

Q3 2020 Earnings Call

Company Participants

- Marcio Hamilton, Chief Executive Officer
- Rafael Sperendio, Head of Investor Relations

Other Participants

- Eduardo Nishio, Analyst
- Eduardo Rosman, Analyst
- Gustavo Schroden, Analyst
- Marcelo Telles, Analyst
- Unidentified Participant

Presentation

Operator

Good morning everyone and thank you for waiting. Welcome to BB Seguridades Third Quarter 2020 Earnings Conference Call. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After that, there will be a question-and-answer session. (Operator Instructions) The presentation is available in the financial information presentation section of BB Seguridade's IR website at www.bbseguridaderi.com.br/en.

Before proceeding, we would like to clarify that forward-looking statements that may be made during this conference call regarding expectations, growth, estimates, projections and future strategies of BB Seguridade are based on management's current expectations and do not guarantee future performance since these projections involve risks and uncertainties that could extrapolate the management of control. For more information on the statements of the company please check on the MD&A. With us today are Mr. Marcio Hamilton, BB Seguridade's CEO and Mr. Rafael Sperendio, Head of Finance and IR.

We would now like to hand the floor to Mr. Marcio Hamilton, who will begin. Please Mr. Marcio, you may now begin.

Marcio Hamilton {BIO 16484816 <GO>}

Good morning, everyone. Thank you for being here in our International Conference for third quarter earnings conference call. It's a great pleasure being here with you, as you know I took over the company last week after (inaudible) with a great track record of 30 years in the bank, out of which 11 years of statutory positions in a bank. Recently I was head of Brasilprev, one of the companies under the conglomerate of BB Seguridade, also

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Vice President of corporate risks, internal controls, head of BB-DTVM and head of capital markets Finance and credit. So, I would like to tell you one it is a great pleasure being here with you and after our conference I will be available to all of you anything regarding our company. I'd like to begin on screen number 2, if we may.

And I just wanted to highlight a few things on the result, I think is a significant and consistent result from the operational side. We got net income 1.96 in the first quarter, net income -- one adjusted net income 1.4 year-over-year and 11.6% quarter-over-quarter second quarter of 2020. So despite all of the adversities that come from the pandemic and the negative impact on net investment income very much consistent and very much focused on operating results, accelerating growth increase of 7.9% year-over-year and 7.6% year-to-date up until September in line with the guidance release before the pandemic. So I think that shows resilience of our business and proving throughout the crisis and especially in the operating result of the company.

The robust commercial performance we've had over 20% growth versus the third quarter 2019 in insurance premiums and premium bonds and pension plans contributions returning to pre-pandemic level with 76% above the second quarter 2020. The net investment income close to the top we've been following we know with the interest rates to maintain it at this level impact significantly, but we've come close to the bottom 9% of net income and a strategy that is maintained not just with new products, but with execution as well in terms of products that add more to our clients. New products launched in 2020 with revised journeys and benefits and revenues from the digital channels also improving in a very robust manner, given the comparisons both from the third quarter 2019 as the second of 2020, totaling over a 167,000 transactions just over digital channels in the process we begin that will continue to expand. So, that's what I wanted to say first of all in emphasizing the resilience of our business proven over the crisis, the whole pandemic process especially the evolution of our operating results that have accelerated especially in Q3.

Now I'd like to hand over to Rafael to go over the key figures and then at the end will come back with questions and answers. Rafael, if you please.

Rafael Sperendio {BIO 18963159 <GO>}

Thank you, Marcio. So we talk here about the main highlights on page number 3. The key factors of growth that Marcio mentioned found in third quarter. Main factors increasing 20% third quarter and 19.2% in deposits of premium bonds is significant growth of results in the brokerage house. In insurance, we had an increase 5.8%, in the combined results it's basically all related to the increasing claims due to COVID and the commissioning it's the result of the increase of our commercial performance. So the performance bonus that the brokerage house provides of overcoming asset sales.

