

## 4Q17 Conference Call Transcript – Q&A

### Operator

Ladies and gentlemen, we will now begin our Q&A session. Our first question comes from Mr. Gabriel da Nóbrega – UBS.

### Gabriel da Nóbrega (UBS)

Good morning, everyone. Thank you very much. In this quarter we saw a decrease in the loss ratio, I would like to understand the main drivers behind this and if you believe there is still room for improvement in this indicator. I will come back with a second question later, thank you.

### Gabriel Portella (CEO)

Good morning, Gabriel, it's your namesake speaking. I think there are two preponderant factors in the quarter, the first is the health loss ratio and the second is the auto loss ratio, the two highlights of the quarter, even though we have actually presented excellent loss ratios in most business lines. In relation to room for improvement, this is what we are going to look for permanently, however, as you know, we don't provide guidance and basically the work that we are doing is to permanently maintain the loss ratio, commissioning and revenues balanced so as to achieve the profitability levels we want for the Company. So, the room for improvement depends on many factors. In our case, we are carrying out all the actions, whether they are claims management initiatives in auto and health, underwriting initiatives also in the two segments, there are claims initiatives in life and massified portfolios as well. This semester has a seasonality component that you are aware of, it's important, but we don't have a magic number for the future to give you. But we will continue with all the actions that we've been carrying out to keep control of the loss ratio.

### Gabriel da Nóbrega (UBS)

It's clear. My second question is on technology and innovation. How is the Company seeing these new movements? Do you think they could present more of a challenge or an opportunity?

### Gabriel Portella (CEO)

Well, that's what we've been doing, right? I can give you some important examples of recent launches: the online individual dental plan, the digital signature in life and private pension, the digital reimbursement in health, for consultations up to a thousand reais, which is extremely practical and agile. Still in health, we launched features such as pediatrician visits at home. We've also launched the CAP Online - an important tool for real estate agents which are important business partners – we launched the telemetrics APP in auto, besides revamping the entire auto APP and launching the digital welcome kit. So, there are several initiatives and I think the best response to this digital world is that the Company is effectively responding with these initiatives in all areas.

### Gabriel da Nóbrega (UBS)

It's clear. Thank you very much.

### Operator

Our next question comes from Mr. Thiago Kapulskis – BTG Pactual.

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**Thiago Kapulskis (BTG Pactual)**

Good morning, everyone. Thank you for the opportunity. I also have two questions. The first one is on health, exploring the quarter in more details, because maybe this was the perfect quarter, the loss ratio keeps improving, on top of those levels that were already improving and, at the same time, we saw an important acceleration in membership. So I wanted to understand a bit better the dynamics of the loss ratio for 2018. I understand that the Company will always seek to improve loss ratio, do all the work as you've been doing, in several things, but, I wanted to understand if you see some room for this loss ratio to keep improving or if we, looking forward, should expect a maintenance of this level that we saw maybe this quarter, or in the last two, three quarters. That's my first question. Still on members, do you think that this improvement, which was more than 10% year over year, is sustainable in 2018? My second question is on automobile, which also surprised us. My question in automobile is about the fleet, because I think the fleet had its first improvement quarter over quarter since the third quarter of 2016. Do you think that, from now on, the fleet should begin to grow or there might still be some bumps down the road before growth resumes? These are the two questions. Thank you.

