



4Q14 Conference Call Transcript – Q&A – SULAMÉRICA

Operator

We will now start the Q&A session. Our first question comes from Mr. José Luís from BTG Pactual. Mr. José, please you may go on.

José Luís Rizzardo (BTG Pactual)

Good morning, everyone. I have two questions. I will ask the first one and then the second one. Firstly, looking at your result, one of the first highlights in our view was the improvement in the group health insurance loss ratio in the year-over-year comparison. Would you please explain this a little better? What have you been tracking that would effectively improve this result and how much of this result was a positive surprise? Also, in this line, could you please speak about what you are seeing for 1Q15? Is this improvement being maintained? Worsened? Would you please give me a little more color? Then, I will ask my second question. Thank you.

Maurício Lopes (Vice President of Health and Dental)

Hello José Luís. Thank you for your question.

I think the trend we are observing in the group portfolio and the expectation is that this will transition to the other portfolios, is the maturation of the series of measures undertaken over the past years, over various fronts, in health management, claims management, and underwriting.

In claims management, specifically, the volume of ongoing measures put in place throughout 2013 and 2014, each one in a different phase of maturity, is very significant. From direct purchase agreements established today with nearly 130 major hospitals in the country, expanding to other regions, we are entering into Bahia state, and subsequently the purchasing of materials directly and medical second opinions.

We are refining our operations, in the concept of second opinions, the process of second opinions, the process of medical boards, focusing on the participation of the beneficiary and doctor, on what is the correct process and more referrals to specific programs such as for the spine, for obesity, whether it is the diabetes program. Therefore, claims management together with more health management, from wellness to the more complex part

that is chronic illness management, together in the same continuum of care, i.e, offering our customer a solution whereby it is self-care in the beginning with wellness and very timely intervention in the management of chronic and complex cases management. All of these measures also have different degrees of maturation and are paying off. Therefore, we are working on claims and health.

As far as pricing, we also had one rather complex year, a year where we worked a lot and could deploy a lot of very relevant resources, we got the underwriting right, and this makes a huge difference in group insurance, we maintained the group sales volume that we had expected to have, and did not have elevated levels of churn. The underwriting price readjustments were good. Everything considered together, important for all of the portfolios (health), with more force on the group portfolio, explains this significant improvement in the fourth quarter.

Gabriel Portella (CEO)

José Luís, I am going to direct the call now to Carlos Alberto Trinidad, as you asked about the overall loss ratio. He is responsible for auto, life, private pension, and other property casualty.

Carlos Alberto Trinidad (Vice President of Auto, Property and Casualty, Life, and Private Pension)

Good morning José Luís. Good morning everyone.

Beginning with auto, I believe that the information we have passed along shows that our policy focuses on profitability and we have a good handle on the loss ratio which is one of the principal drivers of results in this segment. It is a very competitive retail market and I think we were happy about the year because we did not follow the extremely aggressive price movements observed in truck lines and this caused us to lose some market share overall, even though we had an increase of 16% in the passenger vehicle segment. This demonstrated that our pricing policy was good and we maintained excellent competitiveness. This cycle generates returns, paving the way for a favorable future. In claims management, the pricing expertise was key - there was a great effort in claims management and the company has been gaining strength in all areas, the supply of spare parts, compensation, salvages management, ultimately all of which directly affects the loss ratio. The gross profit margin for the year ended up being a little less, however, it is worth remembering the accounting reclassification of additional acquisition expenses from administrative expenses to the acquisition costs line. This generated the small decline but this effect should stabilize in time, we can potentially anticipate an improvement in the gross margin to even more attractive levels.

In other property and casualty, the highlight was the transport portfolio, which performed extremely well, we achieved a slightly lower loss ratio, but our focus is to improve this ratio further, regardless of segment gross margin which has been sustained at 21% and is very attractive. Management of the portfolio is essential for claims management in the other P&C segment, independent of pricing expertise.

