3Q17 Conference Call Transcript – Q&A

Operator

Ladies and gentlemen, we will now begin our Q&A session. Our first question comes from Mr. Gustavo Lobo – J.P. Morgan.

Gustavo Lobo (J.P. Morgan)

Good morning, everyone. I have two questions, the first one is about health-group. We see this loss ratio improvement of 120 BPS YoY in the third quarter and we know that the readjustments are concentrated in the middle of the year. The doubt is: what are you seeing in the loss ratio improvement, not improvement, but loss ratio trend of the health-group for the next three quarters? Is it possible to hasten this improvement in order to compensate the lower SELIC rate or this might be the delivery for the next quarters? After that, I have a question related to auto.

Maurício Lopes (Vice-Presidente de Saúde e Odontológico)

Good Morning, Gustavo, this is Maurício speaking. Thanks for the question. The portfolio is well priced. I think that the point is: we don't give future disclosures, we don't make estimative, but our perception is that the readjustments that were established in the last quarters, reflect fairly well what we imagine that the portfolios must have to be stable in the future. So, we are unconcerned about what's in the portfolio. With no forecasts for the future, obviously.

Gustavo Lobo (J.P. Morgan)

Ok, thank you. About auto, we're seeing an improvement on the operational portfolio, a strong one, but at the expense of a big fall of the insured fleet. The question is: when will we see a fleet turning point? From operational result is clear, looks like it is already set, but when will the fleet stop falling and return the growth?

Eduardo Dal Ri (Vice-Presidente de Automóveis e Massificados)

Gustavo, thanks for the question. This is Eduardo speaking. We hope soon. It depends on the risk, how much we have to charge our own prices or our major selectivity of risk, and it depends on the market too, how it will adapt, not only to the risk worsening that we have had in recent times in Brazil but also related to the lower SELIC rate for the future, that will press the gross margins, not only ours, but the whole market. So, this question is strongly related to other variables. We have done our job preparing us to those variables that I just mentioned to you, but it will also depend on the market answer in order to return the growth. A data that you've already mentioned, and you're right, is that the operational results are being mitigated trough several actions that we have been doing.

Gustavo Lobo (J.P. Morgan)

Perfect, thank you.

Operador

Our next question comes from Henrique Navarro – Santander.

Henrique Navarro (Santander)

Good morning, everyone. Congrats for the results. My question is on your investment portfolio, the equities participation has been historically small, what echoes with others portfolios even from competitors. My question is: with the SELIC rate fall, do you have any planning of increasing this participation, changing the mix a bit; we have been seeing the SELIC rate falling a bit compared to the last year, but is there any planning to change a bit this mix of investment in your portfolio?

Ricardo Bottas (Vice-Presidente de Controle e Relações com Investidores)

Navarro, this is Bottas speaking. I'm going to start answering your question and then I'll pass to Mello for complement. It's important to highlight one of the company's strategies, its ALM politics as an important principle for protection of passive index and this is a component that have always been considered relevant on our criteria and in our allocation strategy. I just wanted to highlight that point, a point that I know that you know, but is always good to emphasize it. And then I pass the word to Mello so he can talk about our strategy using more details.

Marcelo Mello (Vice-Presidente de Investimentos, Vida e Previdência)

Navarro, taking into account Bottas' assumption, we have, respecting all ALMs of SulAmérica's legal entities, we have room to act with other investment options, for an example, looking a bit more to our private credit portfolio, if we see that there are interesting issuances of low market risk with interesting yields, we can look a little more, if there is a recomposition of premium, the securities indexed to the inflation, we can also look to the fixed income securities. And obviously if the decision is an increment, an increase, on our equity position, this position that we assemble, it will eat our risk budget. So whenever we decide some sort of allocation, we also consider how that location will impact our risk budget. We have room for a major market and credit risk hypothesis, even respecting and mainly respecting the ALM of the group's legal entities.

Henrique Navarro (Santander)

Ok, perfect. If you allow me another question, in the third quarter we saw for the first time, a slight, but in fact an increase in the number of members of health insurance, this behavior was basically flat in the last four quarters, then it increased 1%, 3% in the year, while Brazil is still on recovery. My question is more related to, you are in the battle line, watching the economy recovery closely, this improvement that you saw in the number of members even in this difficult scenario in Brazil, do you assign this to an improvement on the economy, a macro improvement, and you are starting to capture it? Has there been any change on your side, marketing, whatever it was, which resulted in this increase in membership? You do not give guidance for the future, we know that, but just to be able to imagine how this membership number moves in the next quarters. Thank you.

Maurício Lopes (Vice-Presidente de Saúde e Odontológico)

Navarro, this is Maurício. Thanks for your question. I will break it in three components, ok? The first one, which is the question about movement, we still have negative movement in the whole industry, you see this placed in the numbers of the agency, but it is getting less negative, we started a way better cycle, macro, that I think it will bring looseness to the portfolio, it will bring more breath. It is still negative, but it is starting to reverse, must reverse, I imagine, as the market as a whole, in the next quarters. For the second component, which is sales, the strategy of trying to get a slightly more rigid subscription, more focused on the contracts that we have appetite for, notably in the SME portfolio which grew by 4% in membership volume in the last cycle, as well as in some regions that we did not work in the past, I think that it has been showing good results, so, despite of the negative movement of the whole market, the sales cycle has shown itself to be positive and with a fairly successful underwriting. We are not bringing deficit contracts into the house, I think this is the most important point. The third component is how the house organized itself to work the retention subject and the house today is fully structured, all the retention projects are totally done in rollout, there is nothing to be developed yet, we are seeing their maturity, they are showing to be quite assertive in all the portfolios that we have been working on. So the three components together, lead us to have a really different membership dynamics from the rest of the market. And I think, there are pieces that complement themselves inside the process as a whole. As economics are moving to a better position and the movement of members is becoming less negative or even positive, this will bring a pretty big breath to the portfolio. When will it happen? Nobody knows. But there is a really good, macro, forward estimate of the country. Regarding odonto, it is always worth highlighting the continued growth of the portfolio over the past years. This portfolio at the time of the IPO, had eighty thousand lives and today we're talking about practically nine hundred thousand lives. So the portfolio multiplies itself by eleven in a space of ten, seven years of work. I think this is a very favorable point for our side too.

Henrique Navarro (Santander)

Perfect, thank you very much.