**Maurício Lopes (Vice President of Health and Dental)**

Hello, Thiago, good morning. This is Maurício, thank you for your question. We don't give any forward guidance, as you know our policy, but I can try to contextualize the answer. As I commented a few calls ago, the most basic claims management initiatives are getting quite mature, they matured a bit sooner than we imagined they would. That is, the marginal return on these initiatives are diminishing, obviously. On the other hand, the whole set of health management initiatives, which started a bit later and have a longer phasing period, have shown results far above the ones we imagined. Only as an example, the more established actions of chronic patient management are giving a return on investment of four to one, and we are rolling out most of them. A few years ago, SulAmérica had forty thousand lives under the umbrella of these actions, today we have almost one hundred thousand lives, so this rollout, either in terms of the quantity of programs that are available, or in terms of the quantity of lives that are reached by the programs, has been positive over time. At the beginning we had more generic programs, related to more generic diseases, and today we have very specific programs. Rheumatoid arthritis is a good example. The population is really small, but it is a program that reaches a very high cost population and has shown a very high return on investment. Besides these two set of actions, one which is entering maturity and the other which is still growing, there's still the whole innovation dynamics that Gabriel mentioned: pediatrician visits at home, online reimbursement, that end up differentiating the product in some way and we believe that, product differentiation, coupled with an efficient cost management, either through claims or health management, we have a very relevant product differential from the customer point of view. So whether the portfolio grows or not will depend on market conditions, but we believe that we are managing to control costs in a very effective way and putting features that makes sense for our clients into place, considering their moment today: a younger generation, more digital, less analog, more remote, wishing for more information. We have been investing heavily through our operations teams in the development of these initiatives.

**Eduardo Dal Ri (Vice President of Auto and Massified)**

Good morning, Thiago. About the fleet, it's important to say that, from now on, we are going to face a situation we haven't experienced in the past few years, since 2013: increasing vehicle licensing. It already happened in the last semester and it's still going on, Fenabreve data already shows vehicle licensing growing 20% in January and I think that's the trend of the year, maybe not 20%, but something like that, over 10%, I figure, which is exactly what they are estimating. SulAmérica will naturally take a slice of it, because we are far more prepared to face the competition and the risks mishaps which happen, notably theft and robbery issues in Brazil.

We have invested a lot in pricing, we have been investing heavily in better loss ratio management, and this allow us to target better fleet numbers. I don't have a number because fleet increase is not our main goal, but naturally, given all the investments that we have made, all the changes and improvements that we have done, we will find a more competitive environment, SulAmérica will be more prepared to capture more clients, in addition to all the improvements that we are doing for our distribution channel, i.e. the broker, we became more attractive to the broker and inevitably a lot more attractive to the client too, with better products and much better services.

**Thiago Kapulskis (BTG Pactual)**

Perfect, thank you for the answers.

**Maurício Lopes (Vice President of Health and Dental)**

Thiago, if you allow me to complete my answer, a part ended up missing and it wouldn't be fair to let you without answer. I didn't talk about dental. We have a huge work being made in terms of cross selling dental with health, as we've mentioned in other calls and, with the launch of the individual product – which has something to do with your question about the number of members – it opened a pretty big window of opportunity for SulAmérica, either in the distribution in the regular channel, or in the cross sell with other products of the portfolio, that until then we weren't working on. So I think that in your exercise about how the Company will perform, this is also an element that you have to take into consideration.

**Thiago Kapulskis (BTG Pactual)**

That's great, thank you for the follow-up. Thank you for all of your answers.

**Operator**

Our next question comes from Mr. Gustavo Schroden – Bank of America Merrill Lynch.

**Gustavo Schroden (Bank of America Merrill Lynch)**

Good morning, everyone. Thank you for the opportunity and congratulations on the results. I would like to ask two questions as well. In the first one, I would like to talk a little bit more about the issue of health loss ratio in other to understand, if we were to break it down, health as a whole improved 310 BPS year-on-year, but we saw a very significant improvement in the individual portfolio, 610 BPS. I would like to understand as we follow the Company and know about the effects of the claims initiatives management that the Company has been implementing for some time and this has been showing results, it is not the first semester in which the Company shows an improvement in loss ratio, but the magnitude this time around caught the eye. I wanted to know if there was any effect here, especially in the individual portfolio, that is perhaps related to calendar issues, perhaps some lower frequency or a sudden improvement in unemployment. Anyway, is there something with one-off characteristics in the quarter, in addition to the initiatives, perhaps a concentration of several positive points that specifically happened in the quarter. It's more to try to understand what would be a recurring from now on. If you could give more details on what specifically happened in the quarter. And my second question is related to the growth in health membership, besides the good point made on the cross selling between health and dental, but I wanted to understand how much came from organic growth, that is, you with your customers and how much came from some migration from other health companies that are not in good shape, with some of them leaving the market and thus their customers are migrating to SulAmérica. If you could talk about how did this movement helped to support this positive trend in the number of health members, thank you.

