S1 2019 Earnings Call

Company Participants

- Denis Kessler, Chairman of the Board and Chief Executive Officer
- Francois de Varenne, Chief Executive Officer of SCOR Global Investments
- Frieder Knupling, Chief Risk Officer
- Ian Kelly, Head of Investor Relations
- Jean-Paul Conoscente, Chief Executive Officer of SCOR Global P&C
- Laurent Rousseau, Deputy Chief Executive Officer of SCOR Global P&C
- Mark Kociancic, Chief Financial Officer
- Paolo De Martin, Chief Executive Officer of SCOR Global Life
- Unidentified Speaker

Other Participants

- Andrew Ritchie, Analyst
- Frank Kopfinger, Analyst
- James Shuck, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Sami Taipalus, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group Q2 Results Conference Call. Today's call is being recorded. There will be an opportunity to ask questions after the presentation. To provide all participants an opportunity to place the question, please kindly limit your number of questions placed to two questions.

At this time, I would like to hand the call over to Mr. Ian Kelly, Head of Investor Relations. Please go ahead, sir.

Ian Kelly {BIO 19976646 <GO>}

Good morning, everybody, and welcome to the SCOR Group first half of 2019 results call. And I please ask you to consider the disclaimer on Page 2 of the presentation, which indicates that the financial results for the first half of 2019 included in this presentation have been subject to the completion of a limited review by SCOR's independent auditors.

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 COMEX team, Denis?

Denis Kessler {BIO 1498477 <GO>}

Thank you, Ian, and good morning everyone. Thank you, Ian, and good morning everyone. SCOR delivers a strong performance in the first half of 2019, successfully combining strong growth, excellent profitability and robust solvency. SCOR has continued to expand and deepen its franchise, writing more than EUR8 billion of gross written premiums in H1 2019. This is an increase of 2.6% at constant exchange rates, driven by excellent growth of SCOR Global P&C of 10.4%, resulting from successful renewals in an improving rating environment.

The SCOR Global Life gross of minus 2.6% at constant exchange rates reflects financial solutions deals renewing as fees and we told you about this already in Q1. As this is renewed as premium on a like-for-like basis with last year, comparable life gross would stand at 3.8%, plus 3.8%, and the Group overall gross would be 6.5% at constant exchange rates.

The profitability is excellent with a net income of EUR286 million year-to-date at the end of H1 2019, translating into a return on equity of 9.8% or 908 basis points over the five-year risk-free rates and this is well above the Vision in Action profitability target of 800 basis points over risk-fee.

The technical profitability of the business engines is strong, with an excellent P&C combined ratio of 93.7%, better than assumptions of 95% to 96%. A strong life technical margin of 7.2% and a solid return on invested assets of 2.8%. At the same time, the solvency position is strong at 212%, in the upper part of the 185% to 220% optimal range of the Group's solvency scale with capital generation helping to offset the impacts of market movements within the quarter, particularly the decrease in interest rates.

Moving on to Slide 4, this excellent start to 2019 brings a fitting and successful close to Vision in Action, the plan we launched three years ago and that ended at the end of June. Across the course of the plan, the Group has had to face many headwinds and you know it. We have had volatility of the heavy cat loads in 2017 and 2018 while the P&C market environment has been soft. But here we are now becoming more optimistic. We were in a low yield environment; we were to face regulatory shocks such as the Ogden rate change; and also geopolitical uncertainties, such as Brexit.

We have had to face shock of the US tax reform. The plan was called Vision in Action. And in the face of the shocks we did not standby, we acted with a robust capital shield with retrocession protection to help absorb the cat losses. We dealt with the US tax reform, by swiftly setting up the structures to ensure we have a strong capital efficient model going forward. We created a new direct insurance company in France, to cope with the hard

Brexit which is likely to be the case, all the while focusing up on the consistent application of our strategic cornerstones to profitability expand and deepen the franchise. The actions resulted in the successful delivery of the two targets of the Group on a normalized basis over the course of Vision in Action, with an average normalized ROE of 9.5% or 876 basis points of risk-free and an average solvency ratio of 219% in the upper part of the solvency scale optimum range.

The successful delivery of Vision in Action is created considerable value for our shareholders. Over the course of the plan, total shareholder return has been 65% dividends to investors. You can expect us to emphasize value creation when we announce our new plan at the IR Day in early September, the 4th of September, exactly.

I'll now hand over to Mark for the details of the H1 financials. Mark, the floor is yours.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis, and good morning, everyone. So let's begin on Slide 5. I'll walk you through the financial highlights of the first half of the year. In H1 2019, SCOR underwrote EUR8 billion of gross written premiums, representing a 6.3% increase over 2018 at current exchange rates or 2.6% at constant exchange rates. SCOR Global P&C grew at 13.9% and SCOR Global Life by 1.2% both at current exchange rates. And SCOR Global P&C delivers a strong net combined ratio at 93.7%, including a cat ratio of 5.2%.

