Q3 2016 Earnings Call

Company Participants

- Bertrand Bougon, Head-Investor Relations & Rating Agencies
- Francois de Varenne, Chief Executive Officer
- Mark Kociancic, Group Chief Financial Officer
- Paolo de Martin, Chief Executive Officer
- Victor Peignet, Director

Other Participants

- Anasuya Iyer, Analyst
- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Paris Hadjiantonis, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Equity Analyst
- Xin Mei Wang, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group's 2016 Q3 Results Conference Call. Today's call is being recorded. There will be an opportunity to ask questions after the presentation. In order to give all participants a chance to ask a question, we kindly ask you limit your number of questions to two.

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

Bertrand Bougon {BIO 18934799 <GO>}

Thank you. Good morning, everyone, and thank you for joining the SCOR Group's third quarter 2016 results conf call. Before starting this presentation, please consider our disclaimer on page 2 which indicates that the presented Q3 figures – Q3 2016 financial information is unaudited.

With this, I would like to give the floor to Mr. Mark Kociancic, CFO of the SCOR Group, who is joined on this call by (00:58).

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Bertrand, and good morning, everyone. First of all, Danny Kessler asked me to pass on his regrets for not being able to attend today due to a scheduling conflict. But coming back to our agenda, let me comment on the quarter. SCOR is producing high-quality results this quarter in terms of earnings, cash flow generation, profitability, and solvency, and I'll comment on these in more detail as we move along.

As some of you know already, SCOR's third quarter has been punctuated by several events. We successfully launched Vision in Action, our new strategic plan for the period running from July 2016 to June 2019.

Vision in Action started positively as we've successfully achieved both targets defined in the plan with a return on equity of 10.7% in the third quarter, above our target of 800 basis points above the five-year risk-free rate over the cycle, and an estimated solvency ratio of 212% at the end of the quarter, well within the optimal range of 185% to 220%. We appreciated Moody's upgrade to Aa3 as well as the other three rating agency affirmations, and has previously announced SCOR successfully redeemed the balance of its €350 million and CHF 650 million undated subordinated note lines. But before going into more details on our financial performance, allow me to take some time to expand on the rating agency upgrade and affirmations following the presentation of Vision in Action.

So we welcome Moody's upgrade to Aa3 with a stable outlook in September and despite an uncertain environment, Moody's decided to upgrade us. This is an excellent achievement for SCOR. It highlights the strength of SCOR's strategy, our business model and our results. The reasons given by Moody's for this upgrade are fully consistent with the profitability and solvency targets of our new strategic plan, Vision in Action.

In addition, all other rating agencies affirmed their ratings on SCOR, and these affirmations are the recognition of our team efforts. But most of all, they confirmed the resilience of SCOR's strategy over the past 14 years and their support of our new three-year plan, Vision in Action.

It demonstrates the strength of SCOR's global franchise and reinforces our Tier 1 positioning. And I'd like to point out that SCOR is now the only company to have three AA ratings in France when we consider all sectors and exclude government-related entities.

Let me move on to slide 5 with regards to the results themselves. SCOR writes €10.2 billion of gross written premiums during the first nine months of 2016, which represents a 4.4% increase at constant foreign exchange rates. This top line growth particularly benefits from the strong contribution of SCOR Global Life, with a 7.8% rise at constant exchange rates. SCOR Global P&C's gross written premiums are broadly stable at constant exchange rates and slightly decreased by 2.8% at current exchange rates.

SCOR records a net income of €438 million for the first nine months of 2016, generating a year-to-date 9.3% return on equity. The P&C net combined ratio for the first nine months of the year stands at 93% and our Life technical margin continues to outperform at 7.1%, exceeding the Vision in Action assumption. While SCOR Global Investments delivers a solid return on invested assets at 2.9% driven by its active portfolio management.

