Q1 2015 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
- Kamran Hossain, Analyst
- Michael I. Huttner, Analyst
- Thomas Fossard, Analyst
- Thomas Jacquet, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group 2015 First Quarter 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 Relation & Rating Agencies. Please go ahead, sir.

Bertrand Bougon {BIO 18934799 <GO>}

Good morning, everybody, and thank you for joining the SCOR Group First Quarter Results 2015. Before starting this presentation, please consider our disclaimer on page two which indicates that the presented Q1 2015 financial information is unaudited.

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. The first quarter of 2015 was very satisfactory for SCOR. And the high-quality results recorded by the group confirm the relevance of the strategic orientations that we have chosen towards the last years. This quarter, again, the group was very active in the reinsurance market. You can see that when you look at the renewals, SCOR Global P&C delivered solid renewals, both in January and in April 2015, containing the price decrease at minus 0.7% on a year-to-date basis in an environment which remains challenging. SCOR Global Life, once again, enlarged its footprints during the first quarter, notably in the longevity market by being part of the first longevity deal in Canada.

With regards to the results themselves, they confirm our ability to combine growth, profitability and solvency. SCOR has increased its core earnings by 30% year-on-year to €175 million. The group has also continued to expand its footprint globally by increasing its gross written premiums by 17% at current exchange rates, 5% at constant foreign exchange. And we have very good quality of earnings from both P&C and Life as you will see when this will be presented later by Victor and Paolo.

Lastly, SCOR's shareholders' equity stands at a record level reaching €6.4 billion or €34.35 per share. The two strategic targets of the group have been met in the first quarter 2015. The annualized return on equity stands at 12.1%, largely above the target of 1,000 basis point above the risk-free rate. And the solvency ratio calculated by the group internal model stands at 224%, marginally above the optimal range of 185% to 200%. As you know, that has been presented on the solvency scale when we presented the Optimal Dynamics plan.

Let me now hand over to Frieder Knüpling, the Group Chief Risk Officer, who will give you more details on the solvency ratio. Frieder, the floor is yours.

Frieder Knüpling

Thank you, Denis. SCOR's required capital increased from €3.3 billion to €3.7 billion in 2014 and the available capital from €7.5 billion to €8.3 billion. And therefore, the solvency ratio stands at 224%. That means slightly above the optimal range.

As already indicated during the Annual Results call, the main drivers of change in solvency from last year to this year were a decrease by 13 points caused by the lowering of yield curves during 2014 and an increase by 10 points resulting from the issuance of hybrid debt during Q4 2014. The development of the portfolio and other changes to the economic environment, for example, changes to FX rates led to an increase by 3 points and expected dividend payment in 2015 to a reduction by 7 points.

Sensitivities of the solvency ratio to changes in a number of parameters are very similar to last year. Solvency ratio would increase by about 10 points if interest rates were to increase by 100 basis points and would fall by about 9 points if rates were to fall by another 100 basis points. The impact of exchange rate movements is very limited as the breakdown by currency of the required capital and the available capital is roughly the same.

With this, I'll hand over to Mark.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Frieder. Going on to page five, I will walk you through the financial highlights of the first quarter results of 2015. SCOR wrote more than €3.1 billion of gross written premiums in the first quarter of 2015, which represents a 17% increase at current exchange rates and a 5.1% increase at constant exchange rates compared to last year. This top-line growth is driven by the contribution of both business engines, SCRO Global P&C and SCOR Global Life.

SCOR records high quality financial results for the first three months of 2015 with a net income of €175 million generating a 12.1% return on equity. 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 first quarter stands at 89.1% in an environment of low natural catastrophes while the Life technical margin reached 7.2%. Finally, SCOR Global Investments delivers a return on invested assets of 3.5% driven by the active management policy, which has enabled the group to record capital gains of €73 million in Q1 2015 coming mainly from the equity portfolio.

On page seven, we see that the shareholders' equity increased by 12% or €686 million since the beginning of the year to reach a record €6.4 billion. The shareholders' equity was boosted by the strong net income and exceptionally strong foreign exchange impact which increased the currency translation adjustment to €414 million for the first three months of 2015. The book value per share is now at a record €34.35 per share and the financial leverage ratio decreased to 20.8%. €168 million increase in subordinated debt is driven by the revaluation of the Swiss francs-denominated debt, which is hedged by cash received from currency swaps and are reflected in the balance sheet.