On a normalized basis, the P&C combined ratio stands at 95.5% in line with the Vision in Action assumption. The Life technical margin is elevated at 7.2%, slightly above the Vision in Action assumption, particularly due to the 0.4 percentage point of positive impact for financial solution deals being renewed in the first half of 2019, as fee business.

SCOR Global Investments delivered a return on invested assets of 2.8%, supported by a strong recurring yield at 2.6%. Overall SCOR's net income for H1 2019 stands at EUR286 million, up 9.2% compared to 2018. This translates into a return on equity of 9.8% and this is above our Vision in Action profitability target of 800 basis points, above the five-year average risk-free rates.

Denis already talked about the solvency position and it remains strong at 212% at the end of H1 and in the upper part of our optimal range in our solvency scale with market movement in interest rates and the dividend accrual offsetting the capital generation in the first half of the year.

Going to Page 7, SCOR has seen strong book value growth over the first half and after dividend payments, shareholders' equity increased by 4.5% compared to fiscal year 2018 to EUR6.1 billion and this is largely driven by net income of EUR286 million recorded in the first half of the year. This corresponds to a book value of EUR32.59 per share and the financial leverage stands at 26.4%, decreasing by 1.1 percentage points compared to the position at year-end December 31st, 2018 and this is broadly in line with Vision in Action assumptions.

So let's move on to Page 8. SCOR generated EUR33 million of operating cash flow in the first half of 2019. SCOR Global P&C's cash flows reflect the claims payments from 2018 nat cat events, and SCOR Global Life cash flow reflects volatility of claim payments and seasonality in client and tax settlements. Overall, the total liquidity of the Group is strong and stood at EUR1.7 billion at June 30th.

Let me now hand over to Jean-Paul, who will present the results of SCOR Global P&C.

Jean-Paul Conoscente {BIO 20770277 <GO>}

Thank you, Mark. SCOR Global P&C achieved a premium growth of 10.4% constant rate of exchange for the first half on the back of strong renewals in the US during the second half of 2018 and globally during the first half of 2019. We expect the premium to normalize during the rest of the year and to land in the upper part of the 5% to 8% range of Vision in Action.

From a profitability point of view, we had a good second quarter, yielding a 93.7% net combined ratio for the first half of 2019. This is decomposed as a 5.2% cat ratio for the first half, made of 6.5% ratio for Q1 stemming from 2018 loss creep and 4.1 cat ratio in Q2 stemming from the Q2 events in 2019, such as the US tornadoes, floods, floods in Brazil, storms in Europe. We saw -- we also experienced further loss deterioration on Jebi for an additional EUR33 million gross loss, with SCOR taking the event as a market loss in $12 billion and $15 billion. However, the loss is now into our retrocession protections and the net impact to SCOR is nil. We estimate our retrocession protection to be active up to a market loss for Jebi of about $22 billion market loss. We also experienced additional 2018 loss situation from Typhoon Trami and from the Kuwait floods. However, these losses were offset by loss improvements from the 2018 California wildfires. As a result, the net impact of SCOR - to SCOR of the 2018 events for this -- for the second quarter was nil. The normalized net combined ratio stands at 95.5% for the first half, in line with the 95% to 96% assumption of Vision in Action.

If you turn to Slide 10, during the June and July, the SCOR Global P&C premium grew 6.2% at constant rate of exchange. The growth year-to-date stands at 10.2% at the same constant rate of exchange. Pricing improved 3.8% at these renewals for an overall pricing improvement year-to-date of 1.7%. We currently see an acceleration of primary insurance rate hardening especially in the US, following the shrinkage of limits deployed by lead insurance companies and a struggle for brokers to complete placements. From a reinsurance point of view, the market is firming more slowly with decreasing commission on a number of casualty proportional treaties, significant rate online increases on property cat placements and small commission decreases on proportional property treaties.

In the US, we did not grow the cat portfolio despite the 15% to 25% rate online increases, achieves on Florence programs because this increase is barely matched to our increased view of risk coming from increases in loss adjustment expenses as also in inflation. Similarly, on the rest of our portfolio, we kept a stable portfolio as our share increased last year, had anticipated rate increases that only materialized this year. As a result, we took some management actions to curtail the portfolio when increases were insufficient and increased our share when pricing matched our expectation.

Other areas of note where were grew our Latin America, where we grew 21% on the back of strong price increases in Puerto Rico, Peru and Chile and Australia, where we grew on one of our strategic clients. Having now renewed over 95% of our yearly portfolio, we anticipate the 2020 renewal season optimistically, with expected continued hardening of primary conditions and an accelerated firming of reinsurance conditions.