Moving on to page 7, total shareholders' equity increases by 1.1% since the beginning of the year to reach €6.4 billion. The shareholders equity is boosted by the strong net income recorded thus far in 2016 while accounting for the €278 million in dividends paid out in the second quarter.

The book value per share stands at €34.65 per share. Today's share price, therefore, represents a significant discount to book value. It's worth mentioning that SCOR's book value per share has increased by 45% during the last five years or 70% when accounting for the dividends which have been distributed, reflecting a significant increase in shareholder value and remuneration.

The financial leverage ratio stands at 25.1% and is expected to diminish under the 25% threshold indicated in Vision in Action by the end of 2016.

Let's move on to slide 8. SCOR delivers a particularly robust operating cash flow of €1.3 billion on a year-to-date basis. However, we benefit from two non-recurring items. SCOR P&C benefits from a onetime €300 million return of collateral of funds withheld payment, and SCOR Global Life partly benefits from a timing difference in its claim payments which is expected to normalize on a year-to-date basis in the fourth quarter of 2016. Overall, it's important to underline that the group records excellent recurring cash flows above our expectations even when we exclude the non-recurring items.

The total liquidity decreased to €1.9 billion at September 30 compared to the first half of 2016 following the debt repayments that I mentioned earlier and the start of the normalization of the asset allocation which François will explain later on.

Let me hand it over now to Victor for the P&C results.

Victor Peignet {BIO 6287211 <GO>}

Good morning. This is another strong performance for the quarter and on a year-to-date basis. These third quarter results remain fully in line with the metrics of optimal dynamics from the profitability standpoint, both in actual terms and on a normalized basis.

In actual terms, the net combined ratio comes out at 93%, and the attritional loss ratio plus commission ratio at 80.5% continues to be excellent, which is really telling in terms of where we are. We are not depending on nat cat profits to perform.

As we get closer to the January 1 renewals and having now entered into the active phase of the renewal discussion, we remain confident in the assumptions we made when we constructed Vision in Action. We are currently busy working on the implementation of Vision in Action, and in particular of the business development in the U.S. market. The pipeline there is building up nicely and we see opportunities to close a significant volume of new business between now and the end of the year.

While we are progressing in our initiatives and in our business developments at the pace that allows us to confirm the growth rate indication that we gave at the IR Day, we see a gross premium income at the end of Q3 that is stable year-on-year at constant exchange rate. This situation is due to the conjunction of a series of one-off non-recurring adjustments that were processed during the past few weeks of the third quarter closings.

We've been somewhat caught by surprise by a number of further reductions of ultimate premium estimates from selling companies. These reductions relate to underwriting years 2015 and 2016. They mostly impact the Engineering and Marine and Offshore business lines which are the ones mostly directed – affected by the prolonged status of slowdown or depression of the global economy and the oil price.

In addition, the November renewal prospective in the aviation market led to downward revisions of the 2016 underwriting year projection in anticipation of re-underwriting and rebalancing decisions to be made on airlines portfolios. On top of these reductions, and in order to protect the bottom line, we're about to take a view on our own production and to be even more selective in cases and areas where competition has driven contract terms and conditions down to what we feel are unsustainable levels. This has been particularly necessary in some of the large corporate business for business solution and in Latin America for P&C treaties.

As a consequence, and despite the promising pipeline for Q4 and beyond which will hopefully materialize and be reflected in the 2017 figures, we foresee a 2016 full year gross premium income closer to €5.6 billion than to our last indication of €5.8 billion.

I will conclude with a few words about Hurricane Matthew. This is a Q4 event, and we are still in the process of gathering the information we need to be able to come up with a newly substantiated total net loss estimate. However, considering the net cat ratio at the end of Q3 on a year-to-date basis, and the Q4 nat cat loss activity to-date, including Matthew, we think that the 6% budget remains, as of today, a good proxy for the full year 2016.

I will now hand it over to Paolo for the presentation of the Life Division results.