On page eight, the operational cash flow stands at €62 million for the first quarter of 2015 and was impacted by the settlement of foreign currency hedges following the strengthening of the U.S. dollar. On a normalized basis, the net cash flows from operations would be approximately €200 million. The increase in net cash flows from financing activities was driven by significant cash flows of €187 million which were received in respect of the Swiss debt swaps due to the strengthening of the Swiss franc versus the euro during the quarter.

Now I'll turn it over to Victor for the P&C results.

Victor Peignet {BIO 6287211 <GO>}

Thank you, Mark, and good morning. Now four slides dedicated to P&C in today's presentation. First one provides the Q1 result information, and the next three ones detail the outcome of the 1st of April renewals which has already been communicated to you in a press release last week. You're all very familiar with these slides and in view of the quarter having been pretty much eventless, I won't make a lot of additional comments.

Looking at the figures that are reported, whether they be for the result of Q1 or for the outcome of the 1st of April renewals and whether they be for the top line or for the bottom line, the word that qualifies them the best is continuity. Continuity of the underlying profitable growth between 5% and 6% at constant exchange rate respecting the expected profitability target; continuity of the quality of the technical results with a normalized net combined ratio that stays in line with the assumption of 94%.

The continuity of the growth comes from the successful deployment of the business initiatives that were timely taken as part of the recent strategic and underwriting plans, starting with the global client initiative and continuing with the client-focused initiative in the U.S., also including new development at Lloyd's and in emerging markets.

It is worthwhile mentioning that a large part of the growth is in areas that are U.S. dollar or sterling pound driven, hence the higher percentages of growth at current exchange rates. The continuity of the quality of the technical results proves that the teams are able to maintain a very active and efficient portfolio management. This is achieved despite the softening trends in the reinsurance market, and thanks to the strength of our franchise and the deep knowledge of our clients.

In summary, except for the low cat activity recorded in Q1, there is no surprise in the performance that is reported, but a further confirmation of the pertinence and the resilience of our business model.

As a side note before Paolo makes his presentation of the Life side, I would like to answer in anticipation one question that is likely to be raised during the Q&A session. A preliminary quantum of the Pemex offshore claim which occurred on April 1 is estimated at €40 million overall for our facultative and treaty shares net of acquisition (10:34) after tax. It will fall in our Q2, and it is yet too early to know what impact, if any, it may have on the actual net combined ratio.

I'll now pass on to Paolo for the Life presentation.

Paolo de Martin {BIO 15930577 <GO>}

Yeah. Moving on to page 13 of the presentation SCOR Global Life delivered a healthy growth and a strong technical performance in the first quarter of 2015. Our gross written premiums reached €1.7 billion, a growth of 17.7% at current exchange rate or 5% at constant exchange rates as we continue to proactively generate new business in all of our key markets. A strong example of this is the Asia Pacific region where the franchise is further deepening through the increase of financial solution business across the region and new protection business production in countries like Australia, as we discussed during last year Investor Relation Day.

In addition, Q1 sees the first significant longevity transaction underwritten in the Canadian market which demonstrates our ability to leverage globally our successful UK experience. Thanks to the good in-force performance during the quarter with claims activity in line or better than expectations in all key markets. Our technical margin stands at 7.2%, ahead of the 7% assumptions of the Optimal Dynamics plan.

In today's disclosure, we're also publishing the 2014 Market Consistent Embedded Value, MCEV, for SCOR Global Life. The MCEV reaches €4.7 billion or €25.5 per share. Over the last eight years, the value of our in-force business has tripled showing yearly growth of approximately 16% as you can see on page 14 of the presentation. This further validates the long-term strength of our biometric portfolio and confirms the strategic orientation set out in the Optimal Dynamics plan.

With this, I will hand over now to Frieder Knüpling, SCOR's Chief Risk Officer, for some more technical details on the MCEV disclosures on page 15.

Frieder Knüpling

Thank you, Paolo. SCOR's embedded value has growth by almost €300 million last year reaching €4.7 billion even after repatriation of €326 million of capital from the Life division. The main contributor to the increase were the operating earnings of €362 million which were mainly driven by a very strong new business value of €325 million and new business margin of 4.3%.

