Q4 2014 Earnings Call

Company Participants

- Bertrand Bougon, Head-Investor Relations & Rating Agencies
- Denis Kessler, Chairman & Chief Executive Officer
- François de Varenne, Chief Executive Officer, SCOR Global Investments SE
- Frieder Knüpling, Chief Risk Officer
- Mark Kociancic, Chief Financial Officer
- Paolo de Martin, Chief Executive Officer, SCOR Global Life SE
- Victor Peignet, Chief Executive Officer of SCOR Global P&C SE

Other Participants

- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- In-Yong Hwang, Analyst
- Janet Demir, Analyst
- Kamran Hossain, Analyst
- Michael I. Huttner, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group 2014 Annual Results Conference Call. Today's call is being recorded.

At this time, I would now like to hand the call over to Mr. Bertrand Bougon, Head of Investor Relations & Rating Agencies. Please go ahead, sir.

Bertrand Bougon {BIO 18934799 <GO>}

Good morning, everybody, and thank you for joining the SCOR Group Q4 2014 results call. Before starting this presentation, please consider our disclaimer on page two, which indicate that the presented Q4 2014 financial information is audited. Also, note on page three that in this presentation two sets of financial data are used. The first set is presented on audited published basis and includes Generali U.S. figures from the acquisition date of October 1, 2013. The second set of data is presented on an unaudited pro forma basis and includes Generali U.S. as if the acquisition has taken place on 1st of January, 2013.

With this, I would like to give the floor to Mr. Denis Kessler, CEO and Chairman of the SCOR Group, who is joined on this call by the whole Comex team.

Denis Kessler {BIO 1498477 <GO>}

Thank you, Bertrand, and good morning, everyone. 2014 was highly satisfactory year for SCOR, a year during which SCOR has further improved its competitive positioning as a Tier 1 global reinsurer.

With regard to the full year results, 2014 has again confirmed our ability to combine gross profitability and solvency. SCOR has increased its core earnings by 40% for the year, 40% compared to 2013 to €512 million, and has continued to expand its footprint globally by increasing its gross written premiums by 10% with very good quality of earnings from both P&C and Life as you will see when we present the combined ratio on one side and the Life technical margin on the other side.

Lastly, SCOR's shareholders' equity stands at a record level reaching €5.7 billion or €30.6 per share. We have achieved once again two targets as set in a three-year strategic plan, Optimal Dynamics, presented in 2013. So 2014 return on equity stands at 9.9%, while solvency ratio calculated by a group internal model stands marginally above the optimal range of 185% to 220%.

These set of results means that SCOR proposes a dividend increase of 8% to €1.4 per share to the Annual General Meeting of shareholders to be held at the end of April. This dividend increase, which continues a regular upward trend observed towards the past few years brings the total dividend paid to shareholders since 2005 to approximately €1.8 billion. This is sustainable as the group's capacity to generate results and substantial operating cash flow over the long term with more than €2.6 billion of operating cash flows have been generated over the last three years.

Let me now hand over to Mark Kociancic, group CFO, who will walk you through the financial details of the results. Mark, the floor is yours.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis. So going to page five, I will walk you through the financial highlights of the 2014 results. SCOR wrote more than €11.3 billion of gross written premiums during the year, which represents a 10.8% increase at constant exchange rates and a 10.4% increase at current exchange rates compared to last year. This top-line growth is fueled primarily by the Generali U.S. Life Re acquisition contribution by SCOR Global Life with its expanding footprint in Asia, in financial solutions, as well as longevity and by the resilient P&C top-line premium.

The net income for the group reaches €512 million for the year generating a 9.9% return on equity, and both SCOR Global P&C and SCOR Global Life delivered an operational performance well in line with our Optimal Dynamics assumptions. The P&C net combined ratio for the full year stands at 91.4%, while the Life technical margin reaches 7.1%. Finally, SCOR Global Investments delivers a return on invested assets of 2.9%, while pursuing a rebalancing of the portfolio in line with Optimal Dynamics.

Moving to page seven, the shareholders' equity reaches a record €5.7 billion after the payment of €243 million in cash dividends during the second quarter boosted by the strong net income and exceptionally strong foreign exchange impact since last September, which increased the currency translation adjustment to $361 million for the full year 2014. The book value per share is now at a record €30.6, and the financial leverage stands at 23.1% after the €250 million and CHF 125 million debt issuances from September.

