Investor Day

Company Participants

- Brona Magee, Deputy CEO of SCOR Global Life
- Claire Le Gall-Robinson, SCOR SE
- Fabian Uffer, Chief Risk Officer, Ex-Com
- Francois de Varenne, CEO of SCOR Global Investments & SCOR Investment Partners
- Frieder Knupling, Group Chief Risk Officer
- Ian Kelly, CFO
- Jean-Paul Conoscente, CEO of SCOR Global P&C
- Laurent Rousseau, CEO & Director
- Olivier Armengaud, Senior Manager of IR
- Paolo De Martin, CEO of SCOR Global Life
- Romain Launay, Group COO

Other Participants

- Andrew Ritchie, Partner, Insurance
- James Shuck, Research Analyst
- Thomas Fossard, Co-Head of European Insurance and Analyst
- Vikram Gandhi, Equity Research Analyst
- Vinit Malhotra, Insurance Analyst
- William Hardcastle, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the SCOR Group 2021 Virtual Investor Day.

Today's call is being recorded.

At this time I would like to hand over to Mr. Olivier Armengaud.

Please go ahead, sir.

Olivier Armengaud {BIO 20892984 <GO>}

Good afternoon. My name is Olivier Armengaud, Senior Manager of Investor Relations. It's my pleasure to welcome you to SCOR 2021 virtual investor day.

We truly appreciate your taking the time to join us.

Our discussion will include forward-looking statements that I invite you to read in our disclaimer. Please note that due to the current health situation, all participants have been tested for COVID-19 before the event and are negative.

Today we will deliver a clear and positive message. We are focused on driving sustainable value to our shareholders through an optimal capital allocation. So let's get to our agenda.

In a moment, you will hear from Laurent Rousseau, CEO of SCOR and Group Strategy. Next, Ian Kelly, CFO, will provide an update on capital management. You will then hear a business update both from life and P&C leadership.

Before a short break, we'll have our first Q&A session focusing on these first presentation. We'll then restart with important presentations for SCOR on investments, technology, sustainability and risk management.

We'll conclude the day by second Q&A session.

As always, we will make sure to answer all questions you may have, and we will continue to solicitate and implement your feedback.

With this, it is now my pleasure to introduce the Chief Executive Officer of SCOR, Laurent Rousseau.

Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Olivier. Welcome, everyone.

Today is an important day for us. And for me personally, I am truly grateful for your time, and I really look forward to the engagement we'll have in the future. As I had announced in July, we have decided to extend Quantum Leap for 1 more year. Today, we'll provide important updates on our business and strategy and the framework of the upcoming strategic plan.

The key messages today are the following: We are a global Tier 1 reinsurer. We focus upon delivery and operational performance improvement. We increased shareholder focus and engagement, and we will demonstrate our delivery commitment through the upcoming strategic plan. The flow of my presentation today is simple. First, we start from a strong base. Second, there is no complacency. We act decisively to improve further from our current position. Third, we see even more opportunities in the long term and will focus on explaining what we do and engage with you.

Let me start with the current situation, and why we believe SCOR's franchise has never been so strong. Our 4 tested strategic cornerstones are a good way to define what we mean when we say we are Tier 1. This means we are AA rated like our peers. We have a global presence. We know how to underwrite most risks, and we are able to do so with expertise and a strong sense of value add. These cornerstones have served us well so far.

Like everything else, these strategic cornerstones will be thoroughly reviewed as part of our upcoming strategic plan. We have been going through unprecedented volatility for the past 18 months. As a Tier 1 reinsurer, we are more resilient than most of our competitors. Like in any crisis, this one presents challenges, but it also presents opportunities for those able to take advantage of them. We are the most nimble of the Tier 1 reinsurers so we should be the most adaptable in the fast-changing environment.

This is a fundamental competitive advantage, but one we have yet to fully leverage. SCOR is a success story in reinsurance. We are, in fact, the results of overcoming historical challenges. We have demonstrated that one of the group's core strength is to be able to adapt and transform itself, while sharing the value created with shareholders. This is at the core of SCOR's DNA. Going forward, we aim to increasingly determine our own future. It will be a future where we serve all our stakeholders.

As I said in my introduction, we are not complacent, and we have already started to proactively take actions to improve further and create sustainable value. So let me take through the key actions. First of all, we have started from the top of the organization. Our governance is now clarified, and you will see how it functions steadily, delivering over time. As far as the executive team is concerned, we have announced some adjustments last week with 3 key features: continuity in talent, like Fabian Uffer, who just joined our Ex-Com as Chief Risk Officer; teamwork, that well known phrase, there is no 'i' in team, is still valid. It will be weak, much more than 'i', that makes SCOR sustainably meet targets.

Third, we position transformation and sustainability at the top of our agenda. Another illustration of value creation is the recent Life transaction. In his presentation, Ian will present more detailed financials. It is important to understand the strategic rationale of this transaction and its benefits for us. Beyond the transaction itself, it was essential to make peace, and we start a mutually beneficial business relationship with an important historical clients of the group. The specified environment will be critical for us to focus on the business and create value for our shareholders.

We see 3 levers to act on now. First of all, absorbed volatility; second, improve margins; third, managed growth. Both Life and P&C businesses will see meaningful improvements in their underwriting -- in their underlying value drivers. Our actions are already bearing fruit and will continue to do so in the future.

So let me take you through the long-term perspective, and why we see many opportunities to improve further. This is what we're going to do, some practical set of actions. First, make the most of a supportive risk awareness environment; second, manage businesses for value; third, deploy capital based on a transparent framework;

and fourth, engage proactively with all of our stakeholders. I will touch on the key points before the team provides you more information on how exactly we intend to tackle these points.

First of all, macro trends become opportunities if you make the effort to understand them and have the nimbleness and entrepreneurial spirit to take advantage of them. To put it simply, risk awareness is at a high point. This will drive long-term growth in both insurance and reinsurance, while ensuring all competitors are disciplined in the pricing and risk appetite. We are proactive about steering our business mix. We are Tier 1 and nimble enough to rebalance swiftly. The rebalancing we are talking about will stay within the historical cyclical range. We will be pragmatic and adaptive as market dynamics evolve. Do not expect radical change.

Our business is about consistency over the long term. We are as well diversified as any Tier 1 reinsurer. But whatever business we are in, Life as well as P&C reinsurance, we will manage for value. We understand the underlying risks and trends and will extract value from risk pools. We offer an improved value proposition to our stakeholders.

On the asset side, we will progressively normalize our approach vis-a-vis our peers. This means, first of all, act on the asset mix, where our share of value creation assets is around 5 percentage points lower than our peers. Our invested assets have been very short tail, and we have some scope to take a little more risk from a very low base. The second approach is the investment style. We will not take directional positions, and we'll focus on a neutral effective duration. Effectively, we will concentrate on our core business, reinsurance underwriting.

Let me now spend a little more time on this slide. Our nimbleness will make our capital management meaningful. Capital deployment is a key area where we intend to do further work.

First of all, we will articulate the focus we put on accretive organic growth where we see attractive underwriting opportunities. Second, the unprecedented volatility justifies to have excess capital. This is a strength in this environment. You need to be in a position of strength and stability to make the most of opportunities. Third, the capital redistribution toolbox has to allow for flexibility and not exclude any option. I know this is an area in which you're interested in, which is important for you, and I look forward to the Q&A.

We ask for your patience, partly to solicit input from you and all our stakeholders to develop and communicate our upcoming strategic plan in March 2022. This plan will cater for both shareholders' expectations over a palatable period and provide the right long-term perspective to meet all of our stakeholders' expectations. As I said earlier, we are in the business of consistency over the long term.

We believe in the value of bringing all stakeholders on board. This is particularly important for SCOR to lead a collective project. This is also true of the broader reinsurance industry. The post-COVID world, we see increased demand for protection. Leading reinsurers like ourselves will have to strike this sustainable balance rightly. I will now hand over to Olivier Mongo. Thank you very much for your attention.

Olivier Armengaud {BIO 20892984 <GO>}

Thank you so much, Laurent. I would like now to introduce Ian Kelly, CFO of SCOR. He will come back on the recent Life in-force transaction and how we've used capital management allocation. Ian, over to you.

Ian Kelly {BIO 19976646 <GO>}

Thank you very much, Olivier. Today, I have 3 key points that I would like to talk to. Firstly, I will describe SCOR's financial strength as a Tier 1 reinsurer. Secondly, I will go through the recent Life in-force transaction and give some more clarity on the benefits that, that deal -- of that deal and the implications for the group. Thirdly, I will talk to our capital management approach as we lead up to the next strategic plan and beyond. So let's make a start with the financial strength of the group.

SCOR leverages a very strong financial position. Our solvency ratio is very strong at 245%, and is above the upper end of the optimal range. Our credit rating position is very strong, with Fitch, Moody's and S&P all having affirmed our AA- or equivalent Tier 1 rating during the course of this year. The group generates strong operating cash flows with generation in 2021 so far at around EUR 1.4 billion, supported by the recent Life in-force transaction. As a result, the group demonstrates a strong book value per share at almost EUR 34 as at the end of H1 2021. And that is after absorbing in excess of EUR 1 billion of pandemic claims.

Let's move on to the next slide. With respect to debt, SCOR has secured long-term financing to support our future needs and at a low weighted average cost. The quality of the debt is high, with 89% of our capital qualifying as Tier 1 under Solvency II. And there is strong flexibility with good capacity remaining across all tiers. So today, we're in a strong financial position.

Let's now take a look at the recent Life in-force transaction we announced with our H1 results and how this has crystallized significant value for the group. Why did we undertake this transaction? At the heart of this deal is the ability for us to accelerate the emergence of future cash flow and earnings into today. These circumstances do not come along every day. They're rare, and we had an excellent opportunity to monetize the future value that we have in the Life portfolio. And by monetizing that value now, by accelerating the cash flows, we take out any future uncertainty on those flows.

In terms of what was transferred, 30% of all of the Life business in the Irish entities has been seeded. There's no picking and choosing of individual lines here. So this includes an element of the Asian portfolio, the U.K. Life portfolios, including longevity and critical illness, and the U.S. mortality block, representing 20% of all U.S. mortality exposure that SCOR has, having the effect of materially reducing our exposure to any future U.S. mortality trends and COVID-19 experience. As a result, this rebalances the group towards

P&C business, with the gross premium written moving to a more balanced profile of 53% Life and 47% P&C.

Moving to the next slide. I really want to stress the importance of understanding what's happened in a cash context. On the left-hand side, I show an indicative cash flow pattern across future years for the business that we have ceded. Being future flows, there would be some degree of uncertainty to them, but we received them today. So we transfer an uncertain future $1 billion flow into a certain $1 billion today, undiscounted, which is economically compelling. Not only does this reduce uncertainty, it reduces our exposure to U.S. mortality, as I said, it provides some additional protection against COVID-19 exposures, and it reduces our exposure to interest rate volatility.

Moving on to the next slide. The in-force transaction has had a very positive impact on the solvency ratio of the group. Solvency is calculated, as we show on the slide, as eligible own funds divided by solvency capital requirement. The significant uplift in solvency is driven by 2 factors. Firstly, on the numerator, the eligible own funds. We seed a BEL [ph], Best Estimate Liability asset, a soft asset, representing future profits on the business. And this is broadly offset by the commission received, exchanging soft assets for hard, and thus improving our quality of capital.