In pensions, we had a decrease of 3% of deposits in the third quarter. When we look at quarter-over-quarter, second quarter, there was an increase of 76%. We have gained market based on SUSEP and 1.0% increase, now very much in line with the historical lines with the indicators. In the brokerage house, significant performance, pickup in the maintenance of a strong growth rate in insurance premiums, 12.5% growth, BRL999 million

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in the third quarter and I imagine that there is a small contraction of 0.4 percentage points completely justified by the reduction of the Selic rate impacting in the results and post fixated bonds also with committed results. Accumulated results in the year decreased 6.7% a result of the pandemic results, more severe impact in the end of the third -- first quarter beginning of the second when we look at the third quarter is very much in line with our results that we had for the budgeted for third results insurance premiums 12.6% increase and combined rates 2.8%. It's well explained by this increase in claims and commission. The pensions contribution 3.7 in the accumulated way when we observe the performance of pensions throughout 2020. That's what suffered the most during the pandemic during the most critical period.

So we're going to see this in the coming pages the recovery very accelerated pace in the third quarter. We got the same level of deposits that we had before the pandemic, 0.9% increase aligned with historical measures and pensions growing 5.1% in the last 12 months. The brokerage income 9% with BRL2.7 billion in the accumulated up until Selic and net margins also in the accumulated rates of the Selic.

In the next page we see here the key factors that impacted our financial results, so more direct effects on the upper left corner, the reduction of the Selic rate and the steep denomination. It was 2.1 on the third quarter. In the third quarter, we also had an additional component that impacted the increasing inclination of the interest rates denominal and the real one especially on the medium and long-term that generated negative market mortgage, but in regarding the inflation rates on the lower left corner now we have assets and liabilities indeed. There is a significant recent increase in IGPM that contributed positively for the financial result of Brasilseg compensating part of the negative impact of the opening of -- reduction of Selic. So that's the picture of third quarter especially the increasing IGPM in August, September contributed significantly for this result of the third quarter.

And the sum of all these factors, when we look at combined net investment of all the companies in the group decrease of 36%, so -- and accumulated in the year 57% year-to-date. There is an additional component to the fact that we want to point out, which is the reduction of volumes throughout the second half of the last year, we had to get the proceeds that came from our participation. In the excess of capital of 6.7 billion, we carried the whole semester of last year. So that was an option of the company for the distribution of results. So we generated a financial results in 2019 net investment and we're not generating 2020.

So talking about operations on page number 5, growth of 2024 insurance premiums on the third quarter, the key highlights, the rural and credit life and life especially, it's accelerating on growth rates. So it started growing in May this year. So accumulated 4.5% of growth is extremely important for our results. So, we're doing well the whole year, the agricultural. We had internal initiatives, our target audience from Pronaf more to protect a crop and internal initiative that we have to offer crop insurance that are not financed by Banco do Brasil. So those two initiatives contribute with 13% of crop credit throughout the year. Another important product of individual premium was life for the farmer showing good growth, so I would say it's a relatively small product compared to others, but 14% of

all of the claims that we have received due to COVID-19 so to life over farmers, so this has been helping the critical period.

And we have also the Credit Life both for persons as well as companies. Going to the key operational indicators in the company, we see an elevation of claims and loss ratio. So it's clear on the graph that was motivated due to claims coming due to COVID-19 adding BRL134 million, so if that were not the case, loss ratio would have been stable and would be decreasing 2 percentage points in the accumulated.

We also had an increase in commissioning, 3% accumulated over the year, it's evident we signed the previous page the performance of life and credit and credit life, but the loss ratio is still hitting hard on the commercial performance, as expenses 1.7% year-on-year due to the significant increase, cost reduction also. And marketing, this is resulting from of the combined ratios commissioning and loss ratio, 5.8% increase, bearing in mind that commissioning goes into our distribution operation at BB Corretora. So it impacts on the final results on loss ratio. The financial results had 44% decrease year-on-year. The key factor here is the reduction of the Selic rate. And also finally we see that elevation of 14% we had in premiums was consumed because of commissioning loss ratio, decrease of 13% year-over-year and 4% which is kind of positive when we consider the whole macro situation of COVID.