Economic variances led to a modest reduction of MCEV of €41 million. The sharp fall in interest rates in 2014 had only a modest impact on SCOR's MCEV, thanks to offsetting gains from SCOR's investment portfolio and the overall low exposure of SCOR's Life business to financial market risks. Foreign exchange gains of €282 million were mainly caused by the strengthening of the U.S. dollar against the euro.

Moving on to page 16, embedded value is more suitable for capturing the economic value of Life business than IFRS. This can be seen in the increase in SCOR Global Life's off-balance sheet value by €263 million in 2014 to €1.834 billion. This increase in value not recognized under IFRS was mainly driven by the new business written in 2014, which is only partially reflected under IFRS and by foreign exchange rate movements.

During 2014, SGL has generated almost €0.5 billion of free surplus from the development of its existing business. €238 million were used to finance the capital and reserve requirements of new business written in 2014. In addition, very significant amount of €326 million was returned to the group consisting of €125 million in dividends and further cash returns following the closing of the Generali U.S. acquisition.

As in the past, there are more details on the MCEV 2014 in the full presentation and the technical document, supplementary information which are available on the website and which are consistent with past years' disclosures.

With this, I hand over to François for the investment part.

François de Varenne

Thank you, Frieder. Moving on to slide 18. SCOR's total investment portfolio reaches €27.1 billion at the end of March 2015 with an invested asset portfolio of €18.1 billion compared to €16.2 billion at the end of December 2014. The smart increase of our invested assets is mainly driven by FX movements during Q1.

In a still difficult financial context with an exceptionally low-yield environment, SCOR Global Investments continued to progressively and selectively reallocate the investment portfolio towards the strategic asset allocation set in Optimal Dynamics. Liquidity remained stable compared to last quarter at 5%, while some adjustment have been done within the fixed-income bucket with an increase of corporate bonds and covered bonds and a decrease in equities (15:57).

We slightly increased the duration of the fixed-income portfolio during the quarter, which reaches 4.1 years compared to 4 years at the end of December last year. This increase in duration is mainly achieved on USD denominated portfolios. The quality of the fixed-income portfolio has been maintained with a stable average rating of AA minus. At the end of March, expected cash flows on the fixed-income portfolio over the next 24 months stands at €5.3 billion including cash and short-term investments facilitating a dynamic management of the reinvestment policy.

In spite of the adverse economic environment and falling interest rates in all major currencies, SCOR Global Investments managed to deliver a very strong return on invested assets, which stands at 3.5% for Q1. During that period of time, invested assets generated a financial contribution of €149 million, of which €73 million of realized gains. Those realized gains come mainly from the equity portfolio, i.e., non-yielding asset classes, which validates the dynamic management of the investment portfolio pursued by SCOR Global Investments and the diversification across a wide spectrum of asset classes.

As you can see in the appendix to the presentation, this quarter's income yield is affected by a one-off related to our inflation-linked securities and stand at 1.8%. Restated (17:32) for that impact, income yield would stand at 2.1%.

SCOR Global Investments remained confident despite an exceptionally low-yield environment in its ability to deliver return on invested assets between 2.7% and 2.9% in 2015 and above 3% in 2016, thanks to the very active management of invested assets and its current positioning.

And now I will hand over to Bertrand Bougon for the conclusion of the presentation.

Bertrand Bougon {BIO 18934799 <GO>}

Thank you, François. Before moving on to the Q&A session, please note on page 19, the next scheduled event which is H1 2015 results on July 29, as well as the conferences which we are planning to attend over the remainder of 2015.

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

Q&A

Operator

Ladies and gentlemen, we will now move on to the Q&A session. Thank you. So we will now take our first question from Thomas Jacquet from Exane. Please go ahead.

Q - Thomas Jacquet {BIO 4110153 <GO>}

Hi. Good morning, everyone. So, two questions from my side. The first one is on the cost ratio. It seems to be slightly up despite the fact that on the P&C side, it's flattish. Is there anything to be mentioned on the Life side in terms of exceptional costs, integration costs so on and so forth?