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor. Moving on to page 10 of the presentation, I'm pleased to report that in the first nine months of 2016, SCOR Global Life continues to combine growth and strong profitability. Our gross written premiums reached almost €6 billion, which represent a growth of 7.8% at constant exchange rate, or 6.1% at current exchange rates.

During the first nine months of 2016, we continue to invest in expanding our franchise in Asia Pacific, with good new business inflow in both Protection and Financial Solutions. We're very pleased to be awarded Life Reinsurer of the Year by Asia Insurance Review. We've been active in the Asia Pacific life reinsurance markets for over 30 years, and have established strong and long lasting relationship with our clients there. It is a key region for SCOR Global Life development in our Vision in Action strategic plan.

As part of our global distribution solution effort, we're further expanding our offering in the region, with the launch of Velogica in Asia, a state-of-the-art, new business acquisition platform to support our customers in growing their own business.

We're also pleased with the continued new business inflow observed across all product lines in EMEA and Americas where we have been awarding North American Life Reinsurer of the Year by Reactions Magazine for the second year running. The division of our gross premium growth has been fairly supported by the positive development of our in-force book of business.

Looking ahead to the end of 2016, we expect growth in premiums to normalize at around 6% versus prior year, with the potential upside due to our strong longevity in new business pipeline.

Overall, technical performance over the first nine months of 2016 remains robust, with the technical margin standing at 7.1%, slightly above the range assumed in Vision in Action. We've been able to deliver this technical margin thanks to both the profitability of our new business and the in-force portfolio results in line with our expectations.

I will now hand it over to François de Varenne, CEO of SCOR Global Investments, for more details on our group investment strategy.

Francois de Varenne {BIO 7447858 <GO>}

Thank you, Paolo. Moving on to slide 11, SCOR's total investment portfolio reaches €27.6 billion at the end of September 2016 with an invested asset portfolio of €19.2 billion compared to €18.8 billion at the end of June.

During the third quarter, SCOR Global Investments began the normalization of its asset management policy as announced in the Vision in Action plan. Liquidity was reduced by 4 points, the proportion of corporate bonds increased by 5 points and duration of fixed income portfolio was increased from 4 to 4.5 years compared to June levels.

The high quality of fixed income portfolio has been maintained as well with a stable average rating of Aa minus. Moreover, SCOR Global Investments has maintained a very strict policy of avoiding a need of an exposure to Eurozone (13:50) countries.

At the end of September, expected cash flows from the fixed income portfolio over the next 24 months stand at €6.4 billion despite the factual normalization of the investment portfolio completed during the past quarter. It will facilitate the dynamic management of our investment policy as market conditions permit.

In spite of the Poland (14:18) environment, SCOR Global Investments manages to deliver a strong and recurring return on invested assets, which stands at 2.9% for the first nine months of 2016, well above our history benchmark.

For the full year 2016, given our current investment rate and normalization strategy, we expect the return on invested assets in the middle of the Vision in Action range.

And with this, I will hand it over to Bertrand Bougon for the conclusion of this presentation.

Bertrand Bougon {BIO 18934799 <GO>}

Thank you, François. On page 12 you will find the next scheduled events, which are the January renewals on February 9, 2017, and the full year 2016 results on February 27, 2017 as well as all the conferences which we are planning to attend over the remainder of 2016.

With this, we can now start the Q&A session. Thank you.

Q&A

Operator

Thank you. We will take our first question today from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. Thank you very much. Just one on the P&C growth and one on just the asset returns. Just on P&C growth, that seems to be the key concern in the market today. Victor, you said there's a pipeline in the fourth quarter which will show up in 2017, and you also guided to 5.6%, 7% new number for 2016. How should we think about this pipeline coming into next year? Are you in a position to say something about next year's growth, please? Because there could be just a timing effect that next year is much stronger growth. That's on P&C.