However, the main benefit to eligible owned funds comes from the release of the risk margin on the business ceded. The benefit of EUR 485 million largely relates to that. On the denominator, the solvency capital requirement, this benefits from no longer needing to hold capital against the business ceded, reducing the SCR by EUR 291 million. Now the combined impact of the movement in eligible own funds and the solvency capital requirement is a benefit to solvency of 27%.

Let's go to the next page. The transaction is accretive on earnings. In 2021, on an IFRS basis, we record a net income of EUR 311 million, and in the balance sheet, record EUR 0.6 billion of reserves that support prudence and future profit emergence. That means that going forward, we are able to support income and maintain the level of net technical result, whilst we have reduced net premiums through the session, leading to an increased technical margin going forward of 8.2% to 8.4%. The session reduces volatility through protection, whilst, at the same time, allowing for a faster profit emergence.

So overall, the transaction is very positive. In summary, it transforms future potential cash flows into cash flow today. It improves the balance of the portfolio. It enhances the solvency ratio of the group and the capital of the group. And we can put that capital to work, resulting in accretive earnings.

Let's move on to talk about capital return. We always seek to deploy our capital optimally with the right balance, the optimal balance between accretive organic growth and capital redistribution to investors. We take a long-term view. And firstly, on the deployment in the business, we are in a very positive P&C market, both in specialty and reinsurance. Jean-Paul and Romain will talk later about the conditions where in some areas, they are the best market dynamics seen for a decade. So we've revised upward our P&C growth assumption as a result. In life, we aim to shift from growth to value. And as I've just explained, we have increased our technical margin assumptions. Finally, on the investment side, we will continue to grow deployment into the value creation assets.

On the distribution of capital to investors, we define a cash dividend commensurate with the earnings of the group. In addition, share buyback is an option as part of the overall capital management thinking. It's a key part of our flexible capital management toolbox. It's there. alongside cash dividend, and we will continue to consider buyback. Right now, it's not the right time. We are in the midst of the cat season.

We're still assessing the impact of the European floods of Hurricane Ida and need to see the remainder of the storm season. There are also many uncertainties on COVID-19 due to potential new variants, speed and effectiveness of vaccine rollout and so on. We're constantly assessing the financial constraints under which we operate, our earnings, solvency and rating capital levels, our cash position and so on. And given this environment, we maintain strategic optionality through keeping a level of capital that provides security, given the current volatile environment.

Now I've talked to our solvency position. And at present, it is very strong at 245%. It is above the upper end of the optimal range. And through a combination of disciplined capital management actions, we expect it to transition to the optimal range. These actions include, firstly, the acceleration of the profitable growth in P&C with a growth at 15% to 18%, consuming 10 to 15 points through increased SCR. We expect an attractive capital return to shareholders with the flexibility to use dividend and share buyback. We know there are short-term external shocks, such as natural catastrophe events, and COVID-19 for which capacity is required to cover. And we would expect to continue to generate capital through the strong profitability of the business.

Further, on capital return. The group has a clear dividend policy, which starts with securing the solvency of the group and securing our ratings. In the longer term, the best value creation is through applying our capital to accretive growth, and we have evidence of this through the strong renewals. A sustainable dividend, commensurate with group earnings, is defined. And for 2020, we declared and we paid a dividend of EUR 1.8 per share.

Through our disciplined approach to capital management, we seek to reduce market uncertainty and reduce our cost of equity. We do this through having a more predictable earnings level with lower volatility. The business units will pick up on this later with the actions around underwriting and pricing.

With a strong focus on book value growth, future de-leveraging through growth and, if the conditions are right, redemption, and disciplined corporate governance we continue to act to bring the cost of equity of the group down.

So putting this together. In terms of financial targets, we maintain those set out for Quantum Leap targeting profitability of 800 basis points over risk-free and a solvency ratio in the optimal range of 185% million to 220%. Regarding growth, the P&C gross written premiums are expected to grow at 15% to 18%, well above the Quantum Leap assumption of 4% to 8%.

Life premiums grew at around 1% with a focus upon value. Technical profitability is very strong, with the P&C combined ratio trending to 95% and below. This includes absorbing an increase in the natural catastrophe budget. The Life technical margin, following the accretive in-force transaction, is lifted to 8.2% to 8.4%. The return on invested assets outlook is in line at 1.8% to 2.3%, and we continue with strong value creation through value of new business growth.

In summary, the strong financial position of the group, supported by the successful recent life transaction and our disciplined capital management, lead us to being able to present strong financials going forward. Thank you very much.

Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much, Ian. And now let's move on to the business side, starting with Life. For this third presentation, I would like to introduce Frieder Knupling and Brona Magee, the CEO and Deputy CEO of SCOR Global Life. They will talk to you about how they are delivering upon Quantum Leap despite the COVID-19 pandemic and how they are building the life -- the future of life insurance. Brona, Frieder, the floor is yours.

Frieder Knupling {BIO 17247809 <GO>}

Thank you, Olivier, and good afternoon or good morning to all of you. It's a great honor to have been appointed by the Board as CEO of SCOR Global Life. With my roots in the Life business, I'm very much looking forward to the role, and I'm delighted to be here with Brona today.

Taking on the role, I feel very happy with where the Life business is positioned. Following the work done in recent years, I take on a well-diversified business with a true Tier 1 franchise. Now I'd like to take this opportunity to thank the Life teams for the work that has been done to get to this point. We often talk about the benefits of diversification. We saw how real the value of diversification was over the last 18 months.

Thanks to the global and diversified portfolio, the Life business has absorbed the shock of the pandemic. There has been a strong focus on value creation in recent years, and we see the impact of this in the Life results. And as explained by Ian, the recent Life in-force book transaction has had a very positive impact on our 2021 results and will continue to positively impact the results going forward.

The Quantum Leap plan for the Life business had an overall focus to create maximum value and impact for SCOR, for our clients and for society. Brona will talk more about the successful execution of the plan, aspects of which have been accelerated as a result of the pandemic. COVID has clearly been a key focus for us over the last 18 months, and I'm very grateful to our teams for the work they have done over this period. The financial impact for SCOR remains primarily U.S.-driven, where our reinsured population continues to show a much lower impact than the general population.

In terms of virus developments, the Delta variant does change the picture. It is significantly more contagious than prior variants and that has led to another wave of infections in the U.S. over the summer. However, we are seeing that vaccinations, particularly mRNA vaccines, are continuing to give good protection from severe COVID. And we do expect that our reinsured population is more likely to be vaccinated than the general population. But it must be said that it's a very uncertain time with many questions remaining.

So what are we projecting for this year? With the Delta variant, our epidemiological team are projecting an increase in U.S. population deaths from what we had previously communicated. We previously expected about 280,000 U.S. population deaths for the full year 2021. Sadly, that's now looking more like 400,000 deaths for the full year or about 150,000 deaths for the second half of 2021, in addition to the 250,000 deaths in H1.

Some of that increase will be mitigated by the recent in-force transaction. This illustrates the reduced volatility as about 20% of those COVID claims will be covered by the in-force transaction. From a margin perspective, we are looking at a margin of about 10% for 2021 or about 5.5% to 6%, excluding the day 1 impact of the recent in-force transaction taking into account these 150,000 U.S. population deaths for the second half of the year.

To give you a rough rule of thumb, we can expect an impact of about EUR 5.5 million to EUR 6.5 million technical result for every 10,000 U.S. general population deaths. That's the EUR 7 million to EUR 8 million we had previously communicated, adjusted for the impact of the Inforce transaction.

There's quite a lot of uncertainty, particularly in the short to medium term. And looking at prior pandemics, we have seen a positive impact on long-term mortality driven by a sense of urgency around health, and we expect to see that here, too. The development of mRNA technology is a breakthrough that will have benefit in treating and protecting against multiple diseases. We know the accelerated use of technology in healthcare will improve outcomes, and we know people are more conscious of their own health. All of those things are giving us much comfort that, in the long term, COVID will be more positive than negative when it comes to mortality. And with this, I will hand over to Brona.

Brona Magee {BIO 19493460 <GO>}

Thank you, Frieder. And can I just say also that it's very nice to be here with Frieder today, although it would obviously be even nicer if we could see you all in person. I want to start by talking about the impact of COVID on our industry because we do see COVID and the impact is hard on people's lives, accelerating the changes in the life insurance industry. We flagged that last year, and if anything, it has further accelerated over the year.

With the increased depreciation of mortality, sales of life insurance have increased, particularly from some cohorts that previously did not seek that insurance protection, such as women and younger people. These people don't want the traditional life insurance experience. They want something simple to buy and understand. They want an instant purchasing experience, and they're fully prepared to share their data in order to get that experience. And then they expect interaction with their life insurance company after they buy the product. Particularly if they feel they're living a healthy life, they want that to be rewarded and recognized.

In short, people are looking for a very different life insurance experience. And as life insurance companies look to respond to this demand, we are seeing a transformation of the industry. And we'd like to think that we're playing our part in this transformation.

We're using data, knowledge and new technology to work with our clients and partners and develop solutions together that really have an impact, that bring more protection to more people, that are easier and simpler to buy and that, ultimately, are what the consumer wants and needs, more relevant, more engaging. And we're seeing big demand for these kind of solutions. 50% of our protection premium now comes from clients who we've worked with in this way. And we can see that clients value what we're bringing. We hear that in our conversations with them and it's coming through very strongly in client survey scores.

So let me just give you one example with the development of our Claims Rules Engine. Claiming on a life insurance policy can be a very painful process. And that's something that people are going through at a time in their lives that's already very upsetting. We want the process to be simple and easy, not a contributor of added stress. And in some markets where we have big disability books, early intervention in a claim can have a big impact on claim make up [ph].

So we developed the claims rules engine using the data we have to identify what requirements are necessary to pay a claim in what circumstances, eliminating requirements that add little value and identifying where and how to have human intervention in the process. Now this solution was developed by our team in Australia, and it's been rolled out to clients with very positive client reaction, but even more importantly, with policyholders that are back at work today because of early intervention in their disability journey. And that's a perfect example of what we mean by creating value for SCOR, for our clients and for society.

Our work on the value proposition does drive our strategy across our markets. We've seen significant growth in Asia in recent years, and we still see Asian protection as a source of growth for us. We see a lot of innovation in Asia. We're very proud of some of the innovative solutions developed by our teams, and we do export that innovation to our other markets around the world. In our mature markets, we have refocused. We've exited from the Middle East, Israel, Greece and Turkey and significantly refocused in Latin America. And we're seeing the benefits of that refocusing with growth and particularly an increase in value creation back in those mature markets where we are active.

Our financial solutions and longevity lines are lumpy. We did see a slowdown last year as a result of the pandemic. We do see a strong pipeline now in the U.K. longevity market, and we expect to execute on 1 or 2 sizable transactions this year. We also see opportunities in financial solutions as clients are increasingly managing their own balance sheet.

Gross written premium is not always the best measure for these transactional lines. The market moves more and more to different structures, fee deals that don't necessarily contribute a lot of top line premium, but there's a lot of opportunity to continue to create value.

In the U.S., we've had a strong focus on disciplined pricing and on creating a risk profile that we do feel comfortable with. It's a market where we've seen some aggressive pricing from competitors, particularly before the pandemic, but we do hold a rigorous and knowledge-based approach.