On page eight, the operational cash flow stands at €894 million for the 2014 year, flat compared to 2013; thanks to the strong contribution from both business engines.

And now, I'll turn it over to Victor Peignet for the P&C results.

Victor Peignet {BIO 6287211 <GO>}

Good morning. In 2014, SCOR Global P&C delivers an excellent technical performance which validates the ongoing portfolio management and underwriting profitability focus which the division has been executing over the past years. This provides further confidence towards the 2015 expectations.

In 2014, the ability to combine technical profitability and growth has been characterized by three main points. The first one is the technical profitability at the expected level with a normalized net combined ratio marginally above 94%. Second is a favorable trend of the attritional net loss ratio, which means that we are able to continue the portfolio management, the selective acquisition of new business mostly with existing clients, and the improvement of the business mix at a steady pace and in an efficient way. The third is that the priority given to the expected profitability in terms of underwriting ratio and return on risk-adjusted capital did not present a profitable organic growth at a rate of nearly 3% year-on-year at constant exchange rates.

As for 2015 and as stated during the January renewals call, gross written premiums are expected at around €5.3 billion, with an optimized growth which remains constrained by SCOR's profitability and solvency target, and which is expected to benefit from our business initiatives which are all well received by our clients and are now getting full traction.

These growth assumptions aggregate very fragmented perspective by markets, segments of clients and lines of business according to which we are foreseeing the following: an evenly spread growth over Treaty P&C and specialty lines largely coming from our client-centric approach, but with marked differences between markets and lines, together with a good complement from our operation at Lloyd's.

Geographically, growth in Asia and in the Americas fueled by the USA and at best stability in EMEA. Structurally, stability of the proportions of premium from proportional and non-proportional contracts with proportional now standing at 64%. On the technical and commercial sides, the stability of the net technical ratio with the net attritional ratio and the commission ratio trends expected to balance each other. Combination of the 2014 results, the outcome of the 01/01 renewals and the 2015 expectations demonstrate once again SCOR Global P&C total consistence between the achievements and the assumptions.

Strengthened by this consistency and with the insights of the ongoing negotiation of the April renewals which are already well underway, we confirm our 2015 assumptions of net combined ratio at or around 94% and gross written premium in the area of €5.3 billion, with some potential upside should the appreciation of the U.S. dollar against the euro since the beginning of the year remain.

Whilst I do recognize that we see no sign of positive changes in the very difficult global and local business environments in which we operate, I'm confident with these assumptions, thanks to the proven ability of the division teams to deliver.

With this, I hand over to Paolo, who will now give you his views on the Life side of the group.

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor. SCOR Global Life confirms its position as a leading player in the Life reinsurance market and post a strong set of results for 2014. On page 10, you can see the growth of SCOR Global Life across our three regions and key lines of business. We have originated strong growth across all key business lines. In Protection, we grew by 16% on a published basis, as we successfully completed the integration of Generali USA with no loss of key clients or talent, while maintaining our market leadership position in the U.S.

In Financial Solution, we grew by more than 20%, and are now delivering gross written premiums in excess of €1 billion. Well, after completing the Mediterráneo Vida Value In-Force monetization in Q1, our Global Financial Solution team has been successfully supporting our client's growth and capital needs across Europe, Asia, and Latin America.

In 2014, we almost doubled the size of our Longevity business, thanks to the completion of two additional deals in the UK market. We also launched our new Global Longevity team, and in 2015, as you may have seen from the announcement this week, we have completed our first Longevity swap in North America.

Geographically, we experience strong growth globally, with 30% growth in Asia compared to 2013; thanks to organic growth in both Protection and Financial Solutions; a 26% growth in the Americas, driven by the successful acquisition and integration of Generali USA; and a 5% growth in Europe, Africa and Middle East, where SCOR Global Life has been able to further strengthen its positions in key markets like France, Italy, Spain, and the Nordic countries, while pricing conditions in the Protection space remain tough in the UK.

All in all, moving on to page 11, gross written premiums grew by 18.1% on a published basis, and by 5.5% on a pro forma basis compared to the previous year, reaching €6.4 billion, with new business profitability at or above the target of 1,000 basis points above the risk-free, as per the Optimal Dynamics group target. The strong commercial activity, coupled with an overall good performance of our in-force book of business, translates into strong technical performance, with a technical margin of 7.1%, confirming the ongoing evolution in the underlying mix, and in line with the Optimal Dynamics assumptions of 7%.