Second question is on the asset management relisting. So, François, is it a fair understanding that, given that as the cash position is stable, almost, and despite the debt blowout, is it a fair assumption that this bulk of this €854 million or so cash flow – operating cash flow in 3Q would actually reinvested outside in the corporate bond area? If you could just clarify a little bit there, that would be great. Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Okay. Victor, do you want to start with the P&C question?

A - Victor Peignet {BIO 6287211 <GO>}

I think we are moving on the P&C side, at least for global reinsurers, to a situation where large deals are taking a large part of the activity at the moment. So, you will recall that our growth last year was very high, around 16%. So, what we feel ourselves is, considering the pipeline, but the pipeline is a pipeline. I mean, we have no guarantee that those deals will be signed, but we are very hopeful that they will, while we could end up with a situation of rebalancing next year. But for the moment, I mean, realistically that's what I said, while we are confident that what we said in IR Day, while it's applicable, we have no reason to change it. But hopefully, we can even make better than that to compensate for the fact that this year we are a bit lower than what we expected.

Q - Vinit Malhotra {BIO 16184491 <GO>}

In fact, just to be clear, the IR Day was 3% to 8% for 2016 to 2018. And when you said that you are confirming that, you mean like a midpoint of that or you don't want to get into that discussion yet?

A - Victor Peignet {BIO 6287211 <GO>}

To me, it's too early to tell you that. You will have a very good appreciation of that after the January 1 renewals. But for the moment, I think I can't say more than yes we are expecting to resume growing next year. And I think 3% to 8% is quite a reasonable indication. But I can't be more precise. I mean, you will have to wait on February 9 when we publish the January 1 renewal results.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

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

So just tell you that – I'm not sure if I fully captured your point. I mean, we have an increase in the total amount for the invested asset portfolio during quarter of roughly €400 million post-debt reimbursement, so that's mainly explained by, as mentioned by Mark, some operating cash flows and the one-off in the P&C division with a fund reserve payment. Then what we did in terms of rebalancing strategy, you remember we are 14% of cash in short-term investment at the end of June.

The objective of Vision in Action is to bring back this liquidity at 4 points in the invested assets portfolio. We did half of the job during the last three months since we are 10% today, and most of the reinvestment was focused on the U.S. dollar corporate bond market and almost exclusively in the investment grade area.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Just to clarify, the reasons I said – I asked my question was that the 4% deduction would have naturally happened between 2Q and 3Q because some debt was paid out. But given that you had a massive cash inflow, that would imply that the inflow of cash was actually put to work in a very smart way (20:31). That was just the reason for asking the question.

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

Yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. All right. Thank you very much.

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

Okay.

Operator

Thank you. We will now take our next question from Kamran Hossain from RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning, everyone. Two questions. First of all, referencing kind of more competitive environment in some of the specialty lines in the P&C part of the presentation, would it be possible just to talk about how this might impact plans for Channel Syndicate reaching profitability there and thinking about growth at The Channel Syndicate? So that's question one.

Second question is just around capital, so I guess it's one for Mark. Is there any update that you can give us on the reorganization of the entities that you've referred to at the Investor Day and also if you have been making any progress, that you could give us an update on the life reinsurance securitization? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Victor, do you want to start with specialty lines?

A - Victor Peignet {BIO 6287211 <GO>}

Well, The Channel Syndicate is exclusively a primary insurance provider, doesn't do any reinsurance. I think at the moment the synergies that are developed between the Syndicate and the division, whether it is on large corporate or whether it is in support to some of our emerging market activities, will lead us to see the future of Channel positively. The SBF has now been approved for next year, there is growth into it, and I think we are satisfied with the way the discussions with Lloyd's have been going on that. So, we remain optimistic for the development of the Syndicate which is now turning into, I would say, away from being a startup to being now an established operation.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

On your second question for the capital update. So, we continue to make progress on the SC merger project that we discussed during the IR Day. No comment today. I think the earliest that we'll provide feedback on that will be the Q4 results, February – in late February. In terms of life securitization, maybe I'll let Paolo make a comment.