**Maurício Lopes (Vice President of Health and Dental)**

Gustavo, this is Maurício speaking. Thank you for the question. I'll try to address your two points, specifically on the individual portfolio, to try to help you. The Company is delivering a quarter that makes this year different from the other years, if you look at the loss ratio, the Company has been showing since 2014, we moved from 81.5 to 80.4, then to 80.1 and 79. This trend is consistent, it is not a one-time effect. Maybe, again, we know a quarter may have its variations, so perhaps this quarter came a little stronger than you were projecting, but there is no one-off in the quarter that explains any change, it's pure business as usual for the entire portfolio. So, we can have some volatility here and there, but is business as usual. On the individual portfolio specifically, I'll allow myself to go back to the point that I have been talking about for quite a few quarters now, I think it's important. This is a portfolio that loses a large number of members every cycle, by the end of the year, we had a churn of almost 8% year-over-year, it's historic, it's very high and this portfolio is getting smaller. Looking at the quarterly picture of the individual portfolio will bring inaccuracy to your analysis, this portfolio has to be analyzed over longer periods. Otherwise you will see a very good quarter and will forecast a fantastic result or you will see a very bad quarter and will perpetuate that, which may not be true from a technical point of view. So, my suggestion, and it's just a technical suggestion, is that you don't decompose the portfolios so much in your analysis, you should look more at the portfolio as whole, otherwise you may get wrong estimates for a portfolio that is drastically reducing its size and this increased volatility will bring imprecision to the analysis. It wouldn't surprise me to see a quarter with a loss ratio much higher or much lower than that. The portfolio is getting less rational in terms of loss ratio forecast given its reduced size. In relation to sales, Matias commented in previous calls and I'll repeat here and hand the floor over to him, but the sales process is very structured and the portfolio has been growing in regions where we were not previously growing, thanks to the work being done by the sales team as well as the business unit. Now I'll let Matias talk about the commercial area.

**Matias Ávila (Commercial Vice President)**

Regarding the performance of the dental, evidently there is a cross sell component between dental and health, which has been going on for a while, but dental distribution goes through the process of a multiline company, with a strong distribution in all 90 branches. Dental distribution is done by all brokers, it's not only cross selling with health, and this makes SulAmérica stronger in the distribution of the dental segment.

**Gustavo Schrodén (Bank of America Merrill Lynch)**

It's very clear. If I could only follow-up on the loss ratio issue, if I got it right, there was no change in frequency this quarter? Just to see if I understood correctly what you said specifically about this quarter.

**Maurício Lopes (Vice President of Health and Dental)**

No, absolutely no change, nothing that calls attention in relation to the operation as a whole, in the composition of the quarter. Totally business as usual, nothing out of the ordinary, absolutely nothing.

**Gustavo Schrodén (Bank of America Merrill Lynch)**

Perfect, thank you very much for the answers and congratulations.

## **Operator**

Our next question comes from Mr. Gustavo Lobo – JP Morgan

### **Gustavo Lobo (J.P. Morgan)**

Good morning, everyone. A good part of my questions has already been answered, just a few follow-ups here. First on the auto side, in fact it seems that you've reached a sort of turning point in terms of insured fleet growth and with this resumption of vehicle licensing, this tends to improve. The question is how will the competitive environment be in this scenario. Is the market still well behaved or do you already see signs of a little more aggressiveness? Then I have a second question, thank you.

### **Eduardo Dal Ri (Vice President of Auto and Massified)**

Gustavo, thanks for the question. The market is well behaved. We have seen the market quite worried with two main and obvious aspects for this year: the interest rate drop was very abrupt and that means a lot for the auto market – on average, we receive the premiums in advance and pay the claims afterwards and this helps a lot the result in the auto segment - and, on the other hand, there are still public safety issues. Theft and robbery figures are cooling in very few states, a big part of them is still dealing with important theft and robbery issues and that is the scenario which the market is projecting, we expect continuity, not reduction. So, perhaps because of this, and I speak more about SulAmérica, what I see in the market is moderation in terms of competition, due to these two main factors. We do not see big threats in auto parts inflation, in fact inflation is falling, but the first two factors are responsible for a much more moderate market than we faced, for example, in the beginning of last year and in 2016.

