



## **2Q14 Conference Call Transcript – Q&A – SULAMÉRICA**

### **Operator**

Thank you. We'll now start the Q&A session. (Operator Instructions) Our first question comes from Rafael Frade from Bradesco. Please you may go on.

### **Rafael Frade, Bradesco**

Hello, good morning, everyone. I have some questions. I would like to ask about the medical loss ratios. Also, if you could please go over price readjustment cycles, we are ending one, beginning another, how has the loss ratio been trending? Gabriel already mentioned several initiatives in the segment, but anyway if you could give us an overview of what the previous cycle was like and what do you think is going to happen for the future? What market trend do you expect?

And more specifically, could you speak a bit about the effects of the World Cup on the portfolio? Arthur mentioned that there were positive and negative effects for some players and I didn't understand how that was reflected in your loss ratio. How much you were impacted in June in terms of weaker plan utilization and how much you were impacted negatively in the other months with higher plan utilization?

### **Mauricio Lopes**

Good morning, Rafael, this is Mauricio Lopes speaking. I'll try to answer the two questions in the order they were asked. As far as readjustment cycles, what we have come across is that in 2012, '13, '14, we had strong price readjustment growth, as we have been discussing for a long time. In 2012, they were well-placed, the same for 2013 and the cycle of 2014 that will start in July, has been showing that the price readjustments have been effective and the proof of that is that our retention rate has been very high. So, although readjustments were much higher relative to the previous year, it has been this way for the entire market. We have been able to retain our customers, for both small and large groups.

Of course, there is the fluctuation of portfolios, there is this movement because – in some cases it is better to work with managed services that are not prepaid and there is a natural fluctuation from corporate plans to ASOs. It is important to remember that our second quarter is the weakest quarter

in terms of readjustments because it is the last quarter of the cycle. We are restarting the cycle now and we believe that -- so we are going to have a similar scenario as observed in the previous year, which is positive.

As for the World Cup, I think that we have observed a seasonal and calendar effect. Some of our partners and suppliers in certain lines of business that had a drop in utilization of services because specifically of the World Cup, we also observed this effect. What happened is that, in the first months of the quarter, people used our services more and then we had a substantial reduction during the World Cup, but because of the IBNP methodology we could not capture this effect during this quarter. This effect will be captured in the subsequent periods.

### **Rafael Frade**

Thank you. People used the services beforehand, it is very clear in terms of the level of utilization, April and May was much higher than expected. We observed that people used the services beforehand, but it's very difficult for us to effectively measure that this is specifically due to the World Cup and because people were using the services before the World Cup.

### **Mauricio Lopes**

I understand your question. But what we have observed and trying to be as clear as possible in my answer is that, when I look at the quarter as a whole, I do not see an absolute growth in utilization, actually its quite the opposite, I see a decrease. So this tells me that we have a calendar effect, people use the services more, but then it was offset by the month of June and in the next quarter, I think we are going to see is an improvement. So when you see the whole of our provisions, I believe that we are going to have a substantial drop in the plan utilization rates.

### **Rafael Frade**

Okay. I would just like to ask one more question. You talked about readjustments for SMEs with less than 30 lives, but until now, at least to my knowledge, you haven't increased your sales prices in the pricing tables, the previous prices have continued. The other competitors are doing the same? Could you explain to me, are you postponing readjustments for SMEs?

### **Mauricio Lopes**

We have two traditional cycles to increase prices during the year. We have the next cycle that starts now in the next days, as we had the previous increase in the month of February. So it is a normal calendar. We start the first price readjustments in February and the second price readjustments in the second half of the year. So probably in the next days you are going to see an increase in prices. This has already been announced to the brokers.

**Rafael Frade**

Okay. Thank you very much.

**Operator**

Our next question is from Mr. Gustavo Lobo from BTG Pactual. Mr. Gustavo, would you please continue.

**Gustavo Lobo, BTG Pactual**

Good morning. I have a question about growth. It's very clear that you have been readjusting prices significantly in the health segment -- in the auto segment, you still have a favorable competitive environment, it is difficult to imagine a price war. But when you look at volumes, we can detect a few risks. Well, in auto you have a market that's still very weak and there needs to be a pick-up in terms of sales, and in healthcare we have the labor market to think about. And I think there is not much of an outlook for employment improvement in the labor market. We also don't think it will deteriorate. But how does this impact your perspective for growth in terms of volumes?

**Gabriel Portella Fagundes Filho**

Gabriel here, Gustavo. Well, I think you made a very on-target observation, but we disagree with you partially, because we have been increasing volumes where we think it's best. Our automobile fleet has seen an expansion in opportunities not only in new vehicles sales - we have been able to grow in other regions of the country and in other product lines. Don't forget that we operate throughout Brazil and I think that the strongest impact is on the key center of the country, but we operate and grow in different regions as well.