U.S. is still a market with the sizeable protection gap, and we see an enormous opportunity to bring more people the protection that they need. And to do that, we're building an alternative business with new digital players. And this alternative business is becoming now a sizable part of our offering. We have much more control over this business. We design the product, the underwriting journey, we get the data, we can constantly manage the risk. So we do feel good about this business we're writing and the impact that we're having here.

Now back to you, Frieder.

Frieder Knupling {BIO 17247809 <GO>}

Thank you, Brona. In the U.S., but also in other parts of the world, we do continue our strategy to optimize our Inforce portfolio. We have strong Inforce management in place, and we are constantly monitoring and analyzing how the book is doing. We did obviously see mortality from COVID. And in addition, we have seen excess mortality on our book that we believe is COVID-related. What we see in our book is very consistent with what the CDC has published. In 2020, there have clearly been additional deaths in addition to deaths with COVID as the classified cause of death. Excluding COVID and this excess mortality, the performance of our book is within expectations.

There's still optionality on the book. We've generated significant value to date by taking action on underperforming treaties, and we continue to have a focus here. So how does this all come together from a financial perspective? We are very focused on value creation. And again, you can see this in the numbers. As noted before, the 2021 technical margin will be impacted by COVID and also by the very positive day 1 impact of the recent Life in-force transaction. Going forward, the Life in-force transaction will allow faster emergence of earnings from the life portfolio.

It resulted in increased margins of prudence on the portfolio, which, in combination with the reduced volatility of the block going forward, is leading to a faster runoff of some of our reserves. We are, therefore, increasing our Quantum Leap technical margin assumption up to 8.2% to 8.4%. We will have to see how COVID impacts these numbers. It is too difficult to predict the impact here for 2022 and onwards. But the increase in margin is very significant, and again, highlights how positive the transaction was for us.

And from a new business perspective, we will continue to focus on value with VNB expected to continue to exceed EUR 300 million a year going forward. This is an exciting moment for us and for me, personally, to move into the life business at a time when the industry is changing. And when I can see the impact we can have. We have wonderful people here at SCOR Global Life, and I'm very excited about working with them with our clients and partners to build the future of life insurance.

So with that, I'll pass it back over to you, Olivier.

Olivier Armengaud {BIO 20892984 <GO>}

(foreign language) Frieder, thank you very much. We would like to invite Jean-Paul Conoscente and Romain Launay, the CEO and Deputy CEO of SCOR Global P&C. They will describe, in particular, how they are accelerating in the P&C hardening market. And just a quick reminder, we'll have our first Q&A session at the end of Jean-Paul and Romain's presentation. Jean-Paul, over to you.

Jean-Paul Conoscente {BIO 20770277 <GO>}

Thank you, Olivier, and hello, everyone. Very excited to be here with you. My new deputy Romain Launay and I will give you an overview of how SCOR is accelerating in the current hardening P&C market environment. SCOR has delivered on the P&C initiatives from Quantum Leap and on its growth ambitions for 2021. The profitability of the business has been affected by COVID-19 and a heavy cat [ph] burn during the plan, plus the remainder of the portfolio has performed in line with the guidance.

Man-made and attritional losses, excluding COVID, have been in line with expectations, being to a total of attritional losses, commission and management expenses in line or below the Quantum Lead guidance. COVID-19 claims have been absorbed with the final development still lingering beyond 2022. Connectivity has been heavy during this period with only 2020 producing a cat load within our 7% budget. I will address this later in the presentation.

Focusing on the initiatives for Quantum Leap, we have achieved our objectives across all pillars, which I will detail on the following slides. In the first initiative, we consciously redeployed capital and value accretive segments and reduced on less profitable segments. Starting with reinsurance, we undertook portfolio remediation actions in 2020 on segments like Lloyd's third-party capital provision, marine and energy, and select U.S. and China large treaties where profitability was below our targets.

With the reinsurance market hardening significantly in 2021, we grew our portfolio by roughly 15%, with slightly more than half coming from price increases, which averaged 8% across the book globally. At the same time, we accelerated the growth of our specialty insurance portfolio where conditions have continuously improved. This has resulted in a cumulative growth of 55% since 2008 -- sorry, 2018, sorry, significantly outpacing reinsurance as we use the optionality of our platform to deploy capital where conditions were deemed most advantageous. And I'll come back to specialty insurance in a few minutes.

We move to the second pillar. It was around innovation, data, technology and third-party capital. At the start of Quantum Leap, we had projected a rapid market transformation around these themes and this assumption was definitely confirmed during the period. Through P&C Partners, SCOR has invested in a dedicated unit, which is focused on these themes and delivered key initiatives. I will highlight a few.

The first is the creation of a (inaudible) in 2021, which is one additional way for SCOR to tap into the growing pool of third-party capital. Secondly, enhancements of our cyber and climate change risk assessment tools. While the underlying risks are different, our goal and methodology remain the same for both, identify the trends and factor them into our risk modeling framework leading to smarter underwriting decisions and risk management actions. The third example is the development of a satellite-based pasture insurance product in Brazil, pushing further the frontier of insurability through technology. And finally, last example is the acceleration of our venture strategy, which I will detail in the following slide.

P&C Ventures is one of the ways SCOR remains at the forefront of trends in the industry, investing and partnering with some of the most promising Intertech companies. In its first 3-year cycle, P&C Venture is focused on investing in clients of the future, meaning tech-driven underwriting companies. Our approach has been to combine underwriting and investments aiming to secure the insurance reinsurance placements in addition to investing for attractive equity returns.

This has been a very successful approach and allow us to write a cumulative volume of roughly EUR 250 million of profitable premiums. In addition, we anticipate to start crystallizing some of the investment value in Q1 2022 to our first major liquidity event. Building on this success, we're now launching Ventures 2.0, the second 3-year cycle for P&C Ventures, with an expanded investment thesis into innovative technology and software solution providers. These investments will support SCOR's differentiating offerings to our clients.

The last pillar focused on SCOR's 360 risk-taking platforms, this objective has been completed on the back of 2 main achievements. First, the full turnaround of a Lloyd's Syndicate SCOR channel. The strong efforts deployed to get this vehicle back on track led it to be a top quartile performing syndicate in 2020. It is now ready to embark on additional profitable growth in 2021 and 2022.

Second, we have expanded our product offering with gradual expansion in lines of business such as directors and officers of political variance [ph], and we have expanded our MGA platforms both in Europe and Latin America. The specialty insurance platform has offered SCOR a tremendous optionality in the hardening market phase, enabling to seize profitable growth opportunities outside of reinsurance. It has also allowed us to access additional profitable private reinsurance business in exchange for funding services.

Specialty insurance has been the best performing segment during the past 3.5 years for SCOR Global P&C, with continuously improving profitability. With further improvement expected in 2022 and beyond, we continue to be bullish on further developments in this area, with projections of specialty insurance trending to 30% of the total P&C premium volume.

While the Quantum Leap initiatives have significantly reinforced the P&C franchise, our profitability has been below our initial assumptions due to COVID-19 and elevated cat losses. I will now go into more details on these in the next slides. Let's start with COVID-19. COVID-19 P&C claims have been a surprise for the industry, with many reinsurance treaties never designed no price to cover this type of event.

Despite this, SCOR has absorbed this P&C shock. While the current reserves stand at a level somewhat below our direct peer groups, it reflects our best estimate ultimate view based on the information currently at hand. We have also taken strong underwriting actions during the 2021 renewals and we're fully confident that COVID-19 should not significantly impact our profitability for business renewed at the January 1, 2021.

Finally, given the unforeseen nature of COVID-19 from a P&C market standpoint, we expect it to continue to act as a catalyst for future price increases going forward.

Move to the next slide. The second factor of underperformance over the past years has been the elevated impact of nat cat events, which led us to exceed our cat budget in 2017, '18, '19 and the first half 2021. The volatility of our results is an area of concern and focus, and we have been taking proactive actions to try to mitigate this.

This has been done, first, through a very stringent profitability criteria for cat business and the inclusion of the impact of climate change into our pricing models. We have also adapted our retrocession programs, which have historically been very focused on capital events towards more earning protections.

Finally, and in order to reflect the reality of climate change on our nat cat experience and the evolving nature of the risk, we have decided to move to a forward-looking cat budget, starting -- and increasing it to 8% for 2022. We'll reinforce these measures in 2022, with a clear intention to reduce the volatility of our results going forward.

I will now pass on to Romain who will drive you through the way we plan to accelerate our profitable growth journey in the current market environment. Romain, over to you.

Romain Launay {BIO 18747770 <GO>}

Thank you, Jean-Paul. If we turn to Slide 75 and start with the reinsurance market, we see the environment is probably the most attractive market in a decade. With the pricing improvements achieved in 2021, we currently write 3D reinsurance business on average 2 percentage points more profitable than last year, both in expected growth, underwriting ratio and return on risk-adjusted capital. And we expect further risk-adjusted price increases and market improvements in 2022.

While there remains plentiful market capacity, demand for reinsurance is also on the rise. This is due to a general increase in risk aversion fueled by an uncertain risk environment following recent elevated cat activity, social and general inflation as well as the need to restore margins in the industry and compensate for low interest rates.

Finally, payback for COVID-19 related losses, which were generally left out of renewal negotiations in 2021, will also lead to improved rate adequacy. This will provide us with meaningful room for further growth in the most attractive parts of the market, further leveraging our top-tier positioning. In specialty insurance, we will continue to actively ride the market hardening as we did since 2018.

Zooming in our large commercial insurance and facultative reinsurance activity, where market improvements have been the most pronounced, you can see that after years of flattish growth when market conditions were less active, we have broadly doubled the size of this book since 2017, when rates started to improve. We're still very enthusiastic about the business opportunities we see in the market today, and we expect to further benefit from rate-on-rate compounding effects in 2022.

Next slide. Looking more closely at the various lines of business for reinsurance and specialty insurance, we expect most of the market segments to remain attractive or very attractive. And this will offer us flexibility to further grow our book and seize value-accretive growth opportunities in 2022.

In reinsurance, we will particularly focus on Europe fast growth markets and global lines, expanding our shares with a selection of clients with a focus on non-cat-exposed business. In specialty insurance, we plan to put more capacity to work while keeping our risk appetite broadly unchanged in lines such as property, energy, cyber or directors and officers. Finally, we will optimize our rate repurchases to further protect our earnings against frequency.

I will now pass it on to Jean-Paul, who will discuss the perspectives for 2022 and as well as the strategic outlook for the longer term.

Jean-Paul Conoscente {BIO 20770277 <GO>}

Thank you, Romain. Seizing attractive market conditions, as explained previously, we project our growth -- we projected growth of our gross written premium between 15% and 18% in 2022 at a constant rate of exchange. With improved economic return and a net combined ratio trending towards 95% and below as better margin business will compensate for the portfolio mix shift of our cat exposed business and absorb the increased cat budgeted 8% in 2022.

Looking forward to the next strategic plan, we see 5 driving forces shaping the market in the future. First, climate change and ESG are transforming the economies and have become important macro risk drivers. Reinsurers are naturally at the forefront of ESG, specifically climate change due to their risk exposures and knowledge. We need to accelerate the incorporation of these topics into our everyday business, both in terms of pricing and modeling. Reinsurers also have a key role to play in disseminating their knowledge sharing it with the outside world and notably clients and other stakeholders.