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

Yes. This is more of a mid-plan target for us. So, we keep engaging with investors at this point, but it will be more of a mid-plan in terms of focus. So, probably somewhere at the end of 2017, 2018.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay. Perfect. I guess we'll come back for that then. Thank you.

Operator

Okay. We'll now take our next question from Xin Mei Wang from Morgan Stanley. Please go ahead.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Hi. Good morning. Thank you. I have two questions, please. My first is a quick question. On the realized gains, those €18 million on other investments, could you just clarify what that is and whether you think that's recurring or sustainable parts of realized gains?

And then the second question is, on that 58% premium assumption, at the least on your renewals, what would you say would have to happen for that number to be potentially below 3%? Those are my two questions. Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Okay. So, François, just on the €18 million...

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

Yes. On the €18 million. So those realized gains have been triggered by the disposal of term alternative funds on the secondary market during the quarter. I'll remind you that on non-yielding asset classes, and especially on equities and other investments, the only solution to recognize annualized IFRS (24:45) gain and the value creation is to sell and that's what we did on a few lines during this quarter. In terms of sustainability of the validation of gains during the next three years, we made some assumption. Again, at this stage, I'm still pretty confident on the fact that we will maintain over the next three years a material contribution from non-yielding asset classes to the financial contribution.

A - Mark Kociancic {BIO 17852409 <GO>}

Victor, just on the renewals?

A - Victor Peignet {BIO 6287211 <GO>}

Well, we said that the growth of 3% was based more or less on the kind of status quo in the markets. So, I mean, in order for that not to be achievable, it means that status quo would not stand, and we would have further deterioration. This is not what we are anticipating. This is not what we hear. I believe, myself, that we've reached a point where there is a kind of an acceptance generally that the prices have got to – and the minimum have got to stand and in certain cases have got to go out to compensate for losses in certain areas. So I don't see a further deterioration to happen. I mean, you've seen this year we already – very stable prices as far as we are concerned in our overall portfolios. So, I think, again – I mean I maintain that our hypothesis is very realistic.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Okay. Great. Thank you.

Operator

Thank you. Our next question comes from Andrew Ritchie from Autonomous. Please go ahead.

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

Hello, hi there. Two very quick questions. First is for François. Apologies if I missed this, could you just clarify what the reinvestment rate was for the liquidity you've deployed in the quarter. I know you've given us a reinvestment rate of 1.9%, but I believe that's nine months year-to-date, just to – and the discrete Q3, what did you manage to achieve on those sort of blended liquidity you deployed in investment-grade corporates?

Second question, to Paolo, on the Life business. It's just that I'm a bit confused. On the slides, you talked about the 7.1% being supported by the increased share of longevity in the product mix which seems counter-intuitive to me. I thought longevity was running below the 7.1%. I mean, is longevity turning out to be unusually profitable? Again, that's a bit surprising because I would've thought you're not recognizing much profit yet on longevity, given you're not really on risk for that business until the second half of it, sort of duration. So just explain what do you mean when you refer the 7.1% sort of increase share of longevity in slide 10? Thanks.

A - Mark Kociancic {BIO 17852409 <GO>}

Paolo, why don't you start?

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

Yeah. Very quickly. And we – what we mean there is the decrease from 7.2% to 7.1% that's driven by the increased longevity in the business mix. So you have in mind the Vision in Action target. The bullet point really on page 10 explains the drop from 7.2% to 7.1%.

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

And is it - so the inflow's maybe running slightly further than assumptions really?

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

No. We also wrote - compared to Vision - the plan in Vision in Action, at this point we have written less longevity business that we thought we're going to write in 2016.

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

Okay.

The rest of the business is performing slightly better than expectations in terms of volume and new business flow.

Okay, Thanks.