In life and personal accident, the focus was pricing and management of the portfolio. We made this improvement, which today is reflected by very strong loss ratio stability at nearly 45% and a gross margin of 23%, which had an important contribution to the Company's results - the driver of which is now growth. When we see the participation of individual life in the portfolio at 16%, this is a portfolio in which we invested during the year in the exchange of products, the launching new very competitive and well-designed products, and this is already reflected in increased sales and the profitability of this segment is much more favorable than the average. This growth will certainly help us maintain our control of the loss ratio competitiveness in this space.

José Luís Rizzardo (BTG Pactual)

Thank you, if I may ask the second question – over the recent years, we have looked at the sector, and there have been price increases of above 10%, double digits, in life insurance and in group health insurance. Recently, some news reports have mentioned expected price increases at around 18% for 2015, so my question is whether or not this number makes sense? How do you see this figure in 2015 - considering that the economy has not been good in 2014 and 2015 looks like it will be worse? How do you see the ability of the Company to pass along another high increase to cover inflationary pressure due to higher plan usage? So, if you could speak a little bit about it? Thank you.

Maurício Lopes (Vice President of Health and Dental)

José Luís, we have followed the VCMH (medical inflation) for a long time and the issue of price readjustments as well. The perception that we have is that the market as a whole continues with the same structural issue, an issue that we follow, and this trend is driving the re-pricing of the policies. The policies that we have been able to readjust and those we have lost, have followed in line of pricing that is much more homogeneous relative to the market, everyone

Maurício Lopes (Vice President of Health and Dental)

in the market is pricing together, based on this, we believe that yes, we are still having this portfolio re-pricing movement and it is different from policy to policy - but the underwriting continues to be quite responsible, as it has been over the recent three years. We would not lower the guard on the

issue of underwriting, not for a minute, in the coming years. If the VCMH continues at elevated levels then it is better to continue at higher levels, if it goes down, we should have a reduction. We are watching adjusting according to the movements coming from the VCMH.

Renata Cabral (Santander)

Good morning everyone, thank you for the opportunity.

Still speaking about the loss ratio, my question is if you have mapped or observed some positive impact in the loss ratio as a result of the fraud investigations regarding the sale of prostheses?

Maurício Lopes (Vice President of Health and Dental)

Renata, thank you for the question. Good morning.

We have followed this issue of the prostheses for a long time. It is not new at all to the insurance market – such that we have put in place many programs at SulAmérica over the last three years: such as second opinions and medical boards. In 2013, we put a series of actions in place, such as a spinal program, focused on clients who we believe have received bad recommendations for spinal surgeries, which was the great boom in prostheses starting in 2011 and 2012 – directing them to large hospitals with excellent quality, and we gained from this.

In addition, we started, at a timid pace, the direct purchase program of materials at the end of 2011, which was accelerated in 2013 and 2014, considering these 130 large hospitals previously mentioned, and this program is still growing. To give you an idea, today, we already doing direct purchases for virtually all materials related to the spine, orthotics for the hip, knee, and shoulder, hemodynamics, endovascular, oral and maxillofacial - which are the major strengths, these purchases of special materials.

So we think there is a problem, yes. We participate in the industry federations, incentivizing the investigations and the work of the federal government and in all fronts given this issue of fraud, so that society will benefit. But internally, this has not stopped us at all. We saw this problem coming a few years ago and put in place a great set of measures for larger items.

On the issue of smaller-type materials, for things such as, needles, cotton swabs, syringes, catheters - these things cost very little and are used frequently. We also since the year 2011 conducted a huge task force focused on this type of product, such as in the transposition of materials margins, incorporating globalized daily rates, fixed fees for these types of materials and the in-house development of electronic medical audit tools,

by the operations and IT area, which aims to work on the individual items of these low cost, frequently utilized products. Further, when you work with wholesale materials without having them electronically processed, it is very difficult to audit them. So I think we're well from both sides and we are on track to do a good job.