And my second question is about the tax rate. For the second quarter in a row, it's closer to 30% than 20%. Is there anything to be said here? Is it a trend, or should we stick to the past guidance? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Thomas. Maybe, Mark, on the cost ratio for the first quarter?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. The cost ratio for the first quarter was 5.15%, so slightly elevated versus last year. A couple of things to point out. Maybe last year, first of all, we did have a one-time benefit on the pension expense for the group. So last year's comparative is slightly lower. This year, though, we do have a higher expense base, we are suffering somewhat from the higher FX impact of expenses in non-euro currencies. So whether it's the Swiss currency, British pound, U.S. dollar to some extent. And we did expect a slightly elevated level of expenses, but not something that would materially impact affect profitability for 2015, in particular, as we complete the application for Solvency II and following industrialization phase for reporting. Having said that, it's fairly pretty much in line with our expectation for 2015.

On the tax rate, you're right, it's the second quarter in a row we've had an elevated rate. I's really the same circumstances that we had in Q4, which was a low nat cat ratio, which results in higher profitability in some of the higher tax regions where we have the exposure. So it's a slightly elevated tax rate [ph off of that (21:06).

But we also had a bit of an anomaly in terms of profitability on the Life side with a little bit more profit coming from the U.S., a little bit less coming from Ireland leading to a geographic rate mix issue. I still see 22% as a good assumption for the group. We've seen this kind of volatility in the past where we can have a quarter or even two in a row that are at an elevated level, but I don't see anything structural in our business plan that would say something other than a 22% assumption for the group in 2015.

Q - Thomas Jacquet {BIO 4110153 <GO>}

Okay. Thank you very much. Very clear.

Operator

We will now take our next question from William Hawkins from KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hi. Thank you very much. As you're getting an approval in your solvency ratio from the French regulator, can you tell us about your confidence in the headline figure and if there are any sort of material areas of uncertainty you need to wind out over the next six months? And then secondly, could you just give us a bit more color on the nature of the U.S transactions that you're growing in on the P&C side? Maybe we can get more of this this afternoon, but I'm just intrigued, that's a pretty competitive saturated market and you're not the only large insurer up saying that you can find growth opportunities. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Frieder?

A - Frieder Knüpling

Yeah. On your first question, the numbers we've published use essentially the same model which we've used for public disclosure in the past years, so that they are comparable to last year's solvency disclosures and those before. In parallel, as we discussed before, we've been working closely with our lead supervisor, the French regulator, ACPR, and the other European supervisors who are concerned on finalizing the application under Solvency II. This process is now coming to an end.

We've had a very good and constructive dialog. We've worked on our application package very hard. We're currently finalizing the application file and the related covenants and plan to submit this in Q2 in line with our previous plan. Discussions haven't fully, I mean, ended and before we've refiled our application, file and receive the remaining feedback. We will not disclose Solvency II expectations, but we will update you once we've done this, and I think the IR Day in September is going to be a good time to give a fulsome update on our expected Solvency II position.

Q - William Hawkins {BIO 1822411 <GO>}

And just briefly to come back Frieder, just directionally, are there any particular areas of discussion, or is it sort of just losses (24:20)? Thanks.

A - Frieder Knüpling

Yeah. There's nothing really major, outstanding from our point. We have received feedback on a number of items, they affect various parts of the model. But there's nothing which is so outstanding that we would have to mention it at this point. So I think you will see some adjustments in parts of the model, but it's more going to be a spread out over different parts and there's nothing very significant which is outstanding at this point.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

We have filed I think 14,800 pages, was it (25:05). I promise you to give them to you if you promise me to read all of them.

Q - William Hawkins {BIO 1822411 <GO>}

How come you couldn't make 15,000?

A - Denis Kessler {BIO 1498477 <GO>}

It has been an incredible exercise. The good news is that the board, according to Solvency II, the board has to approve the filing. And the board has approved the filing yesterday, which is very important day for us, which means that by the end of May, we would be able to transfer to ACPR the complete application. And as you know, there would a process for them ending up I think early December, late November that we'll get the full approval. But that was a very important date yesterday because 10 years of work and a full approval of the internal model by the board unanimously.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. That's great.

A - Denis Kessler {BIO 1498477 <GO>}

And what we do in the U.S., Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think it's a function of the starting point. We've been totally underweighted in the U.S. for a number of years, and this is obvious when you look at the pie chart of our premium income. We have taken the time to restore the franchise of the company and to reinforce our teams and our presence in the market. And basically, the two initiatives that we launched three years ago and two years ago now are now paying off. A lot of our plans in the U.S., whether they're global or they are E&S specialist companies, see that spreading the risk towards SCOR is giving them a diversification of their credit risk, which is appreciated. And I think, basically, the approach that we have on the business, which is to have a global approach of clients and with teams that are coherent, and truly approaching the client on a global basis is well appreciated. So I think there is a rebalancing and we benefit from it.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

We will now take our next question from Andrew Ritchie from Autonomous. Please go ahead.