Now going over to pensions, page number 7, contributions in the third quarter, it's clear significant recovery going to the pre-crisis, growing 76%. When we look at net deposits, this is again reflected growth grew 8 times compared to the previous one and I have 5% of pension reserves, that's our key source of income in pensions in the management fee increase of 6% year-over-year in the third quarter. Even with elevation of the average rate of reallocating our client's assets and boarding fixed-income assets at their availability with greater added value, multi-market deposits grew over 60% year-on-year. The open platform BRL0.5 billion deposited.

So Brasilprev has expanded its portfolio of products, greater added value related available for maintaining the average management fee. The net investment income 39% increase what I said before, the increase in IGPM in August and September contributed significantly for net investment income. And there is a lag of one month in our liabilities, so it's going to impact negatively this increase of the IGPM in financial results.

Most of these gains in the third quarter will be then shown in the fourth quarter as well. And just wanted to add that number of clients 2.7% increase where efficiencies operational efficiencies contributing with increase of 5% in net income in third quarter. Despite the increase of the management fee, the improve in the efficiency rates, the net income did not grow at a higher base because in the third quarter we had significant accumulation of fiscal benefits. So the rate of growth was unusually low, so we're at knot due to this comparison basis, we would have grown even higher.

Going to page number 8 Brasilcap, as it happen in pensions, the recovery dynamics was very much present in the -- we have a product portfolio greater in September contributing significantly. The second largest amount of deposit in the year growing 19% year-over-

year, 39% quarter-over-quarter. Net investment income 11% growth year-over-year, 27% all the way through September and 54% on net income year-over-year. The recent portfolio launched in September even the previous one as they got more deposits, the new products have a significant component of operational results. So they allow for greater in-going fee and that is beneficial for the client as well.

And finally in closing the presentation, page number 9, we have performance on the BB Corretora distribution arm. We see the commercial performance on the third quarter growing 13% of revenues, the net margins, a worsening of 0.4 in the third quarter, it's justified by the decrease in Selic. And after that -- so adjusted net income a little below 12% year-over-year, 20% quarter-over-quarter.

So with that I close my presentation. Just want to emphasize that it was an extremely positive quarter very much in line with what we had for the period surpassing the initial expectations. And not only that closing the gap that was in the first semester of the year in the most critical part of the pandemic. The financial -- the net investment income is the most significant challenge for 2020. So the fourth quarter of 2019 as the baseline, we know we have even greater challenge, but when we look at deposits contributions, the company has been doing well, has been showing that growing the operational results 7.9 - increase of 7.6 over the year, which is what matters the most is what we emphasize. That's the sustainability of our business model. It's indeed at historical bottom now the interest rate.

So it contributed over 30% of our results in the past. When we look at the medium-term expectations, there is a bias of elevation, there is a trend of stopping the negative contributions and it should start helping on the medium, long-term. So those were the highlights I wanted to make. I think we can move to the question-and-answer session. Thank you.

Questions And Answers

Operator

(Operator Instructions) First question comes from Gustavo Goldman Sachs.

Q - Gustavo Schroden {BIO 21633251 <GO>}

Good morning. Thank you for the opportunity. When I wish the success to Marcio, I'm going to ask two questions first, more of a behavioral question. We've seen recently some data information, Banco do Brasil has been changing habits because of COVID-19. So shouldn't we be a bit more cautious looking for insurance whatever they are, whatever kind given our behavior due to COVID-19. My second question is, Marcio, I just want to enjoy the fact that you're here try to kick your brain, how do you intend to decrease BB Seguridade's dependency on Banco do Brasil? At some point the contract will be renegotiated, I'd like to know from Marcio, will we -- should we be expecting him to work towards decreasing the dependency on Banco do Brasil?