In health, we saw a reduction in new contracts growth, but as I understand -- we have been growing different segments that fall outside this labor market trend. There are new companies, so we have a very large market in SMEs to conquer.

And our growth outlook is still solid and we have been growing in different regions, seizing market opportunities, but still basically untapped in some lines that we have decided to work on -- while, the focus is on return rather than growth, we are maintaining our outlook. And we also have to see what Carlos Alberto has to say about this.

**Carlos Alberto Trindade Filho**

Just to add to the auto segment, we'll have other factors that influence growth, for example, prices for spare parts and labor also you have a new level of auto theft frequency that happened to be lower during World Cup. But there are no guarantees that it will continue at those levels - considering that cities reinforced their security, and at the same time, you have a monthly injection with new vehicles being sold in the market. And even though there is a drop in sales of new vehicles, growth is still very substantial relative to the overall current fleet.

I think it's very positive what we have achieved. And all of those factors also drives volume, you could have a small reduction in the number of the fleet, but if we also have premiums and volumes to think about.

And as regards to volumes, I think it's important to mention that we also have property and casualty, pension plans, and life insurance. In property and casualty, we have grown by 26% in massified insurance - this is very significant when you look to different markets. You don't detect a weakening of the whole business. The growth overall in property casualty was not as significant because of the redistribution to a lower participation in the DPVAT consortium. We have focused our portfolio on the growth of massified products.

In life and private pension, there was a significant drop in the loss ratio of the life and personal accident insurance lines. Excluding the effect of the removal of accounts and repositioning last year, we are growing. However, we have exited this repositioning process and are now embarking on a growth trajectory. This will drive the growth of more profitable individual portfolios. For pensions, we see the same type of trend and volumes have been protected, as well as in the healthcare segment.

### **Gabriel Portella Fagundes Filho**

Just to complement what you have mentioned, we also have observed this volume growth in the savings bonds segment. And we have seized this opportunity for integration and this demonstrates the benefits of having a multi-line approach, you can have volumes coming from different lines and enhance the performance in others to increase revenue.

### **Gustavo Lobo**

If I may ask another question, what can you tell us about individual health insurance? This is the portfolio that in recent years has been losing profitability steadily and has lost relevance for the Company. The more the company grows, the less of those plans you have. But looking in the medium and long-term, could you please explain, well, on one side the portfolio is decreasing but on the other hand its loss ratio is growing. So in the medium-term can you see a way of balancing things in terms of loss

ratio? Or will this ratio will worsen until the portfolio really disappears and vanishes?

**Mauricio Lopes**

Well, Gustavo, Mauricio speaking. And I have a few comments. Well, this portfolio traditionally generates gross margin. We had this quarter that was a bit difficult, but it has historically trended around 90% in this portfolio and it continues to generate margin for us. This is an older portfolio and we don't have significant commercial expenses associated with it, it requires limited maintenance. So it's important to consider that after claims, most of what we earn is incorporated into the gross margin. We end up getting an efficient return. So, of course, we would like to resume in the traditional way of working with this portfolio and we understand that we had a very one-off effect during the quarter, but this will not affect the performance of this portfolio in the future.

And it's important to remember also that, we also implement health and claims management initiatives based on this portfolio because it's the most stable one and easy to work with in the short-term.

**Operator**

We have one more question from Rafael Frade from Bradesco.

**Rafael Frade**

I would just like to have a follow-up. You said that the individual health insurance portfolio this quarter did have some complications, anything specific this quarter?

**Mauricio Lopes**

Yes, there are some items. We still haven't had the authorization of the regulatory agency for the pre-law stipulated pricing readjustment; historically it takes a bit longer, so we are waiting for that. Remember that this is a portfolio that is 80% pre-law. We need the readjustment to offset the loss ratio. It's also important to mention that we had the reclassification from other operating income and expenses to claims, so there are two percentage points of the loss ratio that had been allocated differently.

But again, it is most important to mention that our individual portfolio is the key focus of our claims and health management measures, we have the rollout of Healthways in Brazil - the pilot program is already operational. We have already started the health coaching process with them about two months ago. We have almost 1,600 people engaged in phone-based coaching. Again, the prospects are very good. As the individual health insurance members have a long history with us, they are a focal point for innovation. This is what we are trying to do.

**Rafael Frade**

Okay. Thank you very much.

**Operator**

(Operator Instructions) There are no further questions. Since there are no further questions, we are going to turn the call over to the Company for their final considerations.

**Gabriel Portella Fagundes Filho**

Well, we do have some questions on the webcast and apparently they were answered during our talk. I don't think there was anything outstanding. Anyway, if you feel you would like to clarify a bit more any of your questions, do send us an email. We would like to close our conference call for today, our IR team and myself are available to answer any of your questions. Thanks for joining us and have a good day.

**Operator**

SulAmérica' earnings release conference call is now closed. We thank you very much for joining us, and have a good day.