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

Hi there. Two quick questions both - or one for François to start with. On the running yield, I mean given where you were reinvesting last year, which for most of the year was higher than the booked running yield, I was a bit surprised that running yield fell so much in Q1. I mean, I appreciate this maybe a denominator effect because of the increase in the value of bonds. But maybe just give us a sense as to where you think that running yield should go? I guess - I think you said that you had left your expectation of 2016 return on investment of more than 3% unchanged, so I guess that assumes a higher level of active gains management, but maybe just to clarify on the structure (28:17) of running yield.

And second question, the Life business paid an ordinary dividend of €125 million, I think it was in 2014, excluding the Generali bridge loan repayment. I mean, is that the level of dividend we should expect kind of ongoing? It's been quite volatile in the last couple of years. That's still a higher number than the net remitted cash - operating cash, so maybe just give us a sense as to what you think is the natural dividend-paying ability of the Life company? Thanks.

A - François de Varenne

Thanks, Andrew. On your first questions on the income on the income on recurring yield, as I mentioned during my presentation, we experienced a material one-off impact this quarter that is affecting the income yield by 23 basis points. This is linked to our inflation index bond portfolio that was materially impacted by low CPI levels in Europe and in the U.S. toward Q4 last year and Q1 this year. It was stated (29:24), and that's due to IFRS rules. We have to change the new coupon as soon as we know the new CPI level.

So restated from this nonrecurring impact, the income of the recurring yield would stand at 2.1% instead of 1.8% and 2.1% is really in line with the levels reporting in the previous quarters, which mean in the 2.1%, 2.2% area. In terms of expectation, if I look at our current reinvestment rate, it was 1.9% in Q4 last year on yielding asset classes, so basically the fixed income portfolio, it's today at 2%, so a slight increase compared to Q4. And that was before the increase that we observed on all the rates markets over the last few days that is really material, an increase of 40 basis point, 50 basis point in the U.S., in the UK and in the eurozone.

A - Denis Kessler {BIO 1498477 <GO>}

Paolo, (30:35) the question of Andrew about the dividend you give to the group. So listening carefully to what you're going to say.

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

I think the level around €100 million that's where you could expect in the Optimal Dynamics plan and that's where we have it in. So we had €125 million, so something similar level this year.

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

But is it all – but do you expect the free surplus you want to keep something around the current level on essentially?

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

Yeah. Keep in mind that the free surplus and all these definitions will probably change with Solvency II.

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

Yes, of course. Yeah.

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

So as we transition into a new environment, I think the €100 million region is where we would expect it to be again in the Optimal Dynamics plan.

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

Okay. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

We only accept cash, as you know that (31:36). Next question?

Operator

We will now take our next question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning, everyone. Two questions for Victor today. The first question would be related to the increase of 160 basis points in the commission rates comparing Q1 2015 to Q1 2014. Victor, I was interested to then understand if there were specific business mix, I think that's Swiss Re last week indicated some type of evolution because of a more proportional business on the return in Q1.

So I guess, probably there's something for you, but the 24.7%, is this something we should expect on a full-year basis or due to slight change in the mix effect we should see this number starting to decrease a bit in the upcoming quarters?

And the second question would be related to the Pemex loss. You indicated €40 million which seems to be quite significant exposure for SCOR. So would be interested to then understand where there is coming from and if your Lloyd's business is significantly attracting losses? And also the basis you've been taking in terms of underlying loss to build this €40 million estimate because I can see there is still some very significant wider loss estimate range in the market from $600 million up to $1.3 billion, but just wanted to better understand the underlying calculation there. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, let's start with the Pemex. Well, I mean, I'm not going to talk about how we estimate but, well, the figures are floating around, yes. There is quite a large uncertainty, so our assumption is our best guess at the moment. We've been on the Pemex account for probably, nearly 40 years, that's business solution business. So I would think that – what I would say that, well, out of the €40 million, about three quarters of it is coming from business solution and about one quarter of it is coming from – or one-third of it from treaty business, marine and energy specialty line.