Secondly, data and technology have become, today, differentiators in understanding markets and client needs while accessing risk in the most efficient manner. We believe accelerated investment in data and technology will be key to extract value from the business going forward. Third, reinsurance will remain a people business, and the market needs to further future proof it's talent pool to navigate a fast-paced environment. Fourth, the frontier between insurance and reinsurance becomes more and more blurred with the platformization of the insurance ecosystem and a disintegration of the traditional insurance value chain.

Finally, we live in a world of abundant market capacity, which we believe is here to stay. In such an environment, better value will come through differentiation of services and optimization of capital sources. We're factoring these themes into our thinking and initiatives to prepare a franchise for the challenges ahead and remain in a position to create sustainable value.

From its current positioning, SCOR will explore further how to expand across the insurance, reinsurance risk transfer chain, finding new ways to access attractive pockets of growth, while improving its risk market and client knowledge and stepping up the efficiency of its platform. This will be achieved through initiatives around people and talent, innovation, data and technology, developing our NGA platform, underwriting on behalf of third-party capital and the incorporation of ESG drivers into our core business operations. We'll come back to you with more details during 2022 when outlining SCOR's new strategic plan.

This concludes our presentation, and now I hand it back to you, Olivier.

Olivier Armengaud {BIO 20892984 <GO>}

Thank you for this update on P&C. We now move to the first Q&A session. I now invite -- Jean-Paul and Romain, you can stay on stage, Laurent, Ian, Frieder and Brona for this first Panel. And operator, let's take the first question, please.

Questions And Answers

Operator

(Operator Instructions) And we will take our first question from Andrew Ritchie of Autonomous.

Q - Andrew Ritchie {BIO 18731996 <GO>}

First question for Ian. I just wanted to go through a bit more of the mathematics on, I think, it's Slide 36, when you walk through the evolution of the solvency ratio. I guess the first question is, from the comment -- from your commentary and also Laurent's comments, it sounds like the optimal solvency range isn't really the optimal solvency range anymore. You're actually keen to retain a buffer above that, especially at the minute. If you could just clarify that, that is what you're trying to say?

And secondly, on the mathematics, when I, sort of, walk the solvency forward, are you expecting much lower EOF generation than there has been? Because if I allow for the P&C growth you've talked about, plus a, sort of, similar level of EOF generation as to what has been done historically, allowing for the fact there's a bit less Life and allowing for a, sort of, standard dividend return, I'm still struggling to get the overall solvency ratio to full. So I'm not sure what I'm missing in that. Those are my questions.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks very much, Andrew, for the questions. So firstly, on the buffer, I think -- or the -- how you described the solvency and that we're prepared to hold above the optimal range at present. As we described, we're in a period of unprecedented volatility. And yes, the solvency is above the optimal range.

Yes. We are in a stronger capital position, but we're in unprecedented conditions. And we don't apologize for the strength of the balance sheet and it's, we think, the right thing right now.

In terms of the trajectory of the solvency going forward. So on the slide, you're right, we described the moving pieces there. And with the very strong growth on the P&C side, we see high solvency capital requirement that will, in the coming years, flow from that. I talked to the capital return and the flexibility that we have there and the plan for attractive capital return to shareholders. We have the external shocks that we need to absorb. We know that we are in the uncertain position in respect of COVID-19 as Frieder was described by being. We -- I referenced in my speech the European floods, the hurricane season. We know that we have these things to absorb.

And on the eligible own funds, we do expect to write profitable business. We expect to generate capital. That's what we're here to do. And, there is -- to an extent, I think there is a timing element. It is the case that the business we write, we expect the value of new business to come into the eligible own funds. The timing element, to an extent, comes from the fact that the risk margin winding off of the business will take place in future years.

So I think there will be a gradual transition to the optimal range. I mean, we will look at this within the strategic plan as well, of course. But the strength of the balance sheet at the moment is -- given the environment, this is a very positive thing for us.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Can I ask, are we supposed to treat the boxes as mathematically equivalent? Or is that -- how illustrative is illustrative?

A - Ian Kelly {BIO 19976646 <GO>}

It's illustrative. They're not precise in scale, to be clear.

Q - Andrew Ritchie {BIO 18731996 <GO>}

I'm sorry, those external shocks, you said are known. So that is the known impacts of the remaining COVID-19 losses, as you know them today, plus the nat cat as you know it today?

A - Ian Kelly {BIO 19976646 <GO>}

What I'm referring there -- referring to there, Andrew, is that we know that we have these shocks. The quantum is yet to be known. The uncertainty around the Delta variant, for example, which we heard about during the live presentation, there's significant uncertainty there. Likewise, we are still trying to assess and understand the impacts of the recent storms. We know we're still in the cat season. So these are not quantified and known at this stage, but we know we have some significant external shocks and there could be future shocks.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much, Andrew. We'll move to the next question, please.

Operator

Our next question comes from Vikram Gandhi of Societe Generale.

Q - Vikram Gandhi {BIO 18019785 <GO>}

It's Vik from Societe. Just got 2 questions. First is related to the dividend policy where I'm a bit confused, I'm not sure what the message really is. Should we infer that the group is committed to its progressive dividend policy, i.e., EUR 1.8 per share is the base? Or are you hinting to a possible re-basing of a dividend that can be supplemented with share buybacks whenever possible? So that's question 1.

Second is with regard to the significant increase in the PMLs for various peak risks. When I compare this large increase to the change in SCR consumed by the P&C underwriting risks, I see that the latter is actually a bit down year-over-year. So I appreciate there is a diversification across those tail risks or peak risks. But still, what I observe is a bit puzzling. So any comments there would be very helpful.

A - Ian Kelly {BIO 19976646 <GO>}

So firstly, on the dividend policy, we state that we will have -- or define a cash dividend that's commensurate with the earnings of the group, and that we maintain the flexibility in terms of the capital return to shareholders in terms of the tools that we use. So we have a -- the potential for share buyback within the toolbox as well.

So we're not speaking to a progressive dividend from the EUR 1.8 level. Not talking at all at this stage as to how the Board will view that. And, I think, for the 2021 dividend, we have our policy in respect of the dividend commensurate with the earnings. But we need to see where we come out. And the Board will consider the 2021 results. They will consider the capital level of the group and any other issues in terms of the environment and at that point next year.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Understood.

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

This is Jean-Paul. I'll try to answer the second question. When comparing the PMLs between 2021 and '20, do you see the increase, it's resulting from an arbitrage we decided following the renewal of the 2021 metro cession program, where the actual growth on a gross basis for cat was fairly limited. But we decided, given the market conditions, to retain additional risk compared to 2020. So as a result, the 1 and 250 [ph] net AP increased between '20 and '21, but it was more a factor of more retention than necessarily growth.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Yes. Jean, if I can just come back on that. I mean, I understand that to do with the change in retro policy and more retention. But in any case, with more net retention that should have led to an increase in the SCR consumption, isn't that right? I mean, that's really my question.

A - Ian Kelly {BIO 19976646 <GO>}

I think Vik, when we get to the second Q&A session, Fabian will be able to talk to the SCR a little more and some of the impacts there. So we won't forget the question, and we'll allow Fabian to talk to that shortly. Okay?

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you. Vikram. We'll take the next question, please.

Operator

Our next question comes from James Shuck of Citi.

Q - James Shuck {BIO 3680082 <GO>}

Yes. So Slide 36, again, for me, please, if I can. And I'm circling back on Andrew's question really because the EOF generation that you're showing, I mean, you've guided in the past for kind of EUR 800 million, EUR 900 million of own funds generation. And that was a little while back. So P&C has probably increased a bit, and Life might come down a bit, but probably broadly stable.

But your dividend cost is about EUR 400 million, and I appreciate these boxes illustrative. But just sort of about half of the EOF generation that's coming out via the dividend. So is that capital return box that you're showing, is that kind of a flex number? Are you essentially saying that you will manage down sort of the higher end of the optimal range within 2 years? And you'll do that by filling in Box number two in order to get there? And if you could just comment on what your appetite for M&A is within that framework would be helpful.

Second question, also on Slide 36. The additional SCR for P&C growth. So you're seeing a big reduction or a big increase in the SCR. It's difficult to know what that number is by how you're showing it, but it might be in the number of kind of in the region of EUR 1 billion to EUR 1.2 billion increase in SCR, which seems to be a very high number in relation to the premium growth that you're expecting both in 2022 and even if I roll that forward, the same 15% growth or so into 2023.

So when you're talking about the premium growth, what is the capital load that we should be applying to that premium growth when modeling the increase in the SCR? Because, in the past, you're diversifying all of that growth away partly due to financial risk, but it is diversifying away. So can you just outline what you're assuming in terms of diversification and in terms of capital strain on the P&C re-growth, please?

A - Ian Kelly {BIO 19976646 <GO>}

Okay. James, thanks for the question. So I'll pick up on the first part of the question. Just in terms of the steps on the slide, and how we're going to manage the solvency ratio, it is indicative. And as I explained with the response to Andrew, there are some timing differences. We expect to be writing a profitable business, and we would expect to be in a position where this starts to, maybe slowly at first, but transition towards the upper end of the optimal range.

Now when it comes to saying, are we going to simply cover the gap with step 2 with capital return? Just to be transparent, I said at the outset of the Q&A that we remain in a very uncertain position. These are unprecedented times in terms of some of the exposures. So I think it's premature to say that we're just going to return the excess at this point.

I think we need time to understand the environment, understand the picture overall in the context of the growth, the external shock environment, the pandemic. And given that picture, consider the capital return to the shareholders as we progress through time. It's too early to say at this point that we would just cover over that gap.

Q - James Shuck {BIO 3680082 <GO>}

Yes. Just a follow-up -- sorry, Ian, I didn't need to interrupt you. But just a follow up on that before we move on to the capital strain point. I'm just keen to know that, I mean, there is obviously a gap between what Solvency II tells your optimal ranges and what your credit rating agencies are telling you. Do you think that, over the next 2 to 3 years, if you need to execute on share buybacks, you need to monetize the Inforce again in order to do that?

A - Ian Kelly {BIO 19976646 <GO>}

It's true that we have multiple constraints. That's absolutely the case. And the targets of the group are solvency and profitability, and we run the group on the basis of the internal model. But within that, we have constraints that go beyond pure profitability and solvency. We have, for example, in local statutory environments, we have solvency constraints, statutory constraints there. And we have the constraints of all of the 4 rating agencies. Now these are more binding than the Solvency II position. That's clear.

The -- on the required capital, typically for the rating agencies, that's higher. We have various drivers there. For example, on the asset risk side, the requirements are more onerous. And then on the available capital, on rating agency models, typically, that is more constraining also. For example, you don't get the credit 100% for future profits and so on. So there are different reasons for why they are more constraining, but they are more constraining, that's true.

Now we would need to, as we go through the capital management process, and as we go through the decisions around capital return, look at all of our constraints. And that's the process that we follow. We manage the group to ensure that we secure our solvency and we secure our ratings. So that's a critical part of the equation.

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

And perhaps, James, on your question, is an in-force monetization needed to do share buyback? No. I mean we could do more in-force monetization, but I don't see a direct link. We look at these 2 topics individually and separately and they're not directly linked.

A - Ian Kelly {BIO 19976646 <GO>}

Yes. Absolutely. On the second half of your question, again, James, I think what would do is allow Fabian in the second Q&A session to pick up upon the specifics around the SCR that you raised.

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

Thank you, James. We'll take the next question, please.

Operator

Our next question comes from Will Hardcastle of UBS.