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A - Rafael Sperendio {BIO 18963159 <GO>}

Thank you for the question, Gustavo. I'm going to reply on the behavior of end consumers. When we look at insurance products in a general way, these are products that usually Brazilians don't have the culture of buying. In more developed markets Europe, US, we see that these products are more highly demanded actively by consumers something that does not happen in Brazil. Same thing happens with pension products, as you've mentioned with pension reforms this was clear, citizens have an understanding of having an alternative source of income and not just relying on the government pension system.

And also the need for protection also life related products and this has not been very significant in Brazil before natural disasters are not that common conflicts, they don't happen in the -- at the same places, they happen in Europe and North America, we've never had that before. So we had a long period with -- there is the long term view of the future still being developed, they think only on the short-term. So the feedback that we get from the distribution network from the bank, they're actively seeking protection products and they're being more receptive whether life insurance or credit life.

So, that has helped significantly on the commercial side, supported by the fact that we launched a new portfolio with a product that is simpler to be sold and to be understood by consumers who are buying it. In October, we launched a new credit life product. So not just because of the context, but the moment of the pandemic, so we launched new products.

Handing over to Marcio for the second question now.

A - Marcio Hamilton {BIO 16484816 <GO>}

Thank you, Gustavo. Thank you for your kind words and thank you for the question. So, that's a reality today. We have significant dependency on the banks channel. It is explicit, but in anyway we have -- BB Seguridade has been investing in new channels especially with analytics, digital transformation, bringing new options for products as Rafael mentioned and strong guidance to improve the client experience, so that we can move towards a greater opening process of our platform to other channels.

An example of that through the digital channels we've had significant growth this year, this quarter, more specifically regarding the -- even compared to the second quarter of 2020 and the third of 2019. So we've had strong growth in income and our investment will be strong to expand in all our businesses. Cyclic [ph] is our distribution channel, more focus through (inaudible) and I know what I'm talking about very much co-ordinated with BB Seguridade. We have a strong investment in analytics and in the digital lab to develop an entire model not just client knowledge, but APIs in order to enable us to plug ourselves to other distribution channels faster.

We have two new distribution channels being negotiated via Brasilprev and soon we'll be launching them. So, yes the idea is to distribute our pension products, as well through other channels. I'm not talking about open platform bringing other funds. We work with nine funds, third parties being sold in our product portfolio to everyone. What I'm saying is

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through distribution focusing on your question putting our Brasilprev products in other distributor. So this concept obviously we're going to use which is for other companies in the group, Brasilcap works like that already.

We're going to launch more of that sales for (inaudible) and that will grow strongly for other companies in the group, trying to decrease, obviously this is a process it doesn't happen out of the blue, how much the banks channel represents for the Group, you know it's a significant representation, but we have to broaden indeed. And we're working strong along those lines with new alternatives for distribution channels for our products. So that is a strong direction that we're taking in terms of developing an intelligence in IT as well that will enable us to take that step. We're going to continue investing strongly on those two best, soon we're going to have news from Brasilprev and the alternatives for distribution.

Q - Gustavo Schroden {BIO 21633251 <GO>}

Excellent. Very clear on your answers and I wish you a great success.

A - Marcio Hamilton {BIO 16484816 <GO>}

Thank you very much, Gustavo, you can rely on us.

Operator

Our next question comes via webcast from Mr. Eduardo Rosman from BTG Pactual.

Q - Eduardo Rosman {BIO 16314825 <GO>}

When do you intend to publish projection for results. Can we have some kind of expectation for results in 2021 even if more qualitatively?

A - Rafael Sperendio {BIO 18963159 <GO>}

Thank you for your question. So the accumulated performance up until third quarter and what we expect by the end of 2020, we will have a material deviation from market expectation. So what happens, our main goal is to give bearings to the expectations of the market. So it would be of little effect going back to the previous numbers. We're very confident on the expectations for the end of this year, so we're advancing discussions with the commercial areas of the bank, the operational area with all of the companies, but the expectation is of a continuity in the growth trend that we have seen throughout 2020, strong growth very much based in the operational side.

