pricing, we corrected that for Auto, and now we are really increasing our market share, but at the same time improving significantly profitability. So, we constantly focus on profitability for each business line, Pension, Savings Bonds, rental or real estate.

Our mix is a result of how well we can use the opportunities to grow with profitability. So, if we compare any other brand to Health, it seems that the others are always smaller (00:36:22). And we have a very significant share in other lines of products as well, and we have had a significant reduction on a quarterly basis on Asset Management and other administrative plans. So, we are trying all the time to striking a balance between expenses, profitability, and we are satisfied with the mix we have in terms of profitability. And we are going to keep on improving our position and share in each specific segment.

Q - Gustavo Schroden {BIO 18713982 <GO>}

Thank you very much, Gabriel. I just have one follow-up on your answer, the cross-sell. Is there any number that you would like to share with us, number of customers that have more than one product, more than one side of insurance, anything that you can share about that, because cross-selling is really an interesting thing?

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

I haven't mentioned cross-sell, but maybe I mentioned the number of products that can be combined indeed. So, we try to use joint sales, but also use a same channel to sell more than one thing, maybe offering cross-selling. And this is how we work with our insurance brokers. So, health and dental is a classical case where we have more penetration of health sold with dental. Car and house insurance or home insurance – they are just telling me here, just one minute, just giving me the numbers. They tell me what (00:38:10). So 11% of our customers have more than one SulAmérica product.

So, it shows that it is possible to combine, to have cross-selling considering the number of channels we operate on and what customers want to buy and how they can benefit. So, life and casualties together, for example, health and dental comes together as well, auto and home insurance together as well. So, we can see 11% of our customers have more than one product, but there's still a lot more do to. So, it depends on the distribution of the channel and also of reaching out for customers. We still have a lot to do in this area.

Q - Gustavo Schroden {BIO 18713982 <GO>}

Thank you. Thank you very much for your answer.

Operator

The next question comes from Rafael Frade with Bradesco.

Q - Rafael Frade {BIO 16621076 <GO>}

Good morning, everyone. I would like you to comment about the price scenario in Health. You have quite a concentrated agenda of price readjustment in the third quarter. I saw that in small businesses, you have a small deceleration in terms of readjustment compared to previous year, but that's high levels. So, we are starting the new cycle of readjustments now in the third quarter. So, could you give us again a bit more color on that?

A - Mauricio Lopes {BIO 21675846 <GO>}

Hi, Rafael. This is Mauricio. Thanks for your question. You're right. We are already feeling this deceleration you talked about. Some portfolios are a bit faster; others not that much. We are perhaps in the last cycle of high readjustments. Although lower than last year and lower than the previous year. So, it is a descending curve. The way we see it, there is a certain correlation between the overall inflation and health inflation. We have a time lag that is considerable, but it is being picked up. So, it has been working on decreasing that consistently for the next cycle. This is what we are considering for our readjustment and this has been proven true for the past two quarters. Let's see how it works for the future.

Q - Rafael Frade {BIO 16621076 <GO>}

Okay. Thank you very much.

Operator

The next question comes from Eduardo Nishio from Brasil Plural.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Good morning, everyone, and thanks for the presentation. I have one question with regard to strategy in Health. I would like to know your thoughts about the evolution of some competitors in the low-end segment, the base of the pyramid. We saw the IPO of some going to a market cap that is even above SulAmérica. So I would like to know your thoughts on that, about the segment, if you are thinking of entering the segment as well. If I'm not mistaken, Amil has just launched its new brand, Next, to fight those new entrants. What are your thoughts? You are on the top of the pyramid and you are doing very well. We see the evolution of the company, the operational advancements, technology, consolidating this top part of the pyramid. Do you have any ambition with the bottom part of the pyramid as well?

A - Mauricio Lopes {BIO 21675846 <GO>}

Hi. This is Mauricio. Thanks for your question. Well, we have a theory, the company has a theory, and this is something that we have been pursing for some time now. Our theory, we never know if it is right or not because it's a theory, is that the verticalization process is more efficient if it is virtual and that's what we have been seeking in recent years to have a virtual process sharing risks to the benefits of user. And the theory has pros and cons. I said that we were able to expand to several geographic locations in recent months. Expansion needs no assets. You go to a region, you train brokers, you negotiate with all parties, and you try to work with the region commercially productively, and we have been pursuing this strategy.

What we have found is that these processes in terms of loss ratio management can lead us to product at levels that we were not before, so much so that we launched products last month and we believe that they are going to become profitable. If that is a fact, we are just starting to share risks, but that in theory can open pathways for us to work with lower-end products. But that is something that we are going to learn a long time. And I believe our competitors are also testing the frontiers of their products with lower ticket to higher ticket, and now what happens in terms of services and take care of customers and everything. So, as a concept, everyone has a theory. Our theory in our view is showing to be solid, productive. We had a portfolio that was not profitable in basic products. It is now. And we are testing a slightly lower product in some regions, but we still do not know where we are getting to. That is to be found in the coming years.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Okay. Thank you very much. The theory or this attempt of yours, is it with regard to geographic expansion or are you thinking of new product models? That is a product that can deliver more premium to regions in which you are competing with lower ticket products and even with the National Health System?