And now, I hand over to Paolo on for Life.

Paolo De Martin {BIO 15930577 <GO>}

Thank you, Jean-Paul. First of all, I'm proud to say that the teams at SCOR Global Life successfully delivered Vision in Action. We have achieved or exceeded our assumptions both in terms of growth and profitability. SCOR Global Life has expanded its franchise, and client recognition of the strength of our proposition is strong across all geographies. We will provide more details on our achievement and our strategy going toward at the IR Day in September.

To go back to the results, in the first half of 2019, we have recorded gross written premiums of EUR4.6 billion. This is an increase of 1.2% at current exchange, and as already mentioned, a slight decline of 2.6% at constant exchange rate compared to the same period last year. As in Q1 2019, this variation is largely driven by certain financial solution deals which had been renewed as fee business rather than as premiums in the first half of 2019. As you may remember, on these deals, we're now recording similar amount of profit and no headline premiums. On appendix Page 29 of the presentation, you will find detail number. Excluding these deals, we have grown by 3.8% in constant exchange rates, driven by positive business growth in North America and in Asia. This premium growth is in line with Vision in Action assumption of 5% to 6% over the cycle and translates for 2019 in an expected normalized growth rate of 2% to 4%.

On the profitability side, the net technical results stands at EUR304 million. The new business underwritten continues to be above the Group ROE targets. The inforce performance is solid with US mortality claims roughly a EUR130 million higher than in the same period in 2018, balanced by active portfolio management and a strong reserve position. The technical margin stands at 7.2% for the first six months of 2019, and again, the renewal of the financial solution deals as fee business adds 40 basis points to this metric. As mentioned at the beginning of my presentation, on this deals we're now recording similar level of profit on lower headline premiums.

I'll now hand it over to Francois for details on our Investment portfolio.

Francois de Varenne {BIO 7447858 <GO>}

Thank you, Paolo. Moving on to Slide 12, SCOR Global Investments portfolio reached EUR27.5 billion at the end of June with an invested assets portfolio of EUR19.5 billion compared to EUR19.6 billion at the end of March. SCOR Global Investments successfully completed Vision in Action with an average return on invested assets of 3.1% of the plan, in the upper end of the initial 2.5% to 3.2% range. This was achieved in spite of a challenging financial and economic environment over the past three years.

The portfolio positioning reflects the current environment. Liquidity stands temporarily at 8% of the invested assets. The share of corporate bond has been reduced by 4 points to reach 44% and the fixed income portfolio remains of very high quality with a stable average rating of A+ and the duration of 3.8 years, and highly liquid with financial cash flows of EUR6.6 billion expected to emerge from the investment portfolio over the next [ph]two years.

Investment income on invested assets stands at EUR309 million in H1 2019, generating a return on invested assets of 2.8%. This performance is supported by a strong income yield which stands at 2.6% in the first half of this year. Our theoretical reinvestment yield stands at 2.2% at the end of June, reflecting the global decrease of interest rate since the beginning of the year. Indeed, our reinvestment rate stood at 2.9% at the end of December 2018 and 2.5% at the end of March. Under current market condition, we maintain our expectation of an annual return on invested assets in the 2.7% to 3% range for the full year of 2019 supported by capital gains on mature real estate assets to be taken in the second half of the year.

With this, I will hand it over to Ian Kelly for the conclusion of this presentation.

Ian Kelly {BIO 19976646 <GO>}

Thank you. Francois. On Page 13, you will find the next scheduled event starting on September the 4th with our Investor Day to be held here in Paris as well as the conferences which we are planning to attend for the remainder of 2019.

So with this, we can start the Q&A session. Thank you.

Questions And Answers

Operator

(Operator Instructions) We will now take our first question from Andrew Ritchie from Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. First question on, you flagged the greater momentum particular in US primary. Maybe you could just outline how -- what opportunities that generates for SCOR? Is this to write more proportional business in new lines or I mean, obviously, you didn't grow much the half year US renewals? But just like how that -- how you think the harder primary market translates into opportunities for SCOR?

Secondly on Life claims, thanks for flagging the higher US claims, I'm not quite sure what to do with that information. Are you flagging it and saying we had to work really very hard to combat the extra claim -- those extra claims, and by the way, there might not be the ability to do that in future quarters or how should I interpret it? Is there still plenty of room left, I suppose, to combat if these elevated claims continue? Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, Andrew. Certainly on your first question, I'm going to give the floor to Jean-Paul, but it's extraordinary to see some change of mood on the US market. I mean, we're not the only one to say that, when you analyze the news flow. We were expecting this term earlier, to tell you the truth, when we launched Vision in Action three years ago, we were expecting the cycle to turn, let's say one or two years ago. It was not really the case, it stabilizes. But now it's stabilized, but now there are lots of signs of firming up, hardening market and -- as a primary side as you said, but also on the reinsurance side.