The adjusted net income is a variable, so interest rates might go up a little bit. So the net investment income will also effect -- so the expectation for 2021 is positive especially on the operational side. It's too early still to give any kind of estimates for the following year, given that what's been happening to Europe, the second wave, lockdowns coming back and that at a risk component, it's considerable risk component that so for now we prefer to be to wait to be more objective for 2021.

Operator

Our next question comes from Mr. Marcelo Telles from Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Good morning, Marcio and everyone, thank you for your time. I have two questions. First, we've seen -- actually it's a continuity of Rosman's question, a good -- we've seen good performance in the growth of premiums in the third quarter year-over-year and then the nine-months year-to-date. So what -- to what extent do you think this is a reflex of the cross selling strategy that you've been using? Specifically in the crop rural side and less and to what extent do you think there is a repressed demand due to the pandemic in the second quarter? The figures are very good, so do you think the trend would be to have a continuity of this growth year-over-year or not?

And the other question about the use of digital channels. If you could elaborate a bit on the what is called the cost of outcome compared to the other digital channels. So, comparing costs of going physically to the branch in doing business whether digitally, will it be reduced? So just wanted to think about the cost side a bit?

A - Marcio Hamilton {BIO 16484816 <GO>}

Thank you for your question, Marcelo. First on revenue, cross selling has been helping with the repressed demand, but there is a lot of initiative from BB Seguridade focused on expanding target audience. You mentioned crop insurance, rural insurance, we focus significantly, represents almost one-quarter of our results. There is huge potential for us given Banco do Brasil's significant presence in this industry. So a lot of the agricultural audience we had partnerships with co-ops to that are not being that don't have a loan from the bank or financed by the bank for their crops.

Last year we went that way, this year we're escalating the initiative together with internal initiatives. So with the target audience coming with crop insurance for small growers also financed by Pronaf. They had an option for PROAGRO. So we put a specific product for this type of client. So the initiatives of the co-op that are not being financed by Banco do Brasil comprise 13% of crop insurance premiums.

Hand in hand, we're putting together a strategy of change both in the clients journey, as well as the distributors journey, providing a possibility to have greater interaction with end client. So, life insurance has also performed extremely well. It's much more intuitive, easier to understand, more tangible benefits. Credit life launched in October for Brazil as a whole has had an excellent performance. It's a more competitive price than the product we had before. We simplify it, there is no second beneficiary and we had a very high loss ratio for that portfolio before. We also have a income protection component in a partnership with the insurance company, so bringing more tangible benefits to end consumers.

Pensions also working strongly in expanding portfolio, new family of funds, products we didn't have before. We're expanding partnership with the third-party managers. We have

9 brokerage houses working with us. So they are bringing more sophisticated portfolios to our clients. This has helped not just to sustain but increase the management fee a bit.

And also we've been working of extending duration of our products and most of them were in 12 month bonds. So now we're moving to 24, the product launched in September enabled for a conjunction of positive factors. So it's a more attractive product for end consumers, more flexibility for company to manage its assets in a longer duration, also allows for a higher loading fee due to operational results. It was launched in September, this was a significant increase as 20% of the second -- third quarter. So those are the most relevant on the commercial side.

Digital distribution now -- so we look at -- the main cost is on the personnel side in selling our products. Moving over to digital channels, we can focus more on software maintenance, IT infrastructure. So we see the performance of operational margins in third quarter, 1.4 accumulated year-over-year. This is an important component that we have a cost reduction, but we hope to grow in the digital channels. 55% increase quarter-over-quarter. We will have a maturation period for this channel. It's difficult to establish a premise or an assumption.

Prior question I mentioned that Brazilians don't have the culture of acquiring protection products. So for the digital channel, still we need to work jointly with educating end consumers, so that the product can achieve higher sales. We still have communication, still it's done with the support of a person interacting via digitally. So we don't have the operational efficiency gains yet, but when clients start actively demanding these products and it's important to that work of portfolio simplification, then this will be more evident. The need of a person on the other side will decrease and we will be seizing expansion on the operational side on the long-term. On the short-term, we will still have to make investments in technology platforms. This is already happening. But for next year, we'll take a huge step to developing a better technology platform.