Q - William Hardcastle {BIO 16346311 <GO>}

Just firstly, a quick clarification rather than the 2 questions. The first one is dividends. Just do clarify that the EUR 1.80 is still the base? Or should we ignore that now as the new strategy is said to be set [ph]. It's just a clarification from an earlier question.

The first question is just on catastrophes, can you, perhaps, give us an update on how you landed at the uplift of 1 percentage point to that budget, talking through forward-looking commentary you provided there on the modeling. And how much is the assumption that the optimized retro will save you versus history on the cat budget within that mix?

And the second question is just linked with that Life earnings and the capital generation. Of the reserve or the releases [ph] of EUR 600 million to come through, is this capital generative from here? Or is it already booked in solvency given its best estimate? Just trying to get a grip on that.

A - Ian Kelly {BIO 19976646 <GO>}

Will, thank you very much for the question. So on the first point, in respect of the dividend, we don't have a base that we communicate. It's, as I've said before, commensurate with the earnings of the group. You can see the -- I know the -- you pick out our dividend history. But I would say that we will look at -- or the Board will look at the earnings of the year. They would look at the capital position and make the decisions based upon where we stand, and we've still got some way to go. So it's premature to talk about the 2021 dividend position.

But there's no predefined floor [ph], in answer to the question.

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

With regards to the cat budget, we -- what we try to do, as I said, is more forward-looking budgeting. So we take into account the history, and we take this, both on a historical basis as well as on a modeling basis to have a longer perspective. And we try to incorporate as well the changes that we want to implement in our retrocession program in 2022. So the result of those 3 analysis lead to the 8%.

A - Ian Kelly {BIO 19976646 <GO>}

Coming back to the question in respect of the EUR 600 million run rate on the Life technical result and the earnings. This is solely IFRS basis and the -- I think the accretion that we reflect there is a lift in IFRS only. The -- there's no impact on Solvency II. As the -- we already have accounted for the future profits and then any of the discussions that have taken place out of that.

Q - William Hardcastle {BIO 16346311 <GO>}

That's great. Just coming back on the cat budget, if I may. Were you able to give us an idea of, perhaps, what the cat budget would have changed to, had you not been looking to undertake retro changes as well in the full year? Is it possible or not? .

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

I could tell you they have been higher, but the balance is -- how much higher is a bit difficult because it's, sort of, circular. If we're not able to do what we plan to do on the retrocession side, we probably would taper back down the growth on the cat line. So overall, we're trying to manage all constraints to land around the 8%.

A - Olivier Armengaud {BIO 20892984 <GO>}

We'll take our next question, please.

Operator

Our next question comes from Vinit Malhotra of Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

I'm not sure if I have to ask 1 or 2 questions, I'll try with 2 and if you think it's too much, tell me. The main one -- apart from Slide 36 for me as well, but the main one is the P&C growth where a few topics are converging. One is that the 2H '21 seems to be a very low 3-odd-percent growth, quite a bit of a slowdown, any comment would be helpful.

Secondly, just on the growth topic. You clearly communicated limited growth on cat, but you're still increasing the cat budget. I mean, are you being too conservative? Are you losing out? We heard from Laurent in the beginning that score is in the best case ever and what give us such an attractive business? Also, on the similar topic, there is a comment that man-made losses are trending down Slide 19, but then you're going to probably grow specialty lines and Laurent mentioned, doubling of large corporates. So just, if you could touch on some of these topics regarding P&C growth and cat budget and -- would be very helpful.

And if I can ask a second question, I'll put it on the table and we'll see it this time or (inaudible). If on the $600 million unchanged Life technical result, I mean usually in a retrocession, the other partner gets something as well. So I mean, if you have retroceded out, how is it that there is no change of all to that particular building [ph]? Is it just the emergence of future profits, but that should already be in the cash flow that you got? Just a quick clarification would be great.

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

I'll try to answer the first question. On the P&C side, the growth, as we tried to detail, is coming -- going to come from 2 main areas. The first one is specialty insurance. As you know, we have a fairly small footprint in specialty insurance and the opportunities available are numerous and widespread. So we think by -- without changing our risk appetite, there's room for significant growth at very attractive terms. And that's one part of the large growth. The specialty insurance portfolio today is roughly EUR 2 billion. And so 20% to 25% growth there is 1 pocket of the growth that we project.

The other pocket is Global Lines. Again, that's an area where we have a relatively small footprint on the reinsurance side that we consciously took. I explained some of the remediation actions we took in 2020 on lines like marine, engineering and Lloyd's third-party capital provision. And those markets since then have dramatically improved. There's been large market remediation taking place. And now we think it's a good time to come back and regain positions in those market segments.

The other areas are Europe, where we expect significant price increases following the cat activity in 2021 as well as the COVID claims. And so there, the growth will be both from price increases as well as small incremental shares and fast growth market, which comes from the organic growth of those marketplaces.

In the U.S., we remain cautious. I think there is significant price increases we see in those markets, but also significant volatility both on property and casualty, including social inflation, which remains very rampant in the U.S. And we also see the effects of climate change affecting dramatically property risk in the U.S. So in the U.S., our growth is more cautious.

A - Ian Kelly {BIO 19976646 <GO>}

Vinit, on the question in respect of the run rate of the Life technical margin and the consistency with the EUR 600 million, we do see profitable business. And without any other adjustment, if you like, under IFRS, we see a reduction in the base net technical result on an IFRS basis. that comes from seeding that profitable business.

Yet, because of the under IFRS, the ability to bolster our overall balance sheet in terms of bringing in prudence to our best estimate assumptions. We're able to allow for a faster emergence of the profit. So there will be no dilution of the earnings. We will see that faster emergence, the acceleration of the profits coming through as the reserves unwind quicker. And hence, we are able to maintain the run rate, despite having ceded profitable business.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Can I just please ask, it's not all about the P&C side. So what I meant to also explore was the second half of '21, it seems to be a wrong very timid growth rate, 2%, 3% implied in your EUR 7.5 billion number. Is there -- because I remember last year to it [ph] also, sort of, more negative 1% or 2%, and we already have a low base. Is there some one-off there? Or is it just that you're going to have a few more quarters of slow growth and then a pickup next year?

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

Well, what we see is for first half and as well as we start gathering the numbers for Q3, we see that the growth has been impacted by the rate of exchange between the dollar and the euro. This is basically a shift in the growth of U.S. dollar denominated premium of about 7% between constant rate of exchange and current rate of exchange.

And 2020, there was a significant part of the book that was in U.S. dominated premium. I think as the 2021 underwriting year starts earning in Q3 and Q4, you'll see more euro-denominated premium earning in that second half of the year and, sort of, a diminishing effect of the exchange rate. But we still -- for the whole year, we still have the impact that we saw in Q1 and Q2 between the euro and the dollar. And that's explained, sort of, the lower-than-expected growth at constant exchanges that we're projecting.

A - Olivier Armengaud {BIO 20892984 <GO>}

We'll take our next question, please.

Operator

Our next question comes from Thomas Fossard of HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Just a clarification on the new technical margin guidance in line with the 2.8%, 2.4% indicated for 2022. Just to clarify that there is no specific one-off in 2022 and that guidance is the current one for the subsequent years as well. The second question would be also related to the Life business. I mean -- and then come back to this change in strategy or shift in strategy of value versus growth previously. Can you maybe tell us what has driven this change in strategy or in mind? I mean, have you discovered something in the book in light of the COVID crisis that you were not completely comfortable with and hence, the change in focus?

And the third and last question would be on the P&C and the P&C growth. Actually, you're shooting for a significant amount of additional premium. Can you talk about the operating leverage you have in your P&C division? And notably, if we should expect some relatively nice improvement in the admin expense ratio as the result of stronger growth coming with maybe a little additional investment to be made?

A - Frieder Knupling {BIO 17247809 <GO>}

Thomas, Frieder speaking. Thank you for the question. I'll start and then hand over to Brona. On the question on the technical results and margin guidance, the simple answer is, no. There's nothing -- there's no one-off included in this. This is what we consider a true run rate for next year that exclude potential COVID losses as we indicate on the slide, but there's no particular one-off positive impact included in it. And Brona, I'll leave the other questions to you.

A - Brona Magee {BIO 19493460 <GO>}

Yes. Thanks, Frieder. Yes. On the Life strategy, just to be very clear, there is no change in strategy from the Life side. The Quantum Leap strategy was based on creating value and impact and that very much continues to be the strategy. So we do see our Protection business continuing to grow for 2022 at about 3% to 4%. That's very consistent with the Quantum Leap growth assumption. That continues to be led by growth in Asia Pacific, where we see continued strong growth.

In our mature markets, growth is lower. We do have leading positions in those markets. So we're not necessarily expecting to see strong topline premium growth, but our focus is growing the value that we get from the premiums we get in those markets and the new value proposition definitely increases the value we get in our mature markets.

And then on our transaction lines, as I explained, topline premium is less and less a good measure for these transactional lines. We do see the market changing. So we don't see these lines really contributing to topline premium growth, but very much contributing to value creation. So absolutely no change in strategy from the Life side. We do continue to see growth in protection and continue to see opportunities to create value in our transactional lines.

A - Frieder Knupling {BIO 17247809 <GO>}

Thomas, your question on operational efficiencies on the P&C given the growth, I think it's a story of 2 tales. On the reinsurance side, we definitely have improved leverage as we plan to grow premium with an infrastructure that will be slightly bigger, but where we can obtain significant leverage. On the specialty insurance side, it's a much more expense-intensive business and so the growth in that area will require further investment.

So overall, we're not necessarily changing the guidance. I'd say, the one area where we have taken the view of keeping our assessment constant is on the automation and digitization of our processes. We have made significant investments in this area over the Quantum Leap plan, and we should see some benefits, but these are hard to quantify. So we haven't really included them in our projections yet.

Operator

And our last question comes from Andrew Ritchie of Autonomous.

Q - Andrew Ritchie {BIO 18731996 <GO>}

It's a follow-up. I just -- so Jean-Paul, on the non-Life business, I thought the last 2 years, you were attempting to reduce sort of frequency exposure by moving up layers in particular. I'm getting the impression that you feel that maybe hasn't worked. And now -- well, first of all, there's a change of cap budget, but you also -- I think the implication from the retro changes is to buy much lower attaching retro to provide much more frequency coverage. Can you pull those 2 together? What you've done on a gross basis? And what you now feel you need to do additionally with retro to address this frequency issue? Because I'm just trying to check to what degree you've managed to improve it already or not?

And I had 2 other very quick questions to clarify on P&C. In one of your slides, you mentioned IFRS 17 and the expected economic value in P&C through the contractual service margin. I have assumed the CSM was not relevant for your P&C business, it would be mostly a PAA accounting given this duration. Is that not the case? And the final clarity is, you talked about a liquidity event in digital ventures in 1Q '22. Is that a liquidity event where you are assuming you will withdraw cash or you'll realize cash? Or what exactly do you mean?

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

Thank you, Andrew. So on the first question, you're right that we started taking action in 2020 on reducing the volatility of results to small to medium-sized losses. I think -- and we took decisive actions in Japan and the U.S. already as well as starting already to shift our retrocession towards more earnings protection. I think what we're seeing is an acceleration of the climate change effects that we had initially anticipated would be more gradual. So I think what we're seeing is, it's accelerating. And therefore, the actions we took in place need to be enhanced and accelerated as well. So that sort of answers your first question, I hope.