So it's quite a change and it only took place in 2019 that we see renewals after renewals and it's true that this is a change of -- probably good change of the environment. We believe it is going to go on for 2020, but we will certainly expand more on those issues when present the new plan.

So you're absolutely right to say this is a change of -- change, I would say, not of your mood, but I would say it's -- it was the market, it's the new orientation. Jean-Paul, can you say how we benefit from those changes?

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Yeah, we are a big proportional write in the US, both on casualty and on property. What we're seeing on casualty is on the price increases, has been the -- have been significant. And let's say last year they were probably below the loss inflation that we were seeing coming through the various losses on casualty. This year we think they're above the loss inflation, so it's positive.

In addition, the reinsurance commissions are coming down on many treaties. So overall, we feel fairly positive on the casualty side. On the property side, the rate increases are very significant as a result of actions by some of the market leaders in the US and in London. We see price increases that are double-digit and sometimes very high double-digit.

On the reinsurance conditions though, the commissions have really not moved that much because of oversupply of capacity, and so we've been very cautious on those, you know like pushing for larger variations of commissions and when we didn't achieve them, we just kept our shares constant. This explains the sort of the no -- stability of our portfolio during this renewal.

Going forward, we expect the firming of the reinsurance conditions to continue and we -- you know, the commissions to continue to come down. And then when it happens, we e will probably increase our share on programs that we view as profitable. So overall, we remain very optimistic for 2020.

A - Denis Kessler {BIO 1498477 <GO>}

And Jean-Paul the total -- sorry, go ahead Andrew.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Sorry, I was just clarifying. I mean Jean-Paul, you described yourself as a significant writer US Casualty, but you're not really. I mean you can underweight US casualty surely for some time unless...

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Well, yeah, underweight relative to our peers. But today we write about 800 million of US casualty. So we're definitely underweight compared to our peers. But that's a portfolio been growing over the last three, four years.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay.

A - Denis Kessler {BIO 1498477 <GO>}

Paolo?

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

Yeah, on that $130 million, Andrew, we did experience an unusual degree of volatility in the first six months. So I thought it was our responsibility to flag it and make sure that we put it in context on the comparative numbers that we're showing on the disclosure. We're going to add some more color to the US book as we go, given the size of the US both for SCOR and we can take on this subject at the Investor Day and maybe discuss it them so.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Sorry, I'm just still trying to understand, are you flagging something that we should think about for future periods or...

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

No, I think we remain -- we remain confident as we were in the past. We have extended optionality in the book, and the book is very well reserved. But the degree of volatility we experienced in the first six months we thought was sufficiently material to be flagged in our disclosures. But we remain with the same degree of confidence that we had in the past around both the optionality and the way the book has been reserve in the past.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, thanks.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks, Andrew. Let's go to the next question please.

Operator

Our next question comes from Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, couple of questions, one is just on the, I guess on the reinvestment yield you're flagging at 2.2%, and that's not surprising given what's happened to yield recently. I guess you've confirmed 2.7% to 3% for this year. I guess when we're thinking about future years, do you think a similar run rate to this year would still feel achievable? So that's the first question. And then second question, just on the price increases you've seen year-to-date. When do you think we start to see these working through into underlying margins? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Francois?

A - Francois de Varenne {BIO 7447858 <GO>}

So maybe on the first question, so that stood at we observed since the end of last year, a significant growth everywhere in the world especially in the US in the Eurozone, a significant drop in interest rate. Just as a reminder, the ten-year treasury was at 3.2% in November and is close to 2% today. So what does it mean in practice? I maintain my expectation for the full year 2019 of an income yield around the 2.5%, so no effect at this stage.

I think I'll say this, the fixed if income portfolio today is protected by each duration, so which means that there will be a lag before we see the impact on the income yield, but this impact, if those market condition are the same in the future, will progressively materialize in the income yield over the next -- the next three years. So we'll give you a full update early September but I maintain the same -- the same expectation for the full year 2019% at 2.5% at this stage?

Q - Kamran Hossain {BIO 17666412 <GO>}

Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

And, what was the second question, Kamran?

Q - Kamran Hossain {BIO 17666412 <GO>}

Second question is just you've got -- you've had 1.7 points of price improvement year-to-date in P&C. It's just when -- how long do you think it is before we start see this working through into underlying margins or improvement in normalized margins?