With this, I will turn it over to François for the investment results.

François de Varenne

Thank you, Paolo. Moving on to slide 12, in a still difficult financial context with an exceptionally low-yield environment, SCOR Global Investments continued its policy of progressively reducing its liquidity in the fourth quarter of 2014, while selectively increasing the duration of the fixed income portfolio in line with Optimal Dynamics. Thanks to the unique currency mix of our invested assets, of which 56% are denominated in USD and GBP, and only 33% in Euro. We position our fixed income portfolio differently in order to benefit more quickly from the decoupling of economic cycles and monetary policies between the U.S. and the UK on one side, and the Eurozone on the other side.

You can notably see that we have a higher exposure to corporate bond in USD compared to our exposure in euro, as we believe there is currently greater relative value in the U.S. credit markets. We slightly increased the duration of the fixed income portfolio during the last quarter of 2014, which now stands at four years. This increase in duration is mainly on USD-denominated portfolios, with 4.2 years effective duration at the end of December 2014, which compares to a 3.6-year duration for the euro-denominated fixed income portfolio at the same date.

Moving on to slide 13, SCOR's total investment portfolio reaches €24.9 billion at the end of December 2014, with an invested asset portfolio of €16.2 billion, compared to €15.5 billion at the end of September 2014, and €14.9 billion at the end of 2013.

In line with the Optimal Dynamics plan, cash and short-term investments have been significantly reduced, and represent now 5% of the invested asset portfolio, down 5 percentage points compared to September 2014 and 9 points compared to December 2013. The quality of the fixed income portfolio has been maintained, with a stable average rating of AA-. At December 2014, expected cash flow on the fixed income portfolio over the next 24 months stands at €5.1 billion, including cash and short-term investments, facilitating dynamic management of the reinvestment policy.

2014 has been characterized by an exceptionally low-yield environment in the main currencies, with 10-year government rates at an average of 2.5% in USD and GBP, and

1.2% in Euro. During 2014, invested assets generated a financial contribution of €436 million. The active management policy employed by SCOR Global Investments has enabled the group to record capital gains of €135 million last year.

The return on invested assets is well in line with Optimal Dynamics expectations, and stands at 2.9% in 2014, i.e., at the top of our early 2014 assumption and at 3% for the fourth quarter of 2014. SCOR Global Investments remains confident despite an exceptionally low-yield environment in its ability to deliver return on invested assets between 2.7% and 2.9% in 2014 and above 3% in 2016; thanks to the very active management of its invested assets and its current positioning.

With this, I will turn it over to Denis Kessler for the conclusion of the presentation.

Denis Kessler {BIO 1498477 <GO>}

Thank you, François. With Optimal Dynamics, the plan we started to pursue two years ago, as SCOR has set two visible targets, profitability on one side and solvency on the other side. The group has been successful in meeting those targets over the first two years of Optimal Dynamics and confirms its ability to continue delivering both of them. Similarly, our strong remuneration policy remains unchanged. We aim, as you know, to remunerate shareholders through cash dividends without excluding other means and to maintain a minimum payout ratio of 35% over the cycle while aiming for low volatility in the dividend per share.

As you can see on the graph on slide 14, SCOR has a consistent history of being stable or increasing cash dividend as demonstrated by a proposed dividend of €1.4 per share to the upcoming AGM and a track record over the past years which bears testimony to our ability to deliver consistent dividends even in challenging times.

This ends our presentation. And over to you, Bertrand, for the start of the Q&A session. Bertrand?

Bertrand Bougon {BIO 18934799 <GO>}

Thank you, Denis. Before moving onto the Q&A session, please note on page 15, the next scheduled events which is the Q1 2015 results on May 6, as well as all the conferences which we are planning to attend over the remainder of 2015.

With this, we can start the Q&A session, and I would like to remind you to please keep it at two question maximum. Thank you.

Q&A

Operator

Our first question today comes from Michael Huttner of JPMorgan.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Thanks a lot. Great results. Just two questions. The first one is on page nine. So the 94.2% is the underlying combined ratio. At the renewals few weeks ago, you said with pricing and mix, et cetera, it has worsened things (18:28) by about 20 bps and up 94.4%. I'm assuming the 94% which you're speaking to is; thanks to retro which you mentioned in the press release. Is that a fair assumption that retro costs are down 40 bps across your portfolio? So what's that, that's about €200 million, or am I making a big mistake here?