A - Mauricio Lopes {BIO 21675846 <GO>}

That has to do with network, the management of health and the management of loss ratio. Loss ratio more connected to the network and health management thinking of the individual as a whole. Just by putting them together, we can have a complete product.

If you take a look at our past, we spent a lot of energy in recent years managing loss ratio and our homework is finished. If you look at loss ratio management, it's quite mature. Most of the time is spent in loss ratio management is rollout rather than innovation. We have direct purchases. We have intelligent machines for reimbursement. So all of that is loss ratio management and this is in full rollout. Our operations area now is rolling (00:45:53) out all the previous authorization mechanism. It's going to be very good. It's highly innovative and that closes another part of it. Now, we are engaging our energy in health management for a year-and-a-half now. It is a more complex area, but if it yields results as loss ratio management did in line with what we're doing.

It will close patient care coordination and if we do that, it's not a matter of verticalization or not in terms of quality purchased by the customer, but how you coordinate care. So, it's not only network, it's not only geography, it is really to coordinate patient care completely. And we are spending 80% of our energy in home. Just for you to have an idea, we have 14 projects in parallel talking about care coordination, all in agile methodology, a huge amount of people involved, and I believe that this will generate very good results in the next cycles. Health management as a whole, this is our target and we are working with in operations, business, commercial, strategy.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Thank you very much.

Operator

Our next question comes from Lucas Lopes from Credit Suisse.

Q - Lucas Lopes {BIO 18956724 <GO>}

Good morning, everyone. Thank you for the opportunity to ask a question. I have two about loss ratio. I would like to talk about the two variables of the fraction cost and price. In price, there has been acceleration considering premium on the average, price compared to the second quarter last year and still an increased price of 30%, 40% in the second quarter. So, we expect that in the third quarter compared to what we had last year, there will be one more variation of price of premium year-over-year and then stability. Do you think that readjustment cycle will be all repriced or the average premium - the average ticket does not need that much about price?

And considering loss ratio, what impacted more then for theft in car was more of a surprise and a disappointment. If you can anticipate that the amount of theft will be high, you simply include that in the price and that's fine. This year in theft and robbery has been improving. So, this is what I'm asking. Have you noticed that in your fleet as well? Have you noticed that kind of positive surprise in your experience or not?

A - Operator

Well, this is Eduardo (00:48:59). Thank you, Lucas, for your question. About the adjustment of auto insurance, especially now that we are changing the limit., it comes from regions, we are now expanding somewhat. We are changing the mix of our regions (00:49:19) due to our distribution capabilities and the better understanding of regional prices, we can now access regions that we didn't use to be very present. And it involves really remote areas of the country, away from the capital cities, of course, also considering the importance of metropolitan regions. We've been growing more in the inlands (00:49:51). And this is why it's difficult to track down average premium evolution because they've been changing mix very constantly.

And also (00:50:06) categories, we have fewer trucks. We have more regular cars and that's more common in the countryside area. So, average premium cannot be really understood right now because we've been changing our portfolio constantly. Right now, we've seen the average premium, but within the region where we have our customers or within the category of different levels, et cetera. So, this is my best answer to your question.

Q - Lucas Lopes {BIO 18956724 <GO>}

What about theft and robbery? How has that been impacting your portfolio?

A - Operator

Our experience with theft and robbery has been better for two specific reasons. We have selected better risks. We used to have a binary risk selection. So we will say no to some specific regions such as some specific vehicles because it was highly impact by this variable. But thanks to the new pricing and structure, now we have multivariate acceptance. We select based on a number of variables. So, rather than saying, no, I don't accept that specific region or vehicle, I bring together variables and then I'm more assertive analyzing variables and detecting the risk sometimes robbery and theft (00:51:54) 6% per year. So, rather than selecting by city specifically, maybe there are wonderful customers in that city.

So now I have better selection of risk when I have to say no, so it has really helped us since last year. It has helped us deal with lower theft and robbery rates. In this quarter, this number has been impact by the strike of the truck drivers and the World Cup – the Soccer World Cup. So, this is a result of what has happened to the market and to SulAmérica as a consequence. But if we look at the loss ratio on a monthly basis, it has been benefited theft and robbery, but not because there has been an improvement in public safety measures, but rather because we have selected better risk.

Q - Lucas Lopes {BIO 18956724 <GO>}

Thank you, Eduardo (00:52:52). Thank you very much for your answers. That's clear.