A - Denis Kessler {BIO 1498477 <GO>}

We're taking a cautious view this year. I think in 2018, we were -- when clients were telling us they are going to see a 10% rate increase on their book, we probably gave them credit for eight and in reality they probably achieved something like four. So this year when clients tell us they're going to achieve 12, we probably give them credit for half of that. So I think we felt that we were probably too optimistic last year and being more prudent this year.

So in the combined ratio that we're reserving for, there is some conservatism on the amount of price increases that will flow through the book, and so we're waiting for the full year to develop before we get in full credit. In addition to this, we've taken a revised view of the number of perils such as Japanese typhoon, US hurricane in Florida, US wildfire and other risks. So -- and that's also reflected in the higher loss cost. So you know, again, as we see portfolio developing throughout the year and we see that maybe we've been too conservative, we may revise those views, but they will not flow until next year.

Q - Kamran Hossain {BIO 17666412 <GO>}

All right, thanks very much.

A - Ian Kelly {BIO 19976646 <GO>}

Okay, thanks. We can go to next question please. Our next question comes from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, Good morning. Thank you very much. So just on these similar two topic please. Firstly, Jean-Paul, you mentioned the more conservative view on wildfires, and all this perils, but equally in the same breath you're releasing sort of positive development from the California wildfires. So is this just -- could you just to reemphasize, is it just extra conservative, rebuilding the reserve maybe and is Ogden affecting any of your thinking please. So that's just, if you don't mind, one area of question.

The second one is for invest in income. The -- there's been -- I mean you've increased liquidity, you sold maybe corporate bonds of say EUR700 million, duration is reduced. What are these indications -- I mean reduced duration Francois usually is in anticipation of interest rate increases. Is it just all these measures are just kind of resetting before the next plan so you want to manage the risk a bit better or how should we understand these actions in the quarter? Thank you very much.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks. So Vinit, maybe we start by Jean-Paul.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Yeah thank you. On the wildfire, there is two different aspects. One is the, our view of risk. I'd say on a pricing going forward. And there we review our, we have revised our views and are taking a much more pessimistic view of the risk. With the climate change, we view this risk as being much more frequent than in the past. And that's reflected in our pricing.

In terms of the improvement of the loss estimates for the Q2, this is basically a relocation of loss between the Camp Fire and the Woolsey Fire and just the way the retrocession works. This results in the net improvement for SCOR, overall. On your question for Ogden, we estimate this to have a net impact to SCOR after tax of about EUR14 million and -- yeah, 1-4, EUR14 million (multiple speakers)

Q - Vinit Malhotra {BIO 16184491 <GO>}

EUR14 million and this is yet to come or...?

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

I'm sorry?

Q - Vinit Malhotra {BIO 16184491 <GO>}

It's yet to come with Ogden.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

It's yet to come, yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, thank you.

A - Francois de Varenne {BIO 7447858 <GO>}

On your second question on the -- on what we did during the quarter, so that's true that global economic growth forecast has been revised in the world by all forecaster since the beginning of the year, and especially for Europe, US and Asia. Inflation remains contained even in the US, but somehow bankers have been quick to react and have ability [ph] to do withstand, so which means that the probability of (inaudible) environments seems to be back for a while.

So in this context, we are starting -- started to manage actively our credit portfolio, which mean in practice, if you look at all the figures, we improved the average exposure of SCOR to credit, so which mean a reduction by 4 points. And we also improved the quality of this portfolio. But the cancellation of this active management of the corporate bond portfolio in Q2 translate into a voluntary reduction of this exposure and part of the proceeds are temporarily kept in cash, pending further reinvestment and I will provide details of future investment strategy early September with the presentation of the next strategic plan.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, thank you very much.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks Vinit, let's go to the next question.

Operator

Our next question comes from William Hawkins from KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, gentlemen. Thank you very much. And Paolo, just to come back to what you said to Andrew, could you clarify please? The EUR130 million you phrase that with reference to first half last year. What would the figure be relative to an expected loss rates or a neutral benchmark. I can't remember whether the first half was -- last year was normal or not. So that's question one. And then question two, again, I appreciate you're not giving us detail on the Solvency II ratio, but given that there is a lot of moving parts in the numerator and the denominator, could you just tell us in the first half of this year, how much the SCR has changed. I think it was EUR4.2 billion at the beginning of the year. So has that part of the ratio gone up or down, and could you give us a guide on that? Thank you.

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

Yeah, we did -- William, we did use the comparative to prior year because we're not really disclosing a plan or an expected overall at SCOR. So we thought that was the best way to flag the volatility was a comparative to prior year. In terms of our internal benchmark, clearly the two quarters have been above our expectations, and we have taken action in terms of rate increase to compensate that effect.

Q - William Hawkins {BIO 1822411 <GO>}

So in a sense, the EUR130 million understates the issue, specifically in that portfolio because it was already above expectations this time last year?