Further, if we have strong help from the federal government and society to make the understanding of the issue more broadly known, which also helps us to be more effective with medical second opinions and medical boards, together this brings benefits to the insured client, giving them various opinions regarding the same problem spinal problem he has, the same surgical problem he has, letting him decide more maturity, society as a whole will be benefited and us as a healthcare operator as well. So, we have great expectations and will work hard on this subject.

Gabriel Gusan (Bradesco)

Good morning. My question also has to do with health. This is with the use of client company contributions as a means to mitigate in part the price readjustments. I have doubts from many sides about this aspect as it is more widely used. I would like to understand a bit about how the accounting of this contribution works. If it serves to reduce claims and how does it work? How was this resource utilized by SulAmerica in the fourth quarter? Have you observed an increase in usage? Many Thanks.

Maurício Lopes (Vice President of Health and Dental)

We have favored in recent years, as we have the view that the VCMH is structural, the focus is always on price adjustments and not on these contributions. A large volume of work has been done; an important thrust of the 90+ initiatives is the focus on price re-adjustments. Regarding the question about contributions, in certain specific instances, occasionally in some accounts, especially large accounts where there is the belief, the client expects that there will be a potential change in the account profile in the near future, so for us it is still residual. We have done a lot, much more than in the past - but this is not the main focus. Today it is entering into the accounting, as part of claims, but again the focus always remains on price re-adjustments to bring about a structural solution.

Gabriel Gusan (Bradesco)

Perfect, thank you.

Gustavo Schroden (Bank of America Merrill Lynch)

Good morning, thank you for the opportunity and good results. But it's just about this great result that I wanted to talk to you about its sustainability from here on out. We could see the effect of the measures you have taken

over the recent years, the positive effect it has appeared now, but if you could give us a little perspective of what to expect from here on out and how much are you able to maintain this loss ratio level in health. I will go back a little to your ability re-price because I think there are two fronts, one with the hospitals initiatives and other front is the price adjustments, so if you could let us know about what stage we are in negotiations with the hospitals and with the doctors, if we should still expect positive outcomes in the future in the negotiation process with hospitals and doctors and the ability of you to continue re-pricing, was this an excellent isolated quarter or if this is really structural and we can have comfort that these measures will continue to post positive results. This is the first point I wanted to speak with you about, then I will ask my second question.

Arthur Farne d'Amoed Neto (Vice President of Control and Investor Relations)

Your question has various aspects. I will focus on the one which maybe has a more fundamental characteristic, Gustavo. You asked if we view our results as being sustainable. The response is yes.

The company has been improving to the extent that it has space for improvement in underwriting policies, but what we have been saying in health and in the other areas is the process of claims management which has been getting increasing more effective. All the measures we mentioned in the last quarters, the investments and projects across lines, which aim exactly to tackle the issue of the claim at its origin and the loss ratio, obviously considering our ability to work on prices as well as for the industry as a whole, speaking about health, this has existed because the industry needs these levels of price adjustments that have been occurring as mentioned in the previous comments and responses.

I think the positive measures are structural, not only in terms of administrative efficiency, as also at the other end, our ability to grow revenue. We have diversified our revenue base, savings bonds are one of the examples, private pension, the asset management operation, and the management of administrative services only (ASO) plans, also represents the Company's efforts to decentralize its operations. Considering all we have been doing, obviously we do not aim at any one quarter and have exactly this goal of sustainable results. Our response would have different colors depending on the portfolio we are speaking about. In health, we still continue with space in these portfolios where the Company has discretion to pass the price readjustments to the market as needed. In auto, similar to what happened in 2014, we are quite comfortable with the quality of the portfolio leading the way to a positive 2015. In the other portfolios, many adjustments were made that were necessary. As Mauricio commented, that despite the price adjustments levels that are being seen as high, perhaps when compared with inflation, the Company has grown the portfolio. The

Churn, or rather the retention of the portfolios we would like to retain, has been preserved. The Company has historically maintained a high rate of renewal.