So thinking on the long-term on consumer's behavior change for the future, just want to emphasize, Marcelo, our major focus will be continuing to prepare the company for channel diversification and more revenue over all of these channels. We have a strong execution of actions along those lines, as Rafael mentioned and I agree with him in especially the -- we begin marginally on operational revenue until it becomes more representative as a whole. But our great focus is to continue preparing the company towards that end that we all know it's not a trend for the future, it's the present that digital channels, but there is a significant aspect of culture we've cultivated that in Brasilprev. So explaining different ways of taxation and then you think he is going to go directly to a digital channel and buy it, it's a bit more difficult. We ran the test with Cyclic last year and the spontaneous sale, maturation of this product takes a little longer.

What we're going to have to work on is a change in culture in the sense that we can truly simplify the offer directed to all product families. Our role again I want to emphasize, make it clear continuity of our strategy, continuing to prepare the company along the lines of channel diversification, no question about it. This is our strong North Star for the sales channels. Additionally, we have to work on a culture a lot, so that we can keep effectiveness in the alternative channels agenda.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you, Marcio. Very clear, congratulations on the results and we wish you great success in this new task ahead. Thank you so much.

Operator

Our next question comes from Mr. Antonio Roat [ph], Bank of America.

Q - Unidentified Participant

Good morning, folks. Thank you for the opportunity to ask a question. Congratulation on the results. I'd like for you to give a few more details on the pensions business. We see more competition on Fintechs, that would be great. And I wish you great success.

A - Marcio Hamilton {BIO 16484816 <GO>}

So, you're asking about competition, if that's what I understood more clearly?

Q - Unidentified Participant

Yes.

A - Marcio Hamilton {BIO 16484816 <GO>}

So, we had a extremely complex second quarter in terms of premium bonds and deposits as a whole at Brasilprev. What I always say is that we had a second half of March and the first half of April very challenging in the market as a whole. And in pensions it was not different. So we felt even a concern on liquidity of participants given possible more significant lockdown, a lot of people concerned with being able to honor their financial commitments. So those who were invested on a long-term view with pensions that they might need to allocate funds in their businesses, their personal businesses for the whole process we were going through, so it was a very complex period, great insecurity on the side of our clients.

But after the second half of April that started falling into place a bit more. I think Brasilprev had a really differentiated behavior compared to the market as a whole. The process is on a growth trend all the way through the end of June. And I would say that we came to the third quarter going back to normality in deposits, what was expected budget wise for the pre-pandemic period. So we came back -- bounced back more quickly than we ourselves expected at the peak of the pandemic.

We were expecting that we would come back to normality in the fourth quarter. And we ended up being more productive anticipating that after July why and that's the process of consulting proximity that we did with our clients. We trained over 23,000 bank managers, relationship managers, discuss specific areas with our clients, explaining what was happening, what was happening to the marketplace that a crisis will blow over. So, we are -- the best alternative is to be cautious and to be cautious is to have tranquility, to wait. And so we were very close significantly close not just the Banco do Brasil's network, as well as our -- all our clients.

We as very necessary to calm them down during the crisis moment we were going through. What we've seen to date net deposits that are very productive on our side and significant deposits in funds of greater added value. So when we compare to the competition in our more direct market, we've had significant success not just in deposits, but also in multi-market at more added value products given today's Selic, it's better for our clients and better for us as well for average management fees.

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In August, we had 28% of multi-markets allocation done by Brasilprev, we're closing September around 25%. So we continue very effectively with our -- communicating with our clients, proximity was extremely important to show that pension products are long-term products and that a better alternative is to be cautious to be tranquil to go through the process. Of course we have clients in our portfolio with a very conservative profile.