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

I'm not sure, I would use the word understate. It's just a different benchmark.

Q - William Hawkins {BIO 1822411 <GO>}

Okay, got you. Thank you.

A - Frieder Knupling {BIO 17247809 <GO>}

So, your question was whether the SCR, how that developed during the first two quarters. It's significantly up, mainly because of economic movements, the decline in yield curves, especially US dollar interest rates, mechanically drives the SCR up because of long-term US dollar denominated exposures which are then discounted at a lower rate, that increases capital requirements and there was also some growth because of business growth operating. So in total, the SCR is up by -- is something in the range of about 10% (multiple speakers) continue.

Q - William Hawkins {BIO 1822411 <GO>}

Okay, that's great Frieder. Thank you, Frieder, excellent.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks Will. Let's go to the next question please.

Operator

Our next question comes from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hello, good morning. Two from me please. So firstly, the normalized combined ratio is running at the midpoint of the range at the first-half stage. Is that a fair reflection of the underlying profitability of the book right now? Are there any unusual attritional losses in that? I'm just trying to think about what's the right starting point for the new plan?

Secondly, on the casualty book, it's interesting to hear you're a bit more optimistic. I mean, my sense from you guys is that you were getting a bit more interested when reinvestment rates are obviously much higher, 3.9% [ph] at the start of the year. It surprises me a little bit; you're still a bit more optimistic with the yields where they are. So question, is casualty pricing really that good and where is pricing versus loss cost inflation at the moment?

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Urwin, on your first question, I think as a -- as a reminder, we've changed the cat ratio from 6% to 7% at the beginning of 2019. So in effect when we kept the target combined ratio between 95% and 96%, we implicitly took into account a 1 point improvement on the attritional. So that's the first point. So when you say it's within the range, but high, you should take into account the cat ratio that we're adding to this, is no longer 6% but 7%. In terms of pricing, I think, I explained that we -- it's possible that our views right now are a bit conservative. I think we feel like we were better positioned to just let portfolio develop and make sure the rate increases that we're seeing punctually at different renewals are actually flowing through the rest of the book and that usually takes six months to 12 months to really start appearing. On your question about casualty, again we, it's more a question of successful and successive rate increases. We start seeing rate increases on casualty in 2018. We're seeing this being compounded in 2019 and accelerating. On the other hand, you're right that the rate of inflation seems to be going down, that the loss costs are going up. But right now we feel that the rate increases we're seeing are basically more than compensating that, and yielding a net positive. It's is not all lines of business. The market is very fragmented, it's different behaviors between D&O, E&O, umbrella primary, commercial auto. So we're focusing on the segments where we see these positive improvements.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks. Just a follow up on the first questioning, I appreciate the cat ratio went up, but just thinking about where we are today, in the midpoint of this range. There is nothing unusual that we should be thinking about that as a fair reflection of the, sort of underlying profitability of the book at the moment?

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Now, I mean we had some large man made losses this quarter, a large refinery loss in Philadelphia, some mining losses, a little bit further deterioration on the Boeing loss. So those were the main events of this quarter. But I'd say it's still within expectations.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay, thank you.

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

Thanks Jonny, let's go to the next question please.

Operator

Our next question comes from Sami Taipalus from Goldman Sachs. Please go ahead.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah, hi, thanks, and good morning, everyone. Just -- my first question just comes back to the June and July rate increases, and I'm still struggling to square everything up a little bit here. I think you disclosed your pricing number gross remodeling of loss costs. So is it possible to just give us that -- give us what the impact would have been or give us some form stare, at least, what the impact would have been net of remodeling of loss costs at June and July renewals? So that's number one.

Number two, you're talking about price improvements in the primary space, is it possible to just give a bit of color about how you're thinking about your own primary business units in the context of this? So I guess Lloyd's and SBS. Thank you.

A - Unidentified Speaker

Okay. I'll answer the first part of the questions and then I'll hand to Laurent to answer the second part. On the sort of estimated conservatism we've included in the underwriting ratio, I can give you an estimate for Florida. We basically estimate that our revised view of loss costs has added about 5 points of loss ratio. I think for the other programs, it really varies depending on what the geographical location they're in, if there is a lot of wildfire and not. So it varies. But just to give you an idea on Florida.

Q - Sami Taipalus {BIO 17452234 <GO>}

Is it possible to say anything -- so is it possible to say anything at the aggregate level? Because obviously it's quite difficult to sort of get -- take that 5 points on Florida and square it up with the 3.8 on aggregate?

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

The overall US book from a pricing point of view improved about 7% and then we estimate our revised view of modeling probably adds overall maybe 2 points to 2.5 points to that.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Okay, great. Thank you.