I think these are all of the characteristics, trying to simplify the answer a bit, a response to a more encompassing question that yes, points to a sustainable result.

Gustavo Schroden (Bank of America Merrill Lynch)

This is great, Arthur. Thank you.

My second question is also a little broader and more related to the macro environment. We have only seen a marginal increase, but we think that level of unemployment should intensify. We also have some questions about the sustainability or the lifetime of some small and medium enterprises. How are you seeing this? Have you have been preparing for this? Because we know that when you have an increase in unemployment, you usually also have an increase the loss ratio, particularly in health. So, I was wondering how you see this, if you have prepared, what plan do you have for this potential increase in unemployment, to maintain the health loss ratio you have now?

Gabriel Portella (CEO)

Gustavo, it is Gabriel. I am going to respond.

First, one of the characteristics of a multi-line company operating in several segments is to be able continue with sustainable growth. As Arthur mentioned, even if you have one difficulty or another within a segment or a line of business, I believe this has been part of our model. I do not know which factor is more important, if it's an increase in the unemployment level, which is only an expectation or the continued low penetration that we have seen in the insurance market, further expanding our possibilities in all business lines. The maturity of our relationship with our broker base in Brazil, the permanent trainings, with more than 25,000 trainings last year for the whole broker base, and the penetration rate in the market, are still drivers or much stronger drivers and we believe that even though unemployment may have some effect, if at all, however I think the positive drivers of the Brazilian scenario, particularly with insurance activity, are even more positive and, depending on the segment, the influence of this can be hardly observed at all. We have lived through moments where we have had an increase in unemployment. We lived through moments that were much stronger and more frequent and the level of unemployment in Brazil is still at a very low level. Therefore, I do not believe this to be an influencing factor above and beyond all the other difficulties we have, which are superseded by the opportunities we have in our business.

Gustavo Schroden (Bank of America Merrill Lynch)

Great. Thank you for the responses and congratulations for the result

Operator

The next question is from Mr. Gabriel from Bradesco. Mr. Gabriel you can continue.

Gabriel Gusan (Bradesco)

Thank you for accepting one more question. Leaving the subject of health and auto, in other property and casualty, we saw the loss level exceeded the same quarter in 2013, even with lower participation of DPVAT (mandatory third-party vehicle liability insurance) and even with a greater massified portfolio participation, we imagine that this should reduce claims. Could you give a little more color on what is going on with this segment? Thank you very much.

Carlos Alberto Trindade (Vice President of Auto, Property and Casualty, Life, and Private Pension)

Thank you for the question, Gabriel.

In property casualty, we also manage and are working on the portfolios. For the year, you see an overall reduction in the loss ratio.

We had for the massified portfolio, a loss ratio which was above expected, due to some more severe events and so it did not decrease so much, however, a series of actions have been taken in these segments, in the business insurance product, in condominium, and in my perspective it is already better this year and continues to fall. Clearly, when you exclude DPVAT, also, you end up changing these numbers because there was a redistribution of the DPVAT, but the large highlight in the segment was transport which was very good and in property also.

For the loss ratio, the key points are the massified products, which are growing very strongly, and are very well accepted by consumers. The brokers have given extraordinary support to these products, as well as all the other retail products of the Company, which have had significant support from the broker channel. So, my perspective is towards continuous improvement.

Gabriel Gusan (Bradesco)

Perfect, understood. Many thanks.

Operator

As there are no further questions. I get back to Mr. Portella for his final considerations

Gabriel Portella (CEO)

Well, thank you very much. I finally would like to thank the whole SulAmérica team for your commitment, responsibility, and engagement so that we could reach this record result in 2014. I would like to thank also everyone who participated in this conference call, wishing everyone a great day. Thank you.

Operator

SulAmerica's conference call is now closed. We thank you for your participation and wish you a good day.