So when they see negative profitability, it generates a bit of a anxiousness and that's the role we have in terms of calming our clients down in market competition, the same way we have been moving over to other products and other pension managers. The same way we have resources going, we have resources coming to the bank in Brasilprev because our relationship -- our relationship managers, our investment manager with our client, they're very close, so it brings transparency and assurance -- strong assurance especially during a crisis. So I would say to you that we came one quarter sooner to normality. And so truly -- so this culture the need of transforming from fixed income to added value, this has become very strong -- stronger than last year. We closed the year with 9% of potential assets in multi-markets. We were down a little bit during the crisis and we're back to 12 -- up to 12% now. So 12 billion of deposits we had in the third quarter. So it shows strong performance on pensions for the third quarter. Thank you.

Q - Unidentified Participant

Extremely clear folks. Thank you.

A - Marcio Hamilton {BIO 16484816 <GO>}

Thank you for the question.

Operator

Our next question comes from Mr. Eduardo Nishio.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Good morning everyone. Thank you for your time and presentation. Digital Channels, I'd like to understand the relevance of the channel. You mentioned interest in growth. Now in terms of relevance, if you could give us a picture of the size of the business revenue, it would be interesting for us to understand whereabouts you are in this process. And, Marcio, like to ask a question, may be a bit early, changing -- moving over companies. But if you could give us a bit of what you're thinking about for may be a sec -- what are the -- what's the strategy, what changes with the new management? What would be the focus, you mentioned Digital maybe if you could elaborate on the strategy, I would appreciate it. Thank you.

A - Rafael Sperendio {BIO 18963159 <GO>}

Thank you for your question Nishio. I'm going to reply to part of it. The Digital share 10% today of the total sales. So, we have a specific -- Digital is a very specific, there is -- added to the all the digital channels 13%, the crop insurance, if you discard that the crop insurance. Now I hand over to Marcio.

A - Marcio Hamilton {BIO 16484816 <GO>}

Actually we're going to promoting continuity process from the prior management, it's very close to the bank strategy breaking an ever more mature concept that we have to brought to all companies, focusing on customer experience and digital transformation to all companies. BB Seguridade had already started investing in analytics in the digital valve I've mentioned this before. This is seeping from all the companies in the group and it comes back into the operational efficiencies it. We have a low hanging fruit ripe as seeking efficiencies in the companies, in terms of digital transformation that we're going with all of them, I can mention Brasilprev extremely clear where basically everything implemented the same experience the customer has through all the digital channels the bank's email, the Brasilprev app, the Brasilprev web portal, when you evolve along that process the friction is less with a client, the experience is much stronger.

And so we have a concept of indeed having a reduction of expenses in greater operational efficiency, the strong trend. So if I could summarize here, we have to continue investing in efficiency so that we can deliver quarter-over-quarter a stronger more robust results operational efficiencies. So bringing always operational results, the financial side at the Selic at 2%. We need to have compatible financial management, we're a bank, we consider risk, but on the operational side, we have a lot to seek after efficiencies and we will continue to pursue throughout all companies.

Additionally, the transformation to digital we're preparing for the future. So the operational results that are more focused on new products, greater added value for clients. Rafael mentioned a few this morning, life credit, life crop but there are others we're still pursuing. Residential, home insurance, we're going to restructure all our products. Corporate insurance, we're re-formatting all of that to launch one of them this year, others in the first half of next year to improve the efficiencies in sales, customer experience and experience with all the companies.

So very objectively strong focus on operational results of the company, seeking efficiencies and products that bring greater added value to our clients. I gave you an example of Credit Life, Credit Life considers only the balance that a client owes. So we see the evolution or the how it evolves or devolves on the debt balance. So we're focusing on that on the product that we're launching, this we're bringing a product that adds value to the client, so that the client can focus on the sales scale and stronger operational results. We're going to continue focus on efficiencies for our products, new products with greater added value, seeking operational efficiencies and financial results.