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

To your question on the re-investment rate. Just a clarification of the definition of the re-investment rate or yield, that's the re-investment yield of marginal euro or dollar re-invested at the end of the quarter in our portfolio with the same asset allocation, excluding cash and unyielding asset classes. So that's as if we deploy the last day of the quarter the new euro or dollar of assets with the same as asset allocation. And that's the market yield that we observed in market, the last day of the quarter. So at the end - so that's not for the first nine months. So at the end of September, our current investment rate is 1.9%, it was 1.8% at the end of Q2 and 2% beginning of this year at the end of Q1. So, that's improving. Just an example, in dollar, our current investment rate is 2.4%. So, slightly above.

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

Sorry. Okay. That's fine. It is misleading as well when it says year-to-date. That would not imply its spot at the end of the quarter. But if you're saying it is in the quarter, that's understood. Thanks.

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

Yeah. The year-to-date is a typo...

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

Okay.

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

...at the end of Q3.

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

Thank you.

Operator

Our next question today comes from Thomas Fossard from HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Good morning. I just wanted to come back here with Victor on these macro-sensitive business lines regarding some lower premium. I was – could you tell us also because you specifically mentioned Engineering, Offshore and also Aviation. You're not mentioning Credit lines, Credit and Surety lines. Is it something that on which we should expect as well some negative impact or pressure on premium development or a combined ratio or I guess that they are also quite macro-sensitive? That was my question. Thank you.

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

Well, that's not what we see at the moment. I mean, Credit and Surety continues to stand. We – well, you'll see in the publication of the leaders in that market on the insurance side and I think while the ratio – the loss ratios are standing as well. So we are not seeing real deterioration in that part of the business.

Operator

Thank you. We will now take our next question from Jonny Urwin from UBS.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning. Thanks for taking my questions. Just two from me. So firstly, just thinking about the cap budget of 6% for this year. So year-to-date, you're running at 5.7%. It feels to me like Q2 is a bit spiky for losses, but Q3 is more benign where obviously the budget is more weighted. So do you think 6 points is appropriate given any very limited loss of activity and you're still running quite close?

Secondly, please can you just comment on the pipeline for longevity business that you talked about on slide 10 as well? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

I think it is quite appropriate, and that nothing this year is particularly benign. I mean, the Q2 was pretty active worldwide. Of course, nothing really spectacular but serious accumulation of losses, including losses that are not wind or quake, but that can be pretty disruptive. I mean, they have storms, in particular in France – has been hitting this year, as they have been hitting for the last few years. So I think there may be a bit less of media (33:05) on those losses, but they can be seriously damaging. So yeah, I think the 6%, I mean, we are comfortable with it.

And as I said before, we have no reason to believe today that at the end of the year, where we are today, I mean as of today, I mean we have no reason to believe that we cannot complete the year around that 6%.

A - Mark Kociancic {BIO 17852409 <GO>}

Paolo? On longevity?

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

Yeah. On longevity, just to remind people on the call, here we operate on this product line with a very strict risk appetite. We have a biometric risk appetites, no assets. We have pretty much only annuity in payment, certain age cohorts we're targeting and also portfolios that have a certain amount of experience.

So this year, applying that risk appetite, we have limited deal originations up to this point. We do have - we do though add a very strong pipeline of UK deals that has come to the later stages of that pipelines, a little bit like Victor was saying, until we sign the deals, we're not sure that we have the deals, but the deals are the very advanced stage. So we can further communicate then, when we communicate our Q4 results. But so far, we're very happy without that risk appetite applies to market and I think whether they materialized this year or next year, I think we're going to have a good production.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you.

Operator

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good morning. I have also two questions and I would like to come back with my first question on the 6% nat cat guidance that you still stick to. So far, you had 5.7% in Q4. We know we have Matthew and you made some comments and you still suggest that the 6% is probably the right number. So do you suggest that for Q4, stand-alone, just to be clear, that Matthew on a stand-alone basis is having, for the quarter, a 6% impact?