The second question on the introduction of IFRS and the CSM is more sort of a signal that we've really measured the profitability of the P&C business by the combined ratio, and very rarely have discussed the return on equity of the business. I think as we move to a different accounting norm with IFRS 17, the remuneration on capital will be much more public and transparent.

And on your question whether it's the CSM or the PAA that will be the driver, I'll leave that more to the accounting experts in the room. But the intent there was really to signal that there's some lines of business where we think there is good return on capital, but a higher combined ratio than what we write today that could be appealing under IFRS 17 lens.

On your last question on the P&C Venture and -- sorry a financial P&C Venture. So this is one investment where we're currently in the lockup stage. But we will have the opportunity to cash in our investment if we so choose in Q1 2022, and that's what we mean by that. And it's -- we've had some investments we're able to cash in some of the investments we had, but this is one of the significant investments that we have that will become an option early next year. And I think it's important to specify that in the greater scheme of things as far as P&C Venture is concerned, there is an ambition to grow the portfolio so that liquidity would be part of the reinvestment of the overall portfolio, partly at least.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Andrew, and thank you, all. So that concludes the first Q&A session. We'll now take a 10-minute break and will return for SCOR Global Investments presentation at 2:50 Paris time. Thank you very much.

(Break)

+++presentation

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much. So let's make a start. In the second part of the Investor Day, we'll cover 4 important topics for SCOR: investments, technology, sustainability and risk management. As a reminder, the second Q&A session will be opened after the presentation, and we'll focus on those topics. With this, I would like to introduce Francois de Varenne, Head of Investments and Transformation. In his first presentation, Francois is going to explain particular how he is actively continuing to diversify into accretive value creation assets. Francois, over to you.

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

Thank you very much, Olivier. Good afternoon, everybody. I will be very quick this afternoon and just spend time on the 5 key messages of my presentation on investments, leaving any points you may have afterwards for the Q&A session. My first message will be on sustainability. In a few minutes, Claire will give you a deep dive into

SCOR approach and commitment. As far as investments are concerned, we delivered consistently on our commitment to act as a responsible investor.

Our approach is based on 4 pillars: The first one is, of course, climate change. We have set a 27% reduction of the carbon intensity of our corporate bond and equities portfolio by the end of 2024. Second pillar, which is really new in nature. We believe nature is the next sustainability challenge. In this respect, we have refined our sustainable investment policy, which you can find on SCOR website to onboard nature. We want to better understand the dependencies and impact of major biodiversity challenges such as, for instance, deforestation.

Third pillar, transparency and public debate. We stay active in the public debate and have assigned calls, asking for concrete actions to tackle climate change and biodiversity challenges. Fourth and final pillar of our sustainability approach, engagement. We engage collaboratively with investees on nature-related challenges through public initiatives. We strongly believe that delivering consistently on our commitment to act as a responsible investor is good for the performance of our portfolio since it will deliver long-term superior value, but it is good as well for the society. Financing the sustainable development of society together is really our investment purpose.

Let's move on to the second key message, where are we investing today. As indicated during the presentation of our H1 results at the end of July, we started to invest our excess liquidity in early July mostly in U.S. corporate bonds. This deployment is targeted for completion by the end of this year, returning us to our, I would call, normal asset allocation. Liquidity is expected below 10%. Corporate bond exposure should be between 43%, 45% of the asset allocation. And with a slightly increased duration of the portfolio corresponding to the fact that we are going to close the duration gap and follow a strict ALM discipline.

What does it mean for our financial contribution to the group? I confirm that the return on invested assets expectation for this year, so 2021, stands at the top of the range announced beginning of the year at 2.0%, 2.3%. For next year, 2022, under current market conditions, it is expected to be in the same initial range as for 2021, 1.8%, 2.3%.

My third message on investment. We actively continue to deploy active value creation assets and to build the future financial contribution on our portfolio. On top of the redeployment of our excess liquidity into corporate bonds that will be done by the end of the year, we are continuing actively our portfolio diversification with additional investment into private equity, private debt and infrastructure. With interest rates still very low, we believe the environment is indeed supportive for private assets.

Our goal is very clear. We want to progressively align our asset mix with peers and increase progressively the contribution to earnings made by investment returns. Among invested assets, significant in H2 2022 and next year -- in H2 2021 and next year 2022, we intend to commit a total of EUR 400 million in these asset classes, private equity, private debt and infrastructure. This additional commitment should bring the total exposure to value creation assets above 10% at the end of next year, 2022.

My fourth message is about SCOR Investment Partners, our asset management company. We continue to expand our asset management franchise and maintain a strong momentum with today EUR 5.4 billion of assets under management provided from third-party clients. The goal here is simple. We want to generate fee-based revenues for the group. On ILS, we are now a leading asset manager with a highly successful track record since inception. We launched our funds 10 years ago, and assets under management have reached today USD 3 billion. We have just released a new video on the website, if you are interested in meeting our excellent ILS team.

My fifth and final message will be on IFRS 9. As you know, SCOR has decided to adopt IFRS 9, 1 year ahead of schedule in January 2022. You will see in the slide, the key principles involved, particularly what is going to change and what will remain the same. Higher volatility should be expected because more assets will be measured at fair value through P&L and because of the new credit impairment methodology requested by IFRS 9. We intend to provide continuity on income yield calculation between the IAS 39 norm and IFRS 9 standards. Please note that for me, one advantage of IFRS 9 is that it will give us earlier recognition of future financial contribution of private equity, private debt and private infrastructure, which is a good news given the additional investment on this asset class I mentioned earlier.

To conclude, despite the challenging interest rate environment we are still facing, you can rest assured that with the support of the entire Group leadership, my team and myself, we are fully mobilized to make the most of our investment portfolio. And with this, I come to the end of my presentation on investments. Thank you very much for your attention.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much, Francois, but you can stay on stage for your second presentation on technological ambition and transformation. Francois?

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

Thank you, Olivier. Having taken on technology as a new area of leadership very recently, I will use the format as in my previous presentation, spending time on 4 key messages. Most of you, I guess, are convinced already -- know that our tech ambition in Quantum Leap is mostly significantly linked to the massive investments we are making on IFRS 17. But we have also delivered much more than this much more than this. And I have seen, over the past few days, with a deep dive into our technologies at SCOR. Indeed, I'm really amazed by the number of projects we have implemented and by the positive impact we already measure on our operations. In this presentation, I will take you through our transformation roadmap, which is broader than technologies.

First stage, we've continuously, since the beginning of Quantum Leap, deployed new technologies that support our transformation and improve our efficiency. We have largely developed our knowledge and skills on cloud, artificial intelligence, big data and analytics, robotic process automation and e-business supported by technologies like blockchain. We have deployed productive solutions that leverage these technologies. This has brought benefit to the group as a whole, especially in terms of data-driven services, process automation and cloud-based infrastructure.

Second key message on technology. With our multi-cloud strategy, we bring innovation, agility and efficiency. Let's look first at what we have achieved in terms of multi-cloud ambition. We plan to be operating in full public cloud mode by the end of next year, 2022, and we are on track to meet this objective. We had already moved 50% of our server as of mid-2021. This includes our cloud system to manage our insurance operation, Omega.

We are already seeing some concrete benefits in our operation, more scalability for our risk model, savings on earning costs, mainly thanks to the on-demand model, which means we pay what we use, not more; access to powerful Lego blocks to build our solution, especially in the data management area; access to data center resources when strict localization is imposed by regulation; and finally, agility in our projects.

Let us move to the third key message. We digitize and optimize activities, thanks to automation and robotization. In terms of automation, we have built a specialized team, which has partnered with all parts of the organization to identify processes to be automated through a portfolio of solutions from robotic process automation for very repetitive tasks to business process automation for more complex processes. We have also introduced artificial intelligence, mainly for the automatic reading and interpretation of the documents we receive.

In terms of benefits, I see mainly two. This has dramatically increased our automation capacity. Process dematerialization has helped to overcome processes, which were at risk in the context of the COVID-19 lockdown. On top of this, back-office transaction based on structured messages are not massively processed in a straight-through mode. And centrally received P&C claims e-mails are now automatically read by AI to route to the right person.

My fourth and final message on technologies. We extract value from data to deliver innovative services to clients. Activity in terms of data has also taken a big step forward through the addition of central platform, the structure and organize the work of teams, devoted to extracting business value from data. Our business and ITTs have also continuously increased their knowledge in data science and data engineering since the beginning of Quantum Leap. Here, again, there have been very concrete outcomes. These have not just been used for evaluation of prototyping, but have led to the delivery of high-value services.

Let's now move on Slide 110 of this presentation, which look at how we intend to transform the group. Simplification and transformation are a key ambition as mentioned by Laurent for the upcoming strategic plan. This ambition is three-fold: first, we want to increase our adaptability and resilience to a fast-changing environment; second, we want to use technology to access business nimbly with superior value-added services and solutions for our clients; and third, we want to create long-term value based on strong operational focus and efficiencies.

And with this, I come to the end of my -- of all my presentation today. I would like to thank Romain Launay for the great job he has done with all his team, paving the ways for the next strategic plan and our transformation agenda. Romain and I will answer any point you may have afterwards in the Q&A session. Thank you very much for your attention.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much, Francois. Let's move on to our next presentation, a very important one for us, sustainability. And for the first time, we have dedicated a full section during our Investor Day to this topic. So I'm pleased to welcome Claire Le Gall-Robinson, our Chief Sustainability Officer. Over to you, Claire.

A - Claire Le Gall-Robinson {BIO 18275429 <GO>}

Thank you, Olivier, and good afternoon to all. Next slide, please. SCOR has been at the heart of enabling the development of societies for more than 50 years. The COVID-19 crisis has illustrated and SCOR's role as a reinsurer has never been clearer. The group has a vital part to play in the sustainable development of society and then have societies plan for, manage and recover from crisis. SCOR was very proud to adopt raison d’etre this year at its 2021 AGM to reflect this conviction. SCOR's raison d’etre, combining the art and signs of risk to protect societies, was drafted based on SCOR's existing mission statements. And reaffirms SCOR's singularity and the values that guide the group's daily and long transaction.

SCOR sustainability strategy is embedded in the 3 pillars of corporate governance, environmental and social pillars, which I will present in this order. Dialogue with all stakeholders and coordination with other market players is key for the group. As of today, SCOR has joined 23 international sustainability initiatives, 62% of which are tailored for the financial sector.

SCOR's new governance structure, which is built around empowered leaders and an experienced Board creates a very strong momentum to tackle the next phase of the group's strategic development. SCOR's governance is dynamic. It has constantly evolved to adapt to the group's needs, to stakeholders' expectations and to the best market practices and recommendations issued by regulators or stemming from the AFEP/MEDEF corporate governance code.

SCOR's Board internal regulations has been updated to reflect the dissociation of functions between the Chairman of the Board and the CEO. They provide for a clear allocation of roles and responsibilities between the Chairman, who is in charge of organizing and managing the work of the Board; and the CEO has full authority to manage SCOR's business, subject to a limited number of key matters requiring preapproval of the Board.

The non-Executive Chairman is assisted by an independent Vice Chairman appointed by the Board. SCOR's Board of Directors is comprised of 16 Directors, 2 of whom are employee representatives and is highly qualified, diverse and largely independent. The Board is advised by 7 specialized committees. The new CEO is also supported by a fully dedicated executive committee comprised of 8 professionals in charge of the business units and group functions. As a Tier 1 global reinsurer and in line with its raison d’etre [ph], SCOR is firmly committed and has a consistent approach to contribute to achieving carbon neutrality by 2050.