### **Gustavo Lobo (J.P. Morgan)**

It's pretty clear, thank you. My second question is related to 2018, I know that you don't disclose guidance, but let's consider the two main drivers of the Company's performance, underwriting and financial result, which are moving in totally opposite dynamics. The Selic rate is about 30% lower this year than it was last year, but underwriting is improving now, although we have already seen a significant improvement in the fourth quarter. The question is: how do you see the net effect of these dynamics in 2018? Can you grow net income with the Selic rate around 7% in 2018?

### **Gabriel Portella (CEO)**

Gustavo, this is Gabriel speaking. How are you? I think this year's result shows exactly how we prepared or have been preparing ourselves to face this new scenario, in which the entire market will have to live with a lower interest rate. And compensation sounds easy, right? But it means we have to compensate, in all other lines, the decrease in investment income, which was already expected this year and, still, we presented a combined ratio of 98.7, one of the best, if not the best, since our IPO, an operating ratio of 94.1, flat compared to the previous year, and maybe this is the best demonstration of what we have been talking about: growing revenue, seeking to grow in more profitable segments, in regions where we do not operate, in all portfolios as is the characteristic of our multiline company, investing more and more in risk management, which is what we've been doing not only in auto, but also in health, life and all segments. So compensation means a paradigm shift for the entire market and I think the 2017 results show exactly what we've been talking about. To compensate, to get better results, let's

say, in operating results, control of expenses – expenses were kept flat this year - which is also an important component in this compensation and all the projections that lead us forward have the same philosophy, if they will reflect for the numbers, that's another story.

**Gustavo Lobo (J.P. Morgan)**

Thank you.

**Operator**

Our next question comes from Mr. Nicholas Baines – Bradesco BBI

**Nicholas Baines (Bradesco BBI)**

Hello, good morning. I have two questions. The first is a follow-up on questions that have already been asked regarding the individual loss ratio. We saw a significant improvement, but still the year's ratio closed at 99%. If we are to see any deterioration next year and if it stays above 100%, does the Company believe it would have to make any additional provisioning? How is this situation, are you comfortable with the current level of provisions? And my second question is if there was any specific reason for the acceleration seen in SME health plans. We saw revenue grow a little stronger than in previous quarters. Thank you.

**Maurício Lopes (Vice President of Health and Dental)**

Nicholas, this is Mauricio speaking, thanks for the question. I come back to the point of the individual portfolio, which is going through that process I mentioned. I think that much of what we will see in the portfolio will depend on how consumer dynamics will behave, in terms of permanence. With more permanence, the portfolio may have a more stable dynamic, with less permanence the portfolio will volatilize even more. So, even though we don't disclose guidance, I would be very careful, again, when looking at this portfolio on a standalone basis. Remembering that the portfolio always passes the liability adequacy test, which is done every six months besides being audited, which means there is no gap in provisioning. But there is an increasing volatility over time, in a diminishing portfolio. Large volatilities in small samples should be looked at very carefully when modeling, it's just a head up. Regarding the SME portfolio, as Matias previously said, our practice is to have a product ready to be marketed by the whole sales team, more than 30 thousand brokers, if I'm not mistaken, that's the figure we always disclose.

**Matias Ávila (Commercial Vice President)**

30 thousand brokers, 90 branches distributing SME health plans, evidently dental runs in all of them and the SME plans where we have providers network to operate. But it is significantly distributed throughout Brazil.

**Nicholas Baines (Bradesco BBI)**

Ok, that's great. Congratulations on the results.

**Operator**

Our next question comes from Mr. Frederic de Mariz – UBS

**Frederic de Mariz (UBS)**

Good morning, everyone. Thanks for the opportunity. Just a follow-up, please. First one is regarding competition in auto and health. Just wanted to go back a little bit, in the auto segment, could you talk about what you are seeing in terms of pricing of new contracts? Have you been seeing room to raise prices above inflation? In short, what pricing trends are you observing? And the second question has to do with dental cross selling: do you have any number, for example, the number of existing clients who have more than one product? Any ideas of what indicator to follow in the medium term too? Thank you.