A - Laurent Rousseau {BIO 19524847 <GO>}

On the -- on what we see on the primary market. So maybe, first of all, to come back to Andrew's question on the US, I mean the US markets on the insurance side, renewals really up till 1st of July. So we've done 90%, if not more of the US market right now and as Jean-Paul said, we really see double-digit rate increases on large commercial insurance risk, that's property and casualty driven for the rate increases, there are pretty high.

The second thing that is very beneficiary is the restructuring in those programs. So we see that retention has been significant increase and we see the reshaping of terms and conditions impacting the overall economy. But I think that's the first point. We see a lot of turmoil in the US, in particular, on some of our competitor's risk appetite, in particular large groups and risk appetite changing.

Some of it is really major reaction to claims activity, but for us, I mean our risk appetite has been very stable and I'm really speaking for SCOR Business Solutions has been very stable for the past five to 10 years. We didn't grow so much. We grew steadily. So that market situation is actually quite favorable and we make quite a difference there.

So the rate increases should tail off, I guess in the rest of the year, as Europe and APAC are going to have a bigger share of our business on insurance and there the rate increase is, I guess, a bit lower than what we've seen in the US. That was the first answer on SCOR Business solutions and in the US.

Now on Lloyd's, well first of all it's still linked to the US, we see huge opportunities for us as the binder businesses at Lloyd's are really being restructured. So our US program business, the local US program business, based in Chicago and New York is seeing huge inflow of business, because a number of MGAs are nervous with Lloyd's and the turmoil at Lloyd's is benefiting us in our local platforms. So we see a good flow of business there. And here again the rate increases are positive, so that there is very good commercial traction.

And as far as Lloyd's is concerned for our syndicate SCOR channel and here we continue our refocus on specialty classes, so political risk, environmental liability, cyber to a smaller extend and we see Lloyd's continuing to put pressure on the market and there are really kind of two messages at the moment at Lloyd's; the longer Vision which is very aspirational and very gross driven. The short-term one is clearly a pressure. We expect the SBS business to be tough one and business plans to be hard pushed by Lloyd's as well. So we would not grow so much in channel, the focus there is very specifically, profitability of the Group.

A - Ian Kelly {BIO 19976646 <GO>}

Okay, thanks. Thanks Sami. Let's go to the next question please.

Operator

Our next question comes from Frank Kopfinger from Deutsche Bank. Please go ahead.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes, good morning, everybody. I have two questions on the investment side. First is on your reduction in corporate bonds by 4 percentage points? I was surprised to see that this only turned out in EUR9 million of realized gains on the bonds. So the question is whether there were other effects offsetting this? I would have expected, as you reduce your corporate bond exposure significantly in the last quarter that the realized gains should turn out to be higher. And then secondly, on unrealized gains on equities, in Q2, I realized that there was a decline and you have now even a negative unrealized gains number for equities, despite having a slightly positive equities market in Q2 and could you also comment on the drivers there?

A - Denis Kessler {BIO 1498477 <GO>}

So, on the -- maybe on the second part that, just the evolution of -- you know that equity portfolio is mainly invested in convertible bonds and the few recurring investments that are listed and adjusted the evolution of one line specifically on this portfolio. On your first question on corporate bond, so that was more a tactical move that we did. If you look at all the detail in the appendices of the presentation, most of what we did was to reduce a little bit our exposure to BBB issuers and high yield issuers during the quarter. So, which mean that the amount of -- realized capital gain was not the the objective, and is limited. The good news of the decrease of interest rate is that as you can see also in the appendix, since the beginning of the year, we have almost an increase by EUR600 million of annualized gain on the fixed income portfolio, which benefit to the Group. Again, I will give you a full update on what we're going to do over the next few years, given the current and I would say, new economic environment.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay, thanks.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks Frank. The next question please.

Operator

We will now take our next question from James Shuck from Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi, good morning everybody. Two questions please. Just on the, the ceding commissions that you mentioned on one of the questions earlier on, could you just elaborate a little bit about why the ceding commissions are trending down on casualty, but not so much on the cat side of the portfolio, please, in the US?

And secondly on the reinvestment yield, so the 2.2% obviously, you have the US treasuries around the 2% level. When it comes to Europe, the reinvestment rates are far lower than that. Corporate bonds in particular have seen spread narrowing such that we thought of maybe around 50 basis points on the single A, something like that. Could you just talk a little bit about the risk-adjusted returns on capital that you're getting for the returns in corporate bonds related to other asset classes. And does it come a point, at some stage, certainly in Europe, at which it doesn't make any sense to buy any corporate bonds at all, but you need to start moving into, say some real or even more into (inaudible) assets for example? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

So, good point on the year on the investment yield. So just, as a reminder, what we call reinvestment yield, that's the market yield of the portfolio the last day of the quarter. So if we deploy EUR1 or $1 marginally in the portfolio with the same asset allocation, that would be the new book yield of this marginal euro or dollar invested. So again, with the mix of currency we've got the average theoretical reinvestment yield at the end of the quarter is to 2.2. We have more than 50% of the portfolio invested in dollar. In dollar our reinvestment yield is at 2.8% at the end of June compared to 2.1% in euro at the end of June.