First, as a responsible investor. SCOR's contribution is reflected in its active involvement in the Net Zero Asset Owner Alliance since May 2020. In April 2021, SCOR decided to accelerate its commitment and announced that it will reduce, by 2025, the carbon intensity of its corporate bonds and listed equities portfolio by 27%, as Francois mentioned just earlier. This ambition clearly strengthens the various commitments made in recent years on the investment side, especially in terms of exclusion policies and best-in-class strategy.

Secondly, as a responsible reinsurer, SCOR constantly explores how to better integrate ESG issues, including climate-related ones into its insurance activities. On July 12, 2021, SCOR, together with 7 of the world's leading insurers and reinsurers, has announced the launch of the pioneer Net-Zero Insurance Alliance, illustrating the group's strong belief that global reinsurance industry has a leading role to play in accelerating the transition to a more resilient, net zero motion economy in line with the 1.5-degree target of the Paris Agreement on climate change.

SCOR's ambition is clear: to actively support its clients in their own commitments to follow credible transition pathways, helping them obtain a net zero emissions business model. Finally, as a responsible company, SCOR is also carefully monitoring its own environmental and carbon footprint in order to reduce it and in line with the French Business Climate Pledge. Which was first time in November 2015. The group has already achieved its objective of reduction of carbon intensity per employee by 2021, which was set at 30% compared to 2014.

In addition and in line with the Quantum Leap strategic plan, the group has upset 100% of all the residual emissions from its operations in 2019 and 2020. Beyond fighting climate change, preserving natural assets have become a tremendous challenge for the financial sector, and SCOR intends to play its role in addressing it.

Similarly to climate change, the issue is highly complex and multifaceted with hazards becoming more threatening as time passes. Identifying, understanding and addressing risks associated with biodiversity loss is critical and requires the combined efforts of public institutions and the private sector. In this context, the SCOR Foundation for Science has paired with the Natural History National Museum to conduct a large-scale study on the risks associated with biodiversity loss, which was published by the SCOR Foundation in May 2021.

The publication of the report represents a key milestone, not only for SCOR, but also for the entire insurance industry. As first steps of active involvement on this topic, SCOR has also joined several international initiatives on biodiversity. The most important one is the Finance for Biodiversity Pledge, whose 5 pillars are fully aligned with SCOR's approach: collaborating and sharing knowledge, engaging with companies, assessing impact, setting targets and reporting publicly.

Social impact of SCOR's activity is also crucial, and SCOR's ambition is notably to have an impact on people's lives to create long-term sustainable value. Focusing on health and well-being is intrinsic to SCOR Global Life's activities. The group's human capital management policy is comprising of 3 dimensions: first, promoting diversity, inclusion and equal treatment. The group has launched this year a global diversity and inclusion audit, the results of which will gear the group's D&I strategy one step further.

Secondly, retaining talented employees by facilitating an improved work-life balance. And thirdly, supporting communities through employees involvement and solidarity initiatives. This strategy revealed successful in 2020 with 400 days of community engagements recorded despite the COVID-19 crisis.

In terms of gender diversity, the group has defined ambitious targets in its new roadmap. The Board of Directors has decided to set a target of 20% of women at the Group Executive Committee level by 2021 and 30% by 2025. Building a strong pipeline of senior female talent is also crucial, and the Board of Directors has also decided to set additional targets of 20% women from 19% today by 2025, amongst SCOR's partnerships. To reach these objectives, a clear emphasis will be put on developing female talent, raising awareness on gender equality and equal pay.

As part of its sustainability journey, SCOR's committed to promoting the integration of ESG criteria, in particular, climate-related ones, into the group's compensation structure at all levels of the organization, whether it be the CEO, members of the Group's Executive Committee or employees.

SCOR's accountability on sustainability stems from a regular and comprehensive reporting. The group's universal registration document, which provides clear insight on the sustainability strategy, its implementation and its results. And the climate report and sustainable investment report, which provides details on SCOR's climate strategy. SCOR has also recently published a mapping of its existing sustainability disclosure against SASB standards, reflecting the work done by the group to build comprehensive ESG data, which covers all of the group's activities and sustainability-related topics.

As a final word, it is important to highlight that SCOR's journey towards sustainability is increasingly recognized by nonfinancial rating agencies. In 2021, again, several ESG ratings of the group have been upgraded by these agencies.

Thank you very much.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much, Claire. For our final presentation, I would like to introduce a new member, Fabian Uffer. Fabian is our new Chief Risk Officer, and he will take us through the group CRM framework and how it is supporting capital deployment. Fabian, over to you.

A - Fabian Uffer

Thank you very much, Olivier. I'm very excited to continue the journey of art and science of risk at SCOR. And we'll start with Slide 130, which shows SCOR established and proven risk appetite framework, which is core foundation for continuing business development. It has 3 pillars: the framework defines the amount of risk it's prepared to accept; its risk preference, namely the kinds of risks SCOR wants to underwrite; and the risk tolerances, which monitor the limits of exposure for the accepted risk categories.

As you can see on Slide 131, all exposures are below the limits that SCOR has set for Quantum Leap. If you look at the changes year-on-year, we see a significant growth in the net of greater exposures to U.S., earthquake and hurricane; European, windstorm; and Japanese, earthquake. The main changes are due to our restructuring of the retro program to focus a bit more on earnings protection. The increase of the gross exposure is more moderate.

Moving to Slide 133. You see that SCOR has again demonstrated, in H1 2021, a very solid solvency capital generation with the solvency ratio standing at 245%. As explained by Ian, the recent Life in-force transaction increases the solvency ratio by 27 percent points due to the release of the risk margin in the eligible loan funds and the reduction of the solvency capital requirement in line with the cited risks.

The solvency ratio is reduced by 6 percent points due to the improvements in the modeling of different risks in the internal model as well as some improvements in our valuation models. We are proud to update our models along the experience and learnings we make. If you look at the historical movements, reduction and increases due to model changes even out.

In the operating impact, we see a solid growth in eligible own funds where we provide more details on the next slide and the capital deployment in line with the Quantum Leap plan. The increase in interest rates, particularly in Q1, was favorable for the solvency position and drives the increase of 10 percent points in the market variance step.

On Page 134, the detailed eligible own funds bridge from year-end 2020 to half year 2021 reveals SCOR's very strong value of new business, supported from both the P&C and Life business units. Both currently produce VNB above the Quantum Leap plan. This can nearly entirely compensate the slightly lower expected in-force contribution from the reduced expected investment returns and the reduced release of the Life risk margin as a result of the recent Life in-force transaction.

Another benefit of this retrocession agreement that was already mentioned can be seen on Slide 135. Compared to year-end 2021 -- 2020, the interest rate sensitivity of the solvency ratio at half year reduced by 2 percentage points for negative shocks and 3 percentage points for positive shocks. Roughly half of the effect comes from the transaction and the other half from increased interest rate levels. All other sensitivities move only marginally.

On Slide 137, you see SCOR's updated emerging risk universe, which illustrates how wide the trends create interdependencies between many of the risks identified. For example, the impact of the pandemic has been felt on many levels, both due to health impact, but also to the social isolation and in some case, financial hardships that lockdown initiated. In view of this, the risk mental health has been added to the SCOR's radar in 2021.

To conclude the enterprise risk management section, let me highlight on Slide 138, SCOR's dedicated work on climate change risk. SCOR is conscious of the risks that climate change is creating for all aspects of its activities and the importance of assessing current and future impact. SCOR is acting across 3 pillars: our own operation, as explained by Claire; the investment portfolio, illustrated by Francois; and our underwriting activities. More details on this can be found in our second published climate report displays on Slide 139.

With that, I'd like to thank you for your attention, and I hand over back to Olivier, who will start the second Q&A session. Thank you, Olivier.

+++qanda

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Fabian. We can now move to the second and last Q&A session, focusing on investments, technology, sustainability and risk management. To do so, I would like now to invite Francois, Romain, Claire, Fabian and Laurent to come on stage.

And before we start, one follow-up question for you, Fabian, that we had in the first Q&A session. Could you please get back to us on 2 questions related to the SCR. One on the SCR growth and the second was around diversification.

A - Fabian Uffer

Thank you, Olivier. Let me start with the diversification question, and we have a dedicated slide in the appendix, which shows our risk split. Here, I think we can see that after the recent Life in-force transaction, the diversification stage is at a very high level, but the contribution of the different business units has slightly shifted. And I think this is always a good slide to start your calculation on -- or your view on how diversification plays at SCOR. So the growth on the P&C, you will see that the P&C standalone risks evolve, and then a diversification can be approximated with the other numbers on this slide.

Let me come back on the second question around how much SCR, the growth in P&C, will consume. And I think Ian had a slide, which showed that quite transparently. Currently, we estimate that we will use SCR that would reduce the solvency ratio around 10% to 15%. This number is still quite volatile because we need to see where exactly the growth happens, how diversified this is already in the P&C portfolio, and what kind of retro structure we put on top of this.

But we think that the growth that we have seen in the last 2 years on our SCR was maybe on the lower side to what we would see as a normal run rate. And in particular, what we would see now with the growth on the P&C. I hope these 2 slides answer the questions that we had from the first session. If not, please come back and I'll try to be more precise. Thanks a lot.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Fabian. Operator, let's take the first question, please.

Operator

(Operator Instructions) And we will take our first question from Thomas Fossard of HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Again, two questions. The first one would be addressed to Francois regarding the investments. Just was wondering how much capital you managed to attract from the group to support the slight re-risking of the assets? And I would say, for clarity's sake, are you able, overall, to state how much capital has been freed up by the Life [ph] deal? How much has been allocated to P&C growth? How much has been allocated to re-risking the investment portfolio? And at the end, how much is, I would say, unallocated at this stage?

The second question would be related to your ESG strategy. I don't see anything on the writing guidelines. And the question is coming from the fact that you intend to grow significantly on the specialty lines, energy and other segments, where potentially you mentioned in conflict with your ESG guidelines. So could you clarify what you intend to do on the underwriting side of things?

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

So maybe -- thank you, Thomas. I will -- I think I will share the answer of your first question since it's a little bit broader than just investment. On investment, maybe Fabian will complement. As you saw in the slide Fabian presented a few minutes ago, when you compare the standalone basis and the capital allocation after diversification benefit, you can see that the internal model attribute a significant amount of the diversification benefit across the balance sheet to the investment portfolio.

So which means that's why when we re-risk at least in a portion where we are doing it, it has ultimately a marginal impact on the solvency ratio, maybe 1 or 2 points. But due to the diversification benefit, it really diminishes the effect on the solvency ratio.

For the -- Ian, maybe for the allocation of the capital due to the recent Life transaction.

A - Ian Kelly {BIO 19976646 <GO>}

Yes. On the recent Life transaction, I mean, we described the -- quite directly the increase in solvency capital that's available. And that's a boost of 27% in the solvency ratio as we described earlier on. We get, in terms of hard capital, a bump in that we receive around EUR 860 million in cash, and we get benefits on a rating capital context as well.

We don't disclose the precise details of those, but the transaction from a capital perspective is beneficial across all measures. In terms of allocation of that across the business units, in particular, into the assets, we look at, as we develop our plans -- as we develop our strategic plan. And then as that's built into a more detailed level with the operating plans, we look at the capital intensity of each of the individual opportunities, whether Life, P&C, by line of business or whether it's in the investment side, on the asset side of the balance sheet.