And the other question is, remember when we were at Monte Carlo (18:57) SCOR wasn't quite in the top tier, and I got severely not sustaining that, but currently around the (19:01) consolidations does mean that your position in that top tier of reinsurance could easily be under threat. And I just wondered what's your thoughts are on that. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Michael. (19:21) thank you for the second question, but certainly for the first one, I will hand over to Victor.

A - Victor Peignet {BIO 6287211 <GO>}

Well, Michael, if we would be able to predict our combined ratio at 0.1% of comfort level, I mean, that would be very nice. But I think, overall, I mean, if you combine all the factors, well, we are at 94% as we say, plus or minus. But we are at 94% and very close to 94%, which means, well – I don't have much comment. I think if you combine the retro with the renewal and the performance of this year, plus the reserving policy that we have, overall, yes, I can confirm that the expectation is at 94%.

Q - Michael I. Huttner {BIO 1556863 <GO>}

But is there any separate in terms of retro and something special because the retro is where you differ from your – the really, from Swiss and Munich, they hardly buy any.

A - Victor Peignet {BIO 6287211 <GO>}

Well, as I said, I mean, we have slightly improved structurally the retro, have not spent more, maybe slightly less. But more importantly, have improved the structure. So the potential efficiency is better this year than it was last year. And as I indicated during the renewal call, well, this corresponds to a few points of improvement or potential improvement of the combined ratio, yes. Yeah.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Fair enough. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Michael, on your second question, what I said, I've been saying that for maybe two years or three years and I did repeat it when in Monte Carlo. I said the dancing floor is likely to open for numerous reasons. May I cite two or three of them? Of course, the cycle, underwriting cycle. Second, that was a program of critical size, which has increased due to increasing fixed cost in the industry, reporting regulatory costs and so and so on. Also, the fact that in the new regulatory regime, you need to have diversification and, therefore, it could also lead companies to seek diversification through acquisition and so and so on. So all conditions are met, low interest rates, underwriting cycle, increases the critical size and so and so on, and regulatory pressure. Having said that, I was right because since then we have seen quite a few operations.

Your question is about acquisition of SCOR. I think we have the size we wanted to have. We did it because we made acquisitions over the last eight years, starting with Converium and Transamerica Re, and then by Aegon USA. We're growing organically in the meantime, both for Life and for P&C. And I believe that we have the right level of diversification today between Life and Non-Life, but between business lines, by geographies. We now book about €11.3 billion, so we have increased markedly in terms of critical size because we knew that it would be an important aspect and we satisfied the solvency we wanted to have, so that's key for us.

So we are in a position today at SCOR not to be forced to move because we are late in moving because I think we are exactly where we wanted to be in this market, in this, let's say, future of the industry. So we are not forced to do anything we would not like to do. We're not in a position to see desperately to get married to anyone. We have a very strict set of rules when we make acquisition with respect to the guidelines we have given when we set up Optimal Dynamics. So we're in a position today to see what's going on in the industry without being forced to move in any case just because we would be forced to do it. So that's exactly where we wanted to be and we are there. I don't think we can add anything unless Mark wants to say something. And we deliver exactly on the plan we have decided to deliver. Remember, Optimal Dynamics didn't include any kind of acquisition and it was set as such. Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. I would echo the sentiments and just add that, I mean, what you're seeing now is obviously predicated in the market basically on scale and diversification. But I don't think you can understate the impact of a franchise, whether it's on the P&C side or the Life side for SCOR. We've been in many of these markets for quite a long time. It's not something that you can set up in a short period of time or merge and we have an effective corporate culture, et cetera, just by having a combination. It does take significant effort to make that happen. So SCOR has been very successful, I think, over the years in managing both organic growth and growth through acquisition to get to the status where we're at right now. And I think we're very confident in our ability to maintain what we've created here at this upper level of reinsurers.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Brilliant. Thank you so much.