**Eduardo Dal Ri (Vice President of Auto and Massified)**

Frederic, this is Eduardo speaking. Yes, obviously we look at future inflation, but that's not even what we worry about the most looking forward. One indicator that may oscillate is precisely the one that has shown the largest standard deviation, linked to public safety, which is the level of theft and robbery. It will dictate the need for further price increases and will determine not only insured fleet growth, but also if we can worry less about this issue. For now, our forecasts point to price increases in tandem with inflation, as was well pointed out by you – it is less important when we talk about theft and robbery, but it is evidently considered in our forecast - but theft and robbery figures are still worrying us, and it is indeed considered in case we have to increase prices in 2018 in order to control this issue. Competition in the auto insurance segment is very high, which is why I have made reference to our management, as each year we stack more tools to better manage and control claim costs and this has brought many benefits and prevented some stronger price increases.

**Gabriel Portela (CEO)**

Frederic, this is Gabriel. I'll talk about cross selling, which was your second question. The characteristic of a multiline company, and our biggest challenge as well, is making us able to sell all our products to all our customers and that all brokers sell our products. If you look at our website, in our institutional presentation, you will see this distribution broken down between products and, objectively, only 11% of SulAmérica customers own more than one product. We say only because this number has grown over time but also shows the amount of room we have to grow in this indicator. This also applies to our main channel, the broker channel, and we have permanent training so they can sell all our products. We trained more than 45,000 people last year, in order to expand the brokers' sales scope at the same time increase cross selling figures. So, cross selling is always a challenge for a multiline company, we've been moving forward and have a lot room to grow.

**Frederic de Mariz (UBS)**

Perfect, thank you very much.

**Operator**

Our next question comes from Eduardo Nishio – Brasil Plural

**Eduardo Nishio (Brasil Plural)**

Good morning, everyone, thank you for the opportunity. I have a question regarding solvency capital; we saw in other insurers a relevant positive change in the quarter coming from the changes made by Susep, which released capital. I wanted to hear from you how these changes impacted your capital position. Thank you.

**Ricardo Bottas (Vice President of Control and Investor Relations)**

Nishio, this is Bottas speaking. Thanks for your question. We verified, as you well said, this positive impact in our companies regulated by Susep, notably the companies that operate life and pension, savings bonds and also property and casualty, but this is already duly considered in our statements and we should note that there are other regulatory changes to become effective in 2018 that may partially offset this benefit observed in 2017. So, all in all, we keep with our policy of adequately covering each regulated company within its requirements of minimum capital and solvency, monitoring it in the way you are familiar with.

**Eduardo Nishio (Brasil Plural)**

Okay. How can you measure that, what's the surplus capital? If you could tell to us, it would be very useful.

**Ricardo Bottas (Vice President of Control and Investor Relations)**

The number is not absolute and it might give you the wrong impression because you have to make the comparison of this effect in minimum regulatory capital and also solvency in the light of liquidity. So sometimes the reduction in minimum regulatory capital arising from the changes made by Susep at the end of 2017 may not have the direct effect of this capital reduction because of liquidity and solvency components that are also monitored by Susep, so there is no use in telling you a specific amount relative to the capital release, okay?

**Eduardo Nishio (Brasil Plural)**

Perfect. But it was positive, correct?

**Ricardo Bottas (Vice President of Control and Investor Relations)**

Without a doubt, it was positive.

**Eduardo Nishio (Brasil Plural)**

And do you expect something better for 2018?

**Ricardo Bottas (Vice President of Control and Investor Relations)**

Just to give you a ballpark figure, it was more relevant in our company that operates auto, followed by the company that operates life and pension.

**Eduardo Nishio (Brasil Plural)**

And in 2018 do you think there are still more changes that can positively affect capital?

**Ricardo Bottas (Vice President of Control and Investor Relations)**

There are discussions going on, so we have to wait and see how these discussions will evolve with the regulator, the CNSP to understand the impact, but in the discussions that have already taken place in 2017, which motivated these positive changes to reduce minimum regulatory capital, there are also discussions that could bring a greater capital demand for 2018. We have to wait to see how they will be published.

**Eduardo Nishio (Brasil Plural)**

Perfect, thank you very much.

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