And then my second question is for François on the investment income. If I look into the regular income or how you call it investment revenues per segment, then it's obvious that the P&C investment income or regular income with €58 million is pretty low. So given that you are now re-risking and rebalancing your investment portfolio, could you give some sort of guidance where you believe this could turn out to be on a more balanced level going forward?

A - Mark Kociancic {BIO 17852409 <GO>}

So, Victor, if you want to comment on Matthew and the relative impact against the 6% cat budget?

A - Victor Peignet {BIO 6287211 <GO>}

Well, first of all, we've done extensive modeling on the cat, and we are redoing that modeling every year. And I think that the 6% comes from there. So, I think – and in addition to that modeling, we compare that with history.

I think the two converge pretty well. So, considering the way we have improved and sophisticated our retro program, which we do of course take into account in our modeling, I think, I mean, we believe that this is a realistic approach.

I didn't say that Matthew would be 6% in Q4. What I said, very precisely, is as of today, I believe that, including Matthew and Nicole, our 6% budget for the entire year, well, stands and would cover the entire.

While I cannot predict about what's going to happen between now and the end of the year, we'll see how it develops. But for the moment, no reason to believe that our 6% budget is not going to cover all the lost activity.

A - Mark Kociancic {BIO 17852409 <GO>}

François? Just on the allocation.

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

So the question on the investment portfolio, I remind you that, I mean, my mandate in the organization of SCOR, I manage and in charge of managing one single portfolio for the group. Then, we've got different ALM duration targets for the Life and the P&C division, different currency mix, but we've got the same risk appetite for both division. So that's why we don't communicate our segment's all targets for the investment income. Again, my mandate is to manage one global portfolio.

Q - Frank Kopfinger {BIO 16342277 <GO>}

On the other side, you could do it also for the entire portfolio where the, and you have it on your slide 19, where the regular income dropped from €110 million to €88 million.

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

Yeah. That's the fact that – this is illustrated on slide 11. Interest rate have been decreasing massively over the last few years. So let's say the regular income has been decreasing, that's partially offset today by the normalization of the asset management strategy. The fact that we lengthened the duration, and also what we have been doing for the last now – almost 10 years, the active management of the portfolio and the contribution through realized gain in the performance of the portfolio.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thanks.

Operator

Thank you. Our next question comes from Vikram Gandhi from Société Générale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello. Good morning, everyone. I've got two questions. First is can you please refresh my memory about the group's position on inflation-linked bonds, i.e. what's total value of the inflation-linked cost that you hold as of Q3 from minus, the number is around €150 million, but that could be wrong. And secondly, can you remind us on the frequency of your review, as it regards to the mortality assumptions, particularly the U.S.? And when is the next review due? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

François, if you want to deal with the inflation-linked bonds position?

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

Yes. So the inflation-linked bonds, we managed today a book of roughly €600 million. And that's mainly exposed to inflation in the Eurozone, in the UK and in the U.S.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

Operator

Thank you. Go ahead.

A - Mark Kociancic {BIO 17852409 <GO>}

We'll just finish the second question on mortality with Paolo here in terms of the timing of the reviews.

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

Yes. All our assumptions are monitored constantly. We do do an annual review of our assumptions, particularly as part of our now Solvency II processes, it used to be our MCV (40:26) processes. And though that review is undergoing at this point.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. That's very helpful. Thank you.

Operator

Thank you. We will now take our next question from Anasuya Iyer from Jefferies. Please, go ahead.

Q - Anasuya Iyer {BIO 18981555 <GO>}

Hi. Thanks for taking my questions. My first question was just on P&C. If you could just talk a little bit more about the pipeline you said for the rest of the year, and whether this continues to be driven by, say, your underweight U.S. position.

And the second question was on investment. I just want to understand, I guess, more about your outlook macro-economically, where do you believe we are on your 2.6% to 3.2% of return or where do you believe it can get to? I guess I'm curious about why you sort of changed the liquidity position in Q3 rather than possibly waiting for Q4 when there might be a rate hike in the U.S. Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Victor, on the pipeline of the business?