Greater from now on -- here on I have arrived recently, but I'm not discussing here other issues such as the contracts with a bank and other, but it's natural that we will have a change in this market (technical difficulty) 10 years, 12 years a significant change. So our

focus when I'm bringing up digital to continue preparing the company for those changes that are coming, it's a reality it hasn't been mentioned, but we don't have great definition of how Central Bank will consider the open banking initiative.

But we see what's happening in other markets, clients are waiting to see what's going to happen. This will generate new opportunities as well for us to come to a market that is more open and to seek new clients as well. So I'd say that the strong strategy of seeking ceaselessly seeking operational efficiencies, improvement of operational efficiency, the financial side of a consequence, it's more under our control, the net investment income. And looking ahead what we can have in terms of market and looking through digital transformation that will enable us to work in our company is much more as a project. So I have in Brasilprev, I'm going to launch a project and plug myself through a distributor that will operate with us. I have to be agile enough to be able to plug very quickly to be able to distribute even faster, generating faster results. So that's the efficiency, we're going to continue focusing on the basic BB Seguridade has already been doing that for a long time, so we're going to continue focusing on that, always still have results on the operational result site.

Operator

Our next question comes through the webcast. Is there any discussion for the renewal of contracts with Banco do Brasil BB. What is the outlook of the company to begin discussing this topic?

A - Marcio Hamilton {BIO 16484816 <GO>}

I can bring it over, Marcio. We don't have anything about that any discussion of contracts on the table. I can assure that there is nothing on this topic not with Banco do Brasil or our partners at Adrif [ph]. In the prior question, I said our focus today strong focus to continue preparing the company, so that we can have strong alignment with digital transformations that are happening open banking that's coming around, channel diversification, seeking alternatives as for market changes. These contracts are long-term ensurely in the upcoming period, a lot of evolutions will take place in the market and we have to focus in order to continue working proactively in our fit to this new market and the opportunities we may have.

Operator

Our next question comes from webcast. What can we expect for the evolution of results in the fourth quarter compared to the third quarter of 2020?

A - Marcio Hamilton {BIO 16484816 <GO>}

As we broke our results down, two components, operational and net investment income. So operational, we are confident to have continuity of improvement, recovery specially on the commercial performance -- commercial side. The component of loss ratio will have a more positive dynamics till the end of the year. So, the main detractors are loss ratio claims due to COVID as we mentioned during the presentation, but as we decrease the number of claims due to COVID, it's an inflection point. We've seen this month-over-

month, so we should wait a little bit longer to see if this will confirm itself. But this does not -- we are too far from the data we have seen throughout the country.

With net investment income, that's a great uncertainty, not just the interest rates the real and nominal ones very volatile, this brings great uncertainty. It's difficult to foresee quarter-over-quarter if we will be achieving growth. It's more based out on the operational results that brings us a bit more comfort on the trends of improvement, net investment income, difficult to say.

Operator

Our next question comes from webcast. What does the company expect in terms of dividend payout? Is it possible to keep the same payout 95% as in the first half of the year?

A - Marcio Hamilton {BIO 16484816 <GO>}

Just segueing from my last response, the company has the possibility to -- for the payout, it's the Board -- this usually happens in December. Current situation, the company does have the conditions to sustain dividends, but it will depend on the evolution of macroeconomic context, the company is inserted into, happenings in Europe, levels of contamination, lockdowns, so that the Board has to be comfortable in maintaining that level of payout, but right off the bat here initially, that would be possible.

Operator

(Operator Instructions) So this concludes today's question-and-answer session. I would like to invite Mr. Rafael Sperendio to proceed with his closing remarks. Mr. Sperendio, please go ahead.

A - Rafael Sperendio {BIO 18963159 <GO>}

I'd like to thank everyone for participating. Thank you for your questions. Our entire team of Investor Relations is at your disposal. If you need any further clarifications on the results of the quarter, we are here at your service. Thank you so much and have a wonderful day everyone.

Operator

So BB Seguridade's International conference call is closed. The material here used is available at the Investor Relations portal www.bbseguridaderi.com.br/en presentation tab. Thank you everyone for participating. Have a wonderful day.

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