Operator

We'll now take our next question from Kamran Hossain of RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Morning. I've got two questions. The first one is just on the expense ratio in P&C. If I – so note that improved year-on-year to 6.5%, I understand that your Optimal Dynamics target is still 6% there. Could you just give us an idea of how much you've spent on, I guess, improving the platform during 2014 so you can get a sense of what the 6.5% should look like in a normalized basis? And the second question, just on the capital position, I note your comments that you're marginally above your optimal range. Does that mean that you're in line with your 231% that you gave at the end of last year, or slightly below that? Thanks very much.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks. Maybe Victor on the – why don't we start with Frieder? So let's start with Frieder on the solvency of the group.

A - Frieder Knüpling

Yeah. There were two main drivers of change at the solvency ratio apart from smaller ups and downs, but the decrease in the yields during 2014 has led to a reduction in our solvency ratio. We published some sensitivities around this with the Optimal Dynamics update at the IR day in September. And this has led to a reduction of our solvency ratio of a little bit more than 10%. On the other side, we've issued hybrid debts in Q3 which has increased the solvency ratio by about 10 points. So the net of this is a reduction. On a like-for-like basis, using last year's model, it's up a few percentage points. So that still gets it to a ratio somewhat above the optimal range.

A - Denis Kessler {BIO 1498477 <GO>}

The main effect has been the decrease of interest rates, compensated by the issuance of the hybrid debt. So basically, that's what we have noticed in 2014. We are absolutely where we should be in terms of Solvency today. On the cost ratio, Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, if I look at how much we are spending on projects at the moment, and we have about four major projects ongoing, the Cat Platform being one, but we have three more. I would say that we've spent about 5% to 10% of the total management expenses of the division has been dedicated to those projects. But actually, while you are not really talking about one-offs here, you are talking about project costs that are being amortized over the development period of those projects. So it's not really one-off. But I'd give you an idea of the sort of investment that we have ongoing. Regarding the last quarter, we had a one-off positive, which was on the pensions. So that has improved a bit the situation, which was basically in the forecast.

Q - Kamran Hossain {BIO 17666412 <GO>}

It's very clear. Thanks very much.

A - Denis Kessler {BIO 1498477 <GO>}

May I say - if I could just add one point, I would say the capital intensity of the industry in terms of tools has increased. As compared to 10 years ago, we have built - included a number of sophisticated tools to help in writing, to help modeling, to help optimizing the allocation of resources, capital, and so and so on. So this is part of the cost that we have to bear today to exercise your business as a reinsurer. And so overall, we spend quite a lot of money today as compared, again, to five years, 10 years ago, to build up those platforms, to have a better assessment of the Cat exposure, or to have the underwriters to have exactly the consequence of the underwriting when they do it, in terms of sense of (29:20) added diversification or capital utilization.

So the industry is changing, the production function of the industry is changing. We did anticipate this move, and we allocated right resources to do so. The internal model that we'll build, that will be filed in order to get the approval in the framework of the Solvency II, is a unique tool which has been extremely expensive to build. But in the meantime, it's a superb management tool, helping us to manage the group and to get the results that we get. So this is a long-lasting change in the industry, and SCOR is affected by this change. In the meantime, we do believe it's positive changes. It helps the capacity to underwrite and to bear risk. It's true also, for instance, for modeling the retrocession and so on and so on. So I'm not going to go through all the aspects of this change, but it's certainly a very (30:22) remarkable change in the industry. Next question, please.

Operator

Our next question comes from Andrew Ritchie of Autonomous.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Hi there. Some questions, first of all, for François. Could you just clarify. I think you said for 2015, you're expecting, or you're hoping to deliver, 2.7% to 2.9%. What's the kind of reinvestment rate you're assuming or you're hoping to achieve over the course of the year, I guess, in terms of running yield reinvestment rate? And I guess linked to that, you had quite a lot of realized gains on bonds, particularly in Q4. Given you've now reduced the duration gap, you've kind of locked down, I suppose, the fixed income portfolio a bit more. Can you still - presumably your assumption on ongoing realized gains on the fixed income portfolio is a lot lower, maybe just clarify that?

And the second question is a very quick one, just to clarify the capital philosophy of the group, I appreciate you've grown the dividend 8% and you're focused on ordinary dividend growth. Just remind us, I think what you said in the past is, on your economic capital, you anticipate, over the plan, growing into that buffer, as well as, you're awaiting model approval before you would consider any further capital actions. Is that still the philosophy we should think about? Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Andrew. François?