Again -- or let's say on new target asset allocation, and again given the current economic and financial environment, you have to wait a few weeks, I will disclose this early September.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

On the question on commission, I think the market dynamics on casualty and property are different. There's still a lot of reinsurance providing proportional capacity for property programs and as a result, the brokers are able to keep commission relatively stable. I think on the casualty side, especially on lines of business where the loss cost has been increasing, there is less abundance of capacity and reinsurers are better able to push through overall improvements, not just the price increases.

Q - James Shuck {BIO 3680082 <GO>}

Okay, could I just clarify, well, I'm not sure I got those numbers incorrect, but you're just saying we money yields in the US was 2.8% as end of June. In Europe, it's 2.1%, but as we said the mix is roughly 50% US. So I don't quite see how that gets you to 2.2?

A - Denis Kessler {BIO 1498477 <GO>}

Yes, because if we look at the other currencies in Sterling, so again, if you want the split of our portfolio per currency, so the portfolio at the end of June is invested, again it's not a bet, it's just the pure congruency between assets and liabilities. So the portfolio is invested 49% in dollar, only 28% in euro, 7% in GBP, 4% in Canadian dollar and the rest in other currencies. So in GBP, our investment rate is 1.4% and in other currencies, it's 1%. So it's coming from, let's say, the 1% is coming from the small part of the portfolio let's say are non-core currencies.

Q - James Shuck {BIO 3680082 <GO>}

I see. I see, and it still makes sense to buy corporate bonds, single A corporate bonds in Europe?

A - Denis Kessler {BIO 1498477 <GO>}

If you look at the amount of liquidity that we've got at the end of June in our portfolio which, you point of view, it's tough to be expensive.

Q - James Shuck {BIO 3680082 <GO>}

So what you buy instead if you can't buy European corporate bonds?

A - Denis Kessler {BIO 1498477 <GO>}

Again, wait a few weeks, early September to have the target asset allocation.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Okay, thank you very much.

A - Ian Kelly {BIO 19976646 <GO>}

Okay, thanks, James. Are there any further questions?

Operator

Yes. Our next question comes from Avinash Goel from Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello? Hello, can you hear me?

A - Ian Kelly {BIO 19976646 <GO>}

Sure. Please go ahead with your question.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Yes, sorry, it's Vikram from Soc-Gen, using my colleague's phone line. I just got cut out. I've got just one question. And that's on Solvency II ratio. Appreciate you've already touched upon on the topic a bit with the business growth and lower interest rates impacting the SCR. But with the higher liquidity, lower credit risk, tighter spreads and lower than expected cat impact in second quarter. I'm a bit surprised, the figure of 212%. Just wondered if you can shed some more light on what drove the decline and if there is any impact from US modality assumption or experience changes? Thank you.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

So, biggest drive was declining yields and particularly US yields that worth about 5 percentage points plus or minus of decline in solvency ratio and we added a quarterly accrual of our planned dividend as in previous quarters, that's worth about 2 percentage points, that gets you to the 212. There was no particular impact from US modality, there weren't any significant assumption changes, there are pluses and minus. We have operating capital generation new business claims experience. This all averages out and compensates the impact -- sorry, the gross in SCR from -- the business gross. So outside of financial market movements, and that in total is about neutral on the solvency ratio.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, thank you very much.

A - Ian Kelly {BIO 19976646 <GO>}

Okay, thanks very much Vikram. Are there any further questions?

Operator

This concludes today's question and answer session. I'd like to hand the call back to Mr. Ian Kelly for any additional or closing remarks.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. So, thank you very much for attending the conference call and please don't hesitate to give us a call if you need any further information. For those who can't attend, we'll be holding the analyst roundtable at our various European offices later today, but that's at 5:00 PM UK time. And I'll just hand back to Denis for closing remarks.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you Ian, and thank you all of you for your attention. I would like to wish you a good summer break. I think we all need it and for those of course, who take some vacation and we're all looking forward to the presentation of our new strategic plan. The name of it is Quantum Leap on September 4 during IR Day in Paris and you will have further answers to your absolutely legitimate questions, but you will have to wait a little bit -- more than a month, and you would get to full details of the new plans that will cover the next years to come. So thank you very much and until US summer break. Bye-bye.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.