On the increase in commission, as I commented in the slide, about two-third of the increase is coming from the business mix. Two things on the business, first more promotional, secondly more Lloyd's business, so the combination of the two, and we said that last year anyway that the trend was on the increase because of those two reasons. And about one-third of the increase is due to the effect of sliding scale in a number of contracts that is not going to repeat itself to the same extent because those sliding scales are gradually disappearing. So I would think that the 23.7% maybe slightly on the high side, but I think we would expect that the commission overall for the year would stay around 23% to 23.5% and probably closer to 23.5% than to 23%.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

Operator

We will now take our...

A - Victor Peignet {BIO 6287211 <GO>}

24%, sorry. Yeah, 24% to 24.5%.

Operator

So we will now take our next question from Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning, all. Two quick questions. The first one is just on the fixed-income portfolio, the duration has been increased to 4.1 years from 4 years at year-end. Could you just remind us what that is today if you (36:00) kind of stretch out to if that was matched perfectly? And the second question, just on the – I guess you mentioned last week, and you've reiterated today that you lost some business from two Japanese clients. Is that wholly reflected in the €56 million loss business, or is there anything else going on there? Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

François?

A - François de Varenne

On the duration, as indicated in the plan our objective is to progressively and selectively increase the duration throughout the plan to reduce the duration gap between the assets and the liabilities. So today the duration is at 4.1% on a aggregated basis, but this increase is coming mainly from the USD fixed-income duration which increased from 4.2 years to 4.3 years between Q4 and Q1 this year. And on the euro side, we slightly decreased the duration during the quarter.

As you know, when we presented the information last September during the IR Day, we are still slightly below our target duration, which is for the fixed income portfolio more in the range of 4.5 years. So we have still room of maneuver to further increase the duration over the next few quarters.

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, the loss of the Mitsui Sumitomo business represent about €50 million of premium being lost at today's exchange rate, Japanese yen against euro.

Q - Kamran Hossain {BIO 17666412 <GO>}

Is there any...

A - Victor Peignet {BIO 6287211 <GO>}

It's not exactly because, of course, the business with the other (37:58) companies has also evolved, but the loss itself of that business was up for renewal. So it means the premium we were making last year converted at today's exchange rate is about €50 million.

Q - Kamran Hossain {BIO 17666412 <GO>}

Great. Just to follow up on that. Is there any potential (38:16) of that business will come back or are they just fully again feeding 38:20) that to you now that you've got shareholder in your register?

A - Denis Kessler {BIO 1498477 <GO>}

I think that's probably a question for Mitsui Sumitomo.

Q - Kamran Hossain {BIO 17666412 <GO>}

I'll follow up with them.

A - Denis Kessler {BIO 1498477 <GO>}

That's it. That's been the very long standing client of ours for 40 years or more. So we do value their business. We do value the relationship. We would definitely hope that what we perceive as a misunderstanding could be rectified in the near future. But we are not the ones to decide about it.

A - Victor Peignet {BIO 6287211 <GO>}

And to insist on the fact that the loss of this client had nothing to do with SCOR per se. We have a long standing relationship with this client. We're extremely deep and it's not because we have mismanaged the accounts, not because we have an issue with the claims, it's not because we are not competitive. It's nothing to do with that.

I mean, Mitsui Sumitomo did react to the fact that one of the competitor of Mitsui Sumitomo in Japan took a (39:35) by acquiring 8% of their shares and announcing that it would go to 15%-plus, so the reaction vis-à-vis Sompo, it's not a reaction to the SCOR. This is extremely important. So as far as we're concerned, we value Mitsui Sumitomo as our client. We hope that they will reconsider their position, and we'll do our best to try to provide capacity and (40:02) services to Mitsui Sumitomo in the future. So it's a deal we equate on their side, but I insist on the fact that there's not – we don't bear any responsibility for this events (40:15)

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks. That's very clear.

A - Denis Kessler {BIO 1498477 <GO>}

Next question, please?

Operator

Our next question is from In-Yong Hwang from Goldman Sachs. Please go ahead.

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

Sorry. All my questions have been answered, so thank you.

Operator

We will now take our next question from Michael Huttner from JPMorgan. Please go ahead.