A - François de Varenne

So to answer your first question, so I confirm our assumption, or expectation, for the return on invested assets for the full year 2015 is 2.7%, 2.9%. This should be compared to the range I gave exactly one year ago during the presentation of the previous year results. And the range one year ago was 2.4%, 2.9%. So let's say we are a little bit less pessimistic this year compared to one year ago, despite the very low-yield environment. But this is due to opportunities we see on the market and to the fact that we massively reinvested some liquidity in 2014, and especially at the end of last year, in November and in December.

If I have to comment on our reinvestment rate, I will do it only on the yielding asset classes, which mean mainly the fixed income and the loan portfolio. Since then, it's more difficult to bet on the value of equity at the end of the year. On average, reinvestment rate in Q4 on yielding asset classes, so which mean excluding potential future realized gain was 2.3% on a pure aggregated basis, so which mean including all the currencies in the portfolio. Of course, this is fairly different between the U.S. and the euro portfolio. At current levels, today, early 2015, at the same asset allocation, the market yield of the portfolio, so which mean the reinvestment rate of the fixed income portfolio is just below 2%, so a slight compression of rates and yield on the market in connection with the ECB announcements a few weeks ago.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay.

A - François de Varenne

If I have to comment on the future potential realized gains, if you look at the budget of realized gain over the last few years, it's really recurring year-after-year. Don't forget that's really part of our investment style. We actively manage the portfolio. And under IFRS, as soon as you sell a security, you have a gain over loss on the security. On top of it, we have more and more exposure to non-yielding asset classes. And the only way to recognize the performance of those assets is through realized gains.

So I'm confident to maintain a material amount of realized gain in 2015. On the fixed income portfolio, that's really linked to the active management of this portfolio. But don't forget also that we have 3% exposure to equities and that equities have performed well in Q1. We have real estate and we have other non-yielding asset classes. So again, I'm really confident on the fact that we could maintain a significant amount of realized gain in 2015 and potentially 2016.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Mark, on capital management.

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. On the second question going back to our IR day in London last year, I think we started to talk about this question. So we have the standard dividend decision that we have at this time of year based on the strength of our earnings and our future projections for needs of capital. And I think you'll see we have good news today obviously with the increase to €1.4 per share. The general question of our capital model and the optimal range, I think that's something we will target towards over time, over the three-year duration of the plan. Currently for 2015, as you know, we're in a bit of a standstill situation as we submit our internal model for approval. And so even if we're marginally above as we indicated last year and again, today, we want to have confirmation of the model before we start making decisions on any other kind of capital decision.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay, great. Thanks very much.

Operator

Our next question comes from In-Yong Hwang of Goldman Sachs.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Hi. Just one question for me. Just about – on the Life growth, especially in the Protection business, I'm just wondering how you view the progress there. So there's only 1% growth on the pro forma basis when you include the Generali, I think, from last year. So it doesn't seem particularly positive given that you would have had help from strengthening U.S. dollar. And, also, how confident are you on getting to €5.5 billion premium that you implied in the Protection business about the Investor Day by 2016? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, In-Yong. Paolo?

A - Paolo de Martin {BIO 15930577 <GO>}

Yeah, on the Protection side, that's where we have most of our in-force as well. So you always have to split out the in-force and the new business. On the new business side, we've been having a very good year. The overall in-force runs off at a 5% to 6% rate, so you have to factor that in terms of when you look at the growth.

Overall, we've been growing very fast in Asia. Protection business is up 30% in Asia. On the Americas side, the year was really spent on consolidating and integrating the USA. the Generali USA acquisition, but we were able to maintain our market leadership position there. In Europe, the underlying insurance industry is not growing that much. So the growth that you see is actually we're picking up the underlying insurance growth. So overall, strong growth in Asia, we have maintained our leadership position in the U.S., as well as in key markets in Europe. And then we are confident we're trending towards our – for Optimal Dynamics target.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Okay. Great. Thank you.

Operator

Our next question comes from Janet Demir of Morgan Stanley.

Q - Janet Demir {BIO 19462264 <GO>}

Hi. Thank you for taking my questions. I have two questions. The first one is on your retrocession program. You mentioned that you're improving your retrocession efficiency. I'm just wondering what you've changed for 2015. And the second one is on investment. I know that you're re-matching the duration. So I was wondering if you could give us a feel for the current liability duration now. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Janet. Why don't we start with Victor on the retrocession policy?