Operator

The next question comes from Domingos Falavina with JPMorgan.

Q - Domingos Falavina {BIO 16313407 <GO>}

Thank you for the opportunity. Just concerning something that you shared with us, loss ratio, because of new underwriting, have you changed your underwriting system? So I would like to know what has happened, why have you observed that kind of improvement.

A - Operator

Can you please repeat the question? I don't think I understood part of that. The audio was not clear.

Q - Domingos Falavina {BIO 16313407 <GO>}

In the explanation while you had an improvement in auto loss ratio specifically in the English release, it talked about a new underwriting system, a new underwriting tool. So, what has changed? Have you changed the entire system? Why is it better? I want to understand more of the operational portion of it so that I can listen why - if it is a recurrent improvement or not.

A - Operator

This is an investment that was made a while ago. And for the first time, we are talking about the results we have made in pricing investments. So with the new mechanism of setting prices, there are two parts in it. First, using mathematical models, now we can build much better mathematical models and we can have a better pricing system. But on top of that, the project require the use of statistical models and translating them into pricing strategies. It was possible to create statistical models in the past, let's say, the basic portion of the process, but in many situations, we could not translate them into effective price transforming that into a more asserted price, be it lower or higher depending on the risks.

We use just to set, let's say, average prices or a broader amplitude of price, we must really employ everything that we have learned from the models. I don't know if I've made myself clear, but the new pricing system gets the mathematical models, especially for auto, they are very important in pricing composition. And then there is better translation into the commercial price that is going to be distributed and practiced by our brokers. But this system can also have better acceptance because then I can combine variables rather than create options based on variables, city or some specific kind of car, now I can accept based on multiple variables. So, vehicle plus city combined because that's exactly where the problem lies and that's exactly where the results have been impact. In our previous model, we could only set segment of one entire city. So now I can offer specific - a correlation with models, with cities. So, (00:57:05) City, which is not very good, it has a high theft and robbery rate, I can find good niches and keep on accepting clients from there.

Q - Domingos Falavina {BIO 16313407 <GO>}

Good. Thank you very much. Do you think that this new model has added more efficiency, better price distribution among cars and not impacting the general average or do you think that now they have taken to a higher premium so, on the average, you have more increase and lowered your prices.

A - Operator

Right now, we have both situations. The pricing project is using the moment of decrease that we had last year so now we can absorb customers that I couldn't accept in the past because the price was not appropriate to the risk. It either was too high because if I cannot have the ideal price, maybe I am extra conservative and I end up losing the customer to competition or sometimes I offer too lower price for the loss ratio. So, right now, we have impacts on both parts of it. But in the future, this system will provide enough freedom to select a strategy. So, let's say, there is a crisis of public safety, maybe I can quickly react and deal with the depression and the impact on theft and robbery rates. So it goes up. I can react quickly to this increase.

As a consequence, sometimes I will have to bring prices up more than the average market and that may impact a number of customers. So, the new system will deliver results to us. And right now, we can see that on both sides. Top line, so it's helping us deal with our commercial - better commercial distribution rates happen in the bottom line in terms of loss ratio. But I believe that it can help us improve productivity and give us better results and even deal with situation of crisis having to react to price's impact.

Q - Domingos Falavina {BIO 16313407 <GO>}

Good. Thank you very much. It's clear. And congratulations on the improvement.

Operator

We got a question on the webcast from Pedro Gonzaga from Pacifico Gestão de Recursos. I'm going to read the question. Health loss ratio was benefited by special events like the truckers strike or the World Cup, has it? If so, what it would be like?

A - Mauricio Lopes {BIO 21675846 <GO>}

Well, this is Mauricio. Thanks for your question. As for the World Cup, statistically this is irrelevant. We haven't found - the truckers strike, it is irrelevant. We didn't find anything that really would cause a change in loss ratio. Of course, we still are looking into that, but it doesn't seem to be relevant.

In the World Cup, we did have some effect. It's a small effect, it really doesn't change results materially. Remember, it was just in the end of June and beginning of July, they were just two gains in July. So, we have to see what's going on in the coming months. But again, it's not worth noting. We did have some hope that it was decrease of our loss ratio, but it didn't happen very - at least not significantly.

Operator

Now there are no further questions. So, we are going to turn the call back to Mr. Portella for his final considerations.

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

Well, my final remarks, I would just like to thank the more than 5,000 employees that are increasingly (01:01:50) and are helping us build an increasingly better SulAmérica, also our brokers, our business partners and our clients. I think it is the best we can have and we can improve the experience of our products and services daily. Last but not least, I would like to thank the support of our shareholders that have understood the journey of SulAmérica and we know that we did a lot, but we still have a lot to do. Thank you very much and have a good day.

Operator

SulAmérica's conference call is now closed. So, we thank you for joining us and wish you a good day.