A - Victor Peignet {BIO 6287211 <GO>}

Not much detail I can give you on that except that all the clients we are talking to on that pipeline are our existing clients in the U.S. And basically - well, that's just in line with all the work that we've been doing in that market for the last four, five years. And it's corresponding to the reinforcement of the image of the company and the resources we have put into play. I can't be much more precise than that. I'm sorry.

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

On your question on the macroeconomic outlook and the timing of what we are doing. If you remember, in the presentation of Vision in Action this September, at the end of my section I presented three types of macroeconomic scenarios. Let's say, the most pessimistic one was the first Brexit amendment and market condition in July or early July. I think we are converging to the more - to let's say, there are some call scenario we've got in this plan, gradual regularly (42:54) scenario. We are more optimistic on the fact that we said this will increase probably in December and still probably - progressively in 2017 interest rate. So we aim at rebalancing our portfolio rather quickly in the coming quarter, and we started to do it in Q3. As I mentioned, this program during, the last three months, was mostly targeted toward the dollar-denominated fixed income portfolio, and it has been completed at good market condition, leveraging on the steepening of the incurred (43:28) - which happened in September prior to the February meeting, and on a very strong primary market in U.S. corporate bonds (43:36).

Keep in mind that in spite of this rebalancing, our investment portfolio remains relatively liquid, and that's shown on slide 11. It will continue to deliver strong cash flows with €6.4 billion of cash flow expected to emerge from the fixed income portfolio over the next 24 months. It will leave us a big or high degree of flexibility to save any investment opportunity even in the next few months or quarter, even if we are at the 5% target.

Q - Anasuya Iyer {BIO 18981555 <GO>}

That's really useful. Thank you.

Operator

Thank you. Our next question comes from Paris Hadjiantonis from Credit Suisse. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes. Good morning all. Thank you very for taking my questions. I have two today. Firstly, on claims inflation, particularly in the UK. Are you worried at all, and if not, how do you basically protect it from such scenario?

And the second one is on other operating expenses, particularly in P&C. I can see €15 million negative at this quarter. Can you explain that and whether that is something we should be annualizing for? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

So, Victor, on the claims inflation for the UK?

A - Victor Peignet {BIO 6287211 <GO>}

Well, we do reassessment every year of inflation rates on the claims on our business, and we will update our pricing accordingly. And we look at the adequacy of our reserves based on those studies which are led by our claim people in coordination with our reserving and pricing entries. So, well, the only protection we have on that is one, to be accurate in how we assess the situation, and to basically adjust our pricing and our reserving accordingly. We are not, at the moment, seeing a situation that gives us a particular concern in the UK in that respect.

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

And maybe to add a point to what Victor just said. On the asset side, in the GBP-denominated portfolio, we are still a relatively short duration, which is a nice way to put the portfolio against inflation, either it's from inflation we can rebalance and lengthen the duration and increase the yield on this portfolio. And as I mentioned it a few minutes ago, part of our inflation-linked securities are denominated in GBP today, targeting the UK inflation.

A - Mark Kociancic {BIO 17852409 <GO>}

On the second point with the other operating expenses in the P&C line, the figures that you're referring to is principally based on the P&C cap on amortization, which is essentially reflecting some seasonality given it's kind of a peak season during Q3. So, normally, we would have something approaching €10 million a quarter. You're seeing a spike now simply because you've got a predisposition from more nat cat activity.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

So you are basically guiding to around €40 million per year on that figure?

A - Mark Kociancic {BIO 17852409 <GO>}

That's in line.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Thank you.

Operator

Thank you. There are no further questions.

A - Mark Kociancic {BIO 17852409 <GO>}

Okay. Thanks very much for your attention today. We're looking forward now to the January 2017 renewals which we'll publish and discuss at the beginning of February and then the fiscal year end 2016 results which we'll make public on February 22. Thank you and see you then.

Operator

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