A - Victor Peignet {BIO 6287211 <GO>}

Well, we basically work in two directions. First, improving the structure of our aggregate covers and with a better recognition of the risk of abnormal severity of mid-size losses. And we work on the geographic perimeter of the retrocession, having a better cover of non-peak territories and, in particular, emerging markets.

Q - Janet Demir {BIO 19462264 <GO>}

Okay. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

And, François, on the duration.

A - François de Varenne

On the duration, on the different – the duration gap, if you remember the slide I presented during the Investor Day last September where we updated the target effective duration of the invested assets portfolio, for 2014, based on the internal model, the average group target duration for the investment, for invested asset portfolio is 3.9 years. Today, the fixed income portfolio has an average duration of four years. So if we include non-interest rate sensitive asset classes, so which means for the aggregated invested asset portfolio, the duration is 3.2 years. So we have a gap of less than one year today to close.

Q - Janet Demir {BIO 19462264 <GO>}

Okay. That's great. Thank you.

Operator

Our next question comes from Frank Kopfinger of Commerzbank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Hi. Good morning, everybody. Thank you. I have other two questions. My first question is on the effect that you experienced from the stronger U.S dollar. Is there any rule of thumb that you could share what the impact of, let's say, 10% stronger U.S. dollar will be on your financials, be it on the profit, but also on the capitalization? And secondly, the second question is on tax rate. If I saw it right, then in Q4 your tax rate was somehow higher. Is there any special behind that, and does this have any impact for the 2015 tax rate?

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Frank. I think both questions are addressed to Mark.

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. So let me start with the tax rate for the year and I guess Q4 as well. So for Q4, we obviously had a spike, an increase in the tax rate, almost 29%. A couple of things were driving that. First was the distribution of profits on the P&C side largely because of the cap ratio we had, the benefits in higher tax jurisdictions. And then on the Life side, we did have a different geographical mix between Ireland and the U.S. And obviously there's a significant rate difference between the two countries, nothing fundamental. I think it's just an anomaly of the fourth quarter. So it's not something that I would see recurring other than through almost by chance.

The year-to-date, I would note, is at 24.5%, so broadly in line with the 22% assumption that we had in Optimal Dynamics. There's a lesser effect of the cap ratio impact in there. We have – clearly, when we have a good Cat year, we tend to have more profit in higher tax jurisdictions. We've also made some payments that we've highlighted in the past that are really kind of not income tax related such as the dividend taxes to the French government and so forth. That totaled almost €12 million when you take into consideration the external dividend in May plus some of the internal dividends that we declared. So those types of taxes also add up. Overall, we still look towards a 22% effective tax rate going forward.

On your first point on the U.S. dollar impact, so obviously that's a very striking impact that we saw for H2 2014. You can see in the shareholders' equity a very significant growth in the currency translation adjustment, the €361 million. Almost €330 million of that balance was due to the U.S. dollar. So when we look at the sensitivity, both on income, roughly speaking, a 10% increase in the U.S. dollar has a €20 million net income positive impact in normal condition. So that would mean normal claims distribution primarily. And that's largely, you'll remember, because we have a higher proportion of technical profitability and lower expense loads outside of the EU domain.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Vikram Gandhi of Societe Generale.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. Good morning. Thanks for taking my questions. I've got two of them. One on the P&C. Can you give us some color on the difference in the underwriting profitability for the property? Was this specialty lines? And the second is on Life, can you shed some light on how U.S. Life business is performing, particularly anything on the deviations against your mortality assumptions would be very helpful. And, as a corollary to that, how frequently do you undertake the review of these assumptions? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, Vikram. Victor, on the various business lines for P&C?

A - Victor Peignet {BIO 6287211 <GO>}

Well, the profitability, we measure it according to capital allocation. So all the Specialties and the Treaty P&C businesses are supposed to return at the target rate on the allocated capital. So I would not really make a difference between Specialty Lines and Treaty P&C. As fundamentally our approach is, as I said, is client-centric. So for us, we look primarily at the client relationship and at the overall relationship with the client, and at the expected profitability of that relationship. So I would say that roughly, it's probably equal at the moment. But that's not exactly the way we look at it.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay.

A - Denis Kessler {BIO 1498477 <GO>}

Paolo, on the Life part?