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

Fantastic. Thank you so much. Two questions. Three. So, the first one is on the pricing and rate renewals and all that. The pricing is clearly down, and can you talk a little bit about the momentum? So here, is it getting worse down or less down? In other words, if it's slowing, stabilizing, even – I don't know. And maybe can you talk a little bit about terms and conditions? Certainly, at Monte Carlo, I remember (41:22) seem to be asking, well, could we have lots of cover for free and cyber and all sort of stuff (41:27) in addition, included in existing contracts and I just wondered what happened there?

The second is – my initial question I was going to say, why is manmade claim so low, virtually zero, but clearly not because you've got the Pemex and you've got Germanwings. But the perception I have, and it may be shaped by you or maybe more by Hannover or by Swiss Re, which have now reported. Is that manmade this quarter has been extraordinarily low, and I just wondered are we seeing kind of new trend, big factories or big refineries or whatever not having accidents? Is something changed here?

And then the last question, how can I explain to a generalist, so take my sales people, they really do represent what a generalist would be, that you can continue to grow so like-for-like non-life premiums are up 5% year-to-date? When the market is swamped by capital, more competition you provide us, I find it very hard. Am I missing something in terms of the – is it at the point the reinsurance is so profitable before that even you can accept slightly lower prices and it's still very attractive? Or are you doing something different? Sorry, probably that one is probably a hard question to answer, but you're really good. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Michael. On pricing, isn't it a personal question on pricing? You are not seeking a treaty, Michael?

A - Victor Peignet {BIO 6287211 <GO>}

Which one of your three questions are you withdrawing Michael considering...

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

That's very good. I leave that up to you. You're at best place to see things.

A - Victor Peignet {BIO 6287211 <GO>}

Okay. Well, I don't share this view that the manmade are really at extremely low if I compare my Q1 of this year with the Q1 of last year. I think we are not much lower. What is the fact is that we don't have any spectacular one which had happened in the past and some of the winter losses are extremely difficult losses in certain countries because of weather conditions. So sometimes in Q1 it happened that we have losses in countries like Canada, up north, so it becomes very complicated.

We did not have that this quarter, so I would say that this quarter, I would think if I look at the manmade losses in excess of €3 million to €5 million for our share, while we are having a low but not abnormally low volume so that is the answer on this one.

You mentioned Germanwings, well for us it's €8 million to be clear, so don't consider that as a major loss. The pricing, well we are providing you with a lot of details on pricing at the renewal as you can see pricing is down, it continues to go down but not at the free fall pace, so I think that you'll still find business, bucket of business that are well, pretty well-priced, so you've got to be careful in the way you manage your portfolio and you've maneuver around that.

It's obvious that and this is quite clear in slide 12, it's obvious that the non-proportional which is true reinsurance is quite under pressure. So I mean, this is due to cat but also to some of the (45:11) reinsurance in under pressure. For us, well the fact we have been proportional writers and the fact that we are also direct writers to some extent, well, it limits the impact.

And regarding the growth, well, I think the growth, I mean, is clearly identified. We are not growing everywhere. We are growing basically in three or four areas while we continue to grow with the global clients and that has continued. We have slightly increased the number of managed global clients, but not massively, but the growth is there. We grow in the U.S. for the reason I explained, again on a group of clients that is around - well, say, 30, plus or minus, five clients that we really have identified has potential partners and trying to expand with them. So, again, this growth is very much focused.

We are growing at Lloyd's and there that is no surprise. That's the development of our own business there. So those areas and we are growing in emerging markets, again, no surprise in there and in certain areas like agriculture, or engineering in certain parts of the (46:27) while we have a significant growth.

So I think - well, we're not saying that overall the reinsurance premium is growing. We are saying that we have taken certain focuses and certain initiatives in areas where we feel that we are either underweighted or there is a good potential of profitable growth and it's working.

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

Well, done. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Question?

Operator

We will now take our next question from Frank Kopfinger from Commerzbank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Good morning, everybody. I have two questions. My first question is on the Swiss franc currency swap. Could you please clarify whether this has only a cash flow impact or whether there was also an impact on the investment result? And my second question is also on the investment income. This time you realized gains on the equities, next time it might be on the fixed income. Is there are some sort of certain thresholds that you want to achieve on the capital gains. So could you somehow elaborate a little bit on your strategy even if it's only opportunistic on the capital gains there?