A - Paolo de Martin {BIO 15930577 <GO>}

Yeah. On the U.S. mortality, we did experience some volatility in claims in 2014. The U.S. business tends to be more volatile compared to the rest of the Life portfolio, given the high stakes (46:18) amounts that are insured on an individual Life basis. So we did experience some volatility, not enough to impact the results of the division.

On top of that, we have a very active in-force management program in the U.S. So that help us offset some of that volatility. In terms of reviewing the assumption, we obviously have a monthly tracking of all the claims movement. We do review the assumption, primarily on a yearly basis. A lot of the long-term mortality assumptions do have a higher impact on our MCV numbers and, therefore, the numbers flowing in our internal model than they (46:55) do have on the IFRS numbers per se. So that review usually takes place on a yearly basis. That review has taken place this year. We will talk some more when we present the MCV results.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

Operator

Our last question today comes from Thomas Fossard of HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Good morning. I've got two questions. The first one for Paolo on the Life side. Paolo, I believe that in the past, obviously, we had more comments specifically related to the new business evolution. I can't see any in the slide. So will you be able to give us a bit more flavor on what has been really the change in new business, and maybe by territories?

And the second question will be on the return on equity of the group currently, so the 10% return on equity. If we're to adjust for the low cat environment, so running 2.2 points of core below budget. If my math is right, the return on equity of the group will be rather 8% rather than 10%. So just wanted to check with you if we had to adjust for some specific negatives item in 2014, or is the 8% a good basis for 2015? And if this is the case, does that trigger any change in views regarding the risk appetite you have to build for the next two years to come in order to deliver on the 10% return on equity? Thank you.

A - Paolo de Martin {BIO 15930577 <GO>}

Yeah. Thomas, on the new business, the new business metric on Life is really a non-GAAP metric. We've been doing a lot of work internally to redefine that metric and potentially be ready to increase disclosure in the future, and that's why you haven't seen us commenting a lot. But anyway, just qualitatively, when you look at the slides, when you look at Longevity and Financial Solution, pretty much that growth is new business growth. So when you look at the Longevity and the Financial Solution, that's relatively easy. And Longevity's all UK, what is in our 2014 numbers; Financial Solution is Asia and Latin America, the key drivers – with some pick-up in Euro, but the key drivers of that growth in 2014 were Asia and Latin America. On the Protection side, again, the in-force runs down at a 5% to 6% basis. So you can roughly add probably 5% to 6% there on new business pick-up. We're going to talk more as we go through the year and as we get into the Investor Day this year.

A - Mark Kociancic {BIO 17852409 <GO>}

On the second question with respect to the ROE, I think we have – obviously, there are some technical points, which I'll get into, that are influencing the ROE calculation. Generally speaking, though, the one thing versus the Optimal Dynamics plan that we're seeing is, obviously, a lower interest rate environment than our original assumptions, which certainly doesn't help. But to get to some of the technical points that are influencing the ROE mathematics, first of all, is the net asset value of the group, you see a very significant pickup, both in the currency translation adjustment and the revaluation reserve, almost €0.5 billion of impact development – positive development. And this is a good thing. It's a clear enhancement of shareholder value. But that reduces your ROE by almost 50 basis points mechanically, when you do the math.

Couple of other issues. We just had a question from, I think it was Frank Kopfinger on the U.S. dollar impact. And even though we had a very significant rise in the shareholder net asset value due to the U.S. dollar, we did not have, as I pointed out earlier, necessarily a normal distribution of profitability from the U.S. dollar impact. So we actually had a flat, maybe even slightly negative impact from the strengthening U.S. dollar just because of the distribution of profitability this year. It's not a fundamental issue. It just happened in this fashion. So in other words, U.S. dollar profitability would have led to a stronger net income and close that gap that you were alluding to once you start normalizing. And the last impact I think is when you look at the tax rate coming in at 24.5% versus probably a more normal rate of 22%, that's clearly eating into some of the net income. So it is somewhat challenging for us to deal with a rapid increase in net asset value. You cannot redeploy those kind of movements from currency that rapidly in your decisions whether it's deploying the capital for underwriting or any kind of capital repatriation or capital decision. So those are challenges.

A - Denis Kessler {BIO 1498477 <GO>}

Everyone is very much impressed by your statement, you can see. Are there additional question, or, no? In that case, thank you for attending this presentation of the 2014 results. And please don't hesitate to call us if you have additional questions, or if you want precisions. And have a nice day. Thank you very much.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.