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, Frank. On currency swap, Mark.

A - Mark Kociancic {BIO 17852409 <GO>}

So we have as you know as a standing policy, we go through this in our IR day that we have currency swaps for our debt issuances that are not denominated in euros. So we've had several Swiss franc debt issuances and we've hedged those with currency swaps from day one. In particular in Q1, we obviously had a huge strengthening of the Swiss franc vis-à-vis the euro. So what we had was the effect of collateralization on those swaps which is why you saw that very significant inflow of cash collateral.

The corresponding P&L impact is neutral. So what you see is an increase on the balance sheet. You've got cash on the asset side or cash in short-term, I should say. And on liability side, you see an increase in the debt, zero on the P&L.

Maybe just to clarify as well, in terms of our congruency policy for net monetary asset liability hedging, it's – you will be a significant movements in a quarter like this in terms of cash flow because of the weakening of the euro against all these other currencies, but one thing I didn't mention earlier was that we had a very neutral P&L impact from those hedges. I believe we were actually plus €2 million from the P&L impact of the hedges. So we have a very effective hedging strategy on both monetary assets liabilities and the debt.

A - Denis Kessler {BIO 1498477 <GO>}

The capital gains.

A - Victor Peignet {BIO 6287211 <GO>}

On the capital gain, as you know we have a dynamic and active management of the portfolio. And under IFRS, the only way to recognize the performance on non-yielding asset classes such as equities is to take into realized gains. So that's what we did in Q1 given the strong performance of the equity market. And also given our active style, as soon as we have a rotation within the fixed income portfolio, it generates realized gain. So it's not an opportunistic strategy, that's really something that we have been doing over the last few year. And you can see quarter-after-quarter recurring contribution through realized gain. Since this is really part of our investment style.

In Q1, we took €56 million of gains in the equity bucket. But if you look at slide 50 which gives you the details of the unrealized gain at the end of December last year, and at the end March this year, you can see that the amount of unrealized gain on the equity portfolio is fairly stable between the end of Q4 and the end of Q1 this year, which mean despite the fact that we took €56 million of gain within the equity bucket, we were able to replenish during the quarter the amount of unrealized gain on this bucket, which is a pretty good news.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thanks.

Operator

We will now take our next question from Thomas Fossard from HSBC. Please go ahead

Q - Thomas Fossard {BIO 1941215 <GO>}

Yeah. Thanks. Another question for Victor related to the Lloyd's business. I think that in your comment, Victor, you indicated new initiatives. I'm not sure if it was new or if it was something that you were already planning and explained at the Investor Day last year. So could you clarify this?

And potentially, if the likely dislocation we are seeing in the market with all of the acquisitions surrounding the Lloyd's, does that create some opportunities for you to porch new underwriting teams, maybe in lines you're not (52:02)? I mean, any business or underwriting team opportunities you are thinking about? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Assuming that I'm thinking about underwriting teams, I'm not sure we talk about it. But, no, I think the channel operation has had a very successful run, not only on the business side, but also on the recognition of the way that's been structured and the way that's performed towards, well, compliance with the new Lloyd's business rules. So I think there is a right positive image of that syndicate at the moment within Lloyd's and within the Lloyd's market, and we do benefit from it.

We are - but as a counterpart, as we have indicated from the past, we are a good citizen of the Lloyd's business, so our objective is not go and cannibalize the neighbors, it's really to bring business into the syndicate that hopefully is going to be a new business to Lloyd's and to SCOR and to use the resources we have and the specialties that we can develop in the syndicate to grow synergies between SCOR and business solution and our treaty underwriters and the Lloyd's underwriter in order to complement basically the offering that P&C gives to its clients whether they are large corporate clients or insurance clients.

And these synergies, which we have started really to implement over the last six to nine months is starting to really have interesting perspectives.

A - Denis Kessler {BIO 1498477 <GO>}

Next question, please? No more?

Operator

There are no further question in the queue. So I would like to turn the call back to the presenters for any further remarks.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you very much for attending this call on the Q1 results. Those are pretty satisfactory results, of course, that's what we believe. If you want additional precisions of further information, please don't hesitate to call us and call Bertrand and his team, and we'll be glad to give you additional information if needed. So thanks a lot and have a nice day. Bye-bye.

Operator

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