And we look at the returns, and we seek to optimize that overall picture. So that's quite a detailed and complex process that we go through. But it's certainly the case that there is room for capital application into the asset side of the balance sheet, and hence, the increase into the value creation asset bucket.

A - Fabian Uffer

Maybe I would just complement what I said, Thomas, because you could imagine that then if the diversification benefit is so massive, why we don't have, I would say, infinite exposure to investment risk. The first one is, of course, at a certain point, diversification will be highly reduced, and I won't benefit from this massive factor. What is driving our policy today and that's something, a journey that we started, what, 2 or 3 strategic plan ago now. And Laurent was very clear in his introduction.

What's drive now the asset allocation on top of the current economic and financial environment, that's our risk appetite and risk tolerance and the benchmark now is really the piece. And normalization, I would say, of the fixed -- the asset allocation of the fixed income portfolio is done, and we come back to normal asset allocation by the end of the year, where we are still lagging behind compared to peers.

And Laurent mentioned, we are probably 5 points below our peers on an average and that's something we want to reduce progressively in the future. So that's not -- the benchmark is not yet the risk appetite of the peers, and we want to compete in the same category.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thomas, in terms of specialty insurance and ESG, I think our approach is a combination of various things. First, we have a number of exclusions that we apply and that we've strengthened progressively over the years. So as you know, we don't do tobacco which, by the way, we find is absolutely consistent with the fact that we're a big player in life and health. We are particularly careful about world heritage sites. We've taken commitments on that. Of course, there is coal where we have progressively stepped up our commitments.

And as you've seen, we've recently joined as a founding member, the Net-Zero Insurance Alliance after having joined a few years back, the Net Zero Asset Owner Alliance. And as part of that, we have taken strong commitments in terms of completely phasing out coal.

Then there is a second prong, which is that for other parts of our underwriting, we apply specific grids, whereby we ask our underwriters to go through a very thorough ESG analysis and the referral process and all triggers, and depending on their analysis, then the business can be done or cannot be done. The third part of it is that we engage with our clients. And we believe that exclusion is something that is necessary, but engaging with our clients, large corporates, insurance companies is also extremely effective. And so we try to build this dialogue with them, and each time we have discussions with them, bring forward those ESG topics.

And lastly, I would say that ESG is a big opportunity actually for specialty insurance. If you think of wind farm projects, we're seeing a very strong trend of those projects picking up in many regions in the world. And this is very -- this is something that we like to do because it's very technical offshore projects, and we think we do have the expertise to underwrite such risks. And so it's going to create a significant profitable business for us.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Thomas. Thank you. We'll take the next question, please.

Operator

Our next question comes from William Hardcastle of UBS.

Q - William Hardcastle {BIO 16346311 <GO>}

The first one is on the investment re-risking. Francois, earlier on in the year, it certainly seemed like you were expecting rate increases to come through. I guess with the action now that you're re-risking, do you giving up an opportunity here? Or have your personal life expectations changed? Would be the first question. And the second one, to some extent, this question rests better in the first session. So apologies if it was not, so it is related to solvency. Is there any update you can provide on hurricane flood -- sorry, European floods and hurricane either? Any color on this Ida that may have triggered you today or not?

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

So on the -- on your questions on the investment portfolio. So that's that in Q1, we sold a significant amount of U.S. corporate bonds, roughly EUR 1 billion, with a conviction that the reflation trade dynamic was prevailing in the market. This dynamic as we see before the summer with a new decrease of interest rate and market a little bit lost. With the significant amount of cash that we received early July with the Life transaction, we decided that it was a good timing to start to reinvest and to come back to, I would say, what I call normal asset allocation of our fixed income portfolio and to redeploy this excess liquidity by the end of the year.

So my expectations are still the same. I don't think that a world where interest rates, which are so low with zero inflation, low inflation, tight spreads and high equity valuation, I do believe it's not sustainable on the long term. And my expectation is that central banks are going to change soon their monetary policies.

Having said this, it's not in contradiction with what we are doing. Keep in mind that the duration of our fixed income portfolio even if the duration gap is closed, is not big and is just above 3 years. So which means that we have always a significant amount through the redemption of the bonds in our corporate bond portfolio or in our fixed income portfolio.

So through the redemption of the bonds, which is just the translation of the relatively short duration of our liabilities, we have the capacity to reinvest a significant amount of cash or financial cash flows each year and still to benefit from the potential increase of interest rate. But as mentioned by Laurent, and as I mentioned it during my speech, we want to be disciplined on the LM side. We had closed the duration gap since 2017. This duration gap was widened a little bit in Q1 and Q2. The intention is really to close it again and to maintain a disciplined strategy.

A - Laurent Rousseau {BIO 5131107 <GO>}

On Ida, European floods and the retro placements, Jean-Paul is going to answer your question.

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

Yes. Thank you, Laurent. So on European floods, and Ida, it's still too early for us to have a precise estimate. What we see on the European floods is the initial estimates for Germany where for a market loss around EUR 5 billion. This has now increased to EUR 7 billion by the German Insurance Association. And in our own estimates, we believe this number will continue to go up, and we see it more as a EUR 8 billion to EUR 8.5 billion market loss and the overall event for Europe, closer to a EUR 10 billion market loss.

And this is taking into account the events of 1999. And since then, this will be the largest insured loss in Europe over the last 15 years. Ida, it's really made of 2 parts, the wind loss over Louisiana, which is the majority of the market loss. We think the estimate is around $20 billion to $25 billion is what we feel the market loss will be.

And then there's a part on the East Coast and the flooding that Ida caused in that area, and given the structure of the U.S. market, it will be split between the U.S. government Flood Insurance Pool, FEMA, and the private sector. And we think that could add another maybe $5 billion to $10 billion of market loss overall to the wind losses. So I think the current estimates, and I saw that RMS published a number recently of $25 billion to $35 billion, which aligns with our view of that loss.

The retroplacement for 2022 is something that we've started. We started engagements with our retrocessioners. Typically, Monte Carlo is the time where we kind of go through the details of the program, get the first view -- their first feedback on the reviews of the type of protections we want to place. So -- and that's currently where we are today. And next week will be the launch of the virtual Monte Carlo meetings where we have several of those meetings with the retrocessioners.

Q - William Hardcastle {BIO 16346311 <GO>}

Sounds great. And just on those industry losses, anything which is SCOR-specific that we should think about? Or would you just look at the industry losses and consider it from that side of things?

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

I think on the U.S. losses, our market share tends to be 1% or below is what we've seen in past events. On the European floods, we tend to be -- have a larger market share, but there -- it's again, it's a bit too early for us to say. But given the size of the market loss, we estimate, it will be a 3-digit loss this quarter.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you. We'll take our next question, please.

Operator

(Operator Instructions)

And we will take our next question from Vinit Malhotra of Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Just very quick one, please. 2 for -- in the risk side and 1 for Francois. Just start with the risk one, this slide, which shows -- was 135, which shows the reduction in interest rate sensitivity. I was, to be honest, a bit surprised that the magnitude of this reduction, I mean, given that a sizable EUR 1.5 billion premiums per annum seeded out. When you say that you only reduced sensitivity by 2 points or 50 bps. Is that -- is that a fair comment? Or would you say that 2 points is the right level? Or was there any model changes? I'm just curious as to anything else that you could tell us about that? .

Second question, just on the risk. Just on 134, Slide 134. How would you like us to think of the EOF generation rate? And I know this would link to Slide 36 as well in the learning. But if I just see the 1H data here with the new business contribution plus in close of -- close to EUR 600 million and then there could be various assumption changes. Isn't that a sort of a run rate kind of number one could think of? Or would you say we have given it quite differently to what this EOF progression could be? So that's my 2 on risk.

And just on Francois, the EUR 1.8 billion to EUR 2.3 billion for 2022, you have commented, Francois, is based on current market conditions. Could you just clarify that does this already include a re-risking element to it? I believe I ask is because this was sort of the same level that was targeted in mid-Feb just after the corporate bond action. And then I thought this was more a range before the re-risking action. So I was just wondering whether we should have expected this to go up once re-risking is in place.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Vinit. Just can I clarify. On your first question, did I hear well, that's on this interest rate sensitivity going down in the risk presentation?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. It's Slide 135 that my questions refers to.

A - Laurent Rousseau {BIO 5131107 <GO>}

135. Right. Okay. That's what we got. So I'll ask Fabian will answer your first 2 questions.

A - Fabian Uffer

Yes. On the interest rate sensitivity, as I explained, they reduced. And the reason for the reduction is twofold. The first one is really the Life in-force transaction. The interest rate sensitivity is driven by the Life book, and so we reduce or seed parts of the risk and mechanically, our interest rate sensitivity reduces.

The second effect we see here and we talked about it, I think, in last Investors Day, is the convexity of the risk margin and the corresponding effect. So when we see increased interest rates as we observed in H1, we see a mechanical reduction of the interest rates. I think this is both good news for us. We were a bit maybe interest rate sensitive. If we can reduce that, that's a good sign for the predictability of our solvency ratio.

Now coming on Slide 134 on how we need to think about the capital generation or the operating impact? We don't give guidance -- forward-looking guidance on these items, as you know. But maybe we go through the steps very mechanically quickly. So on the new business contribution, I guess, pretty much you understand how this is derived, the new business that we write flow into this number. We have the Quantum Leap assumptions. I think we are on target, and we continue to be writing profitable new business.

The expected in-force contribution, this is really 2 things or 3 things that happen. On the one hand, you have the expected return on invested assets. We calculate that on a yearly basis. And since at year-end 2020, the expected investment return was a bit lower than in previous year, there's a slight reduction of the contribution of this. The second one is the unwind of discount, which is very mechanical. And the third one is the release of the risk margin. And here, again, the Life in-force transaction played a big role because we realized the risk margin that would actually contribute over time to this effect at the inception date of the contract, this run rate is also slightly reduced. But as said, the value of new business contributes to this.

Now the other 3 items are quite mechanical. So assumption changes, I think sometimes we see there a positive effect. Sometimes we see a negative effect because we are reserved, or everything is at best estimate on the Solvency II. Over time, this should be 0, and I think we have proven that in the last few years. That cost, I think, is simple to understand, and also, the order is pretty stable over time. I hope this explains a bit the mechanics of this and gives you the insights you need.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And there is no positive one-off in these numbers. That's what I'm looking for really.

A - Fabian Uffer

No.

Q - Vinit Malhotra {BIO 16184491 <GO>}

There's nothing that is abnormally positive.

A - Fabian Uffer

No. I think this is a very usual half year. No one-offs in there.

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

On your question on the return on invested assets for next year. So the EUR 1.8 billion, EUR 2.3 billion range, which is the same, the one I communicated for 2021 earlier this year. So it's new. I try now to communicate in September instead of end of February next year. It's an all-in return as usual. So it includes the income yield, impairment, amortization, capital gain and fair value through P&L of the asset class, that's a fair value through P&L. And that's still under IAS 39, not yet under IFRS 9.

It takes into account the redeployment of the excess liquidity by the end of the year to the normal asset allocation, 43%, 45% of corporate bond. And you know the methodology we use have been consistent over the last 10 years on this. So we use for the simulation forward rates. So that's the forward rates at the end of August, spread -- credit spread that we observe today in the market, and there is no view in my prediction.

So the spread is still 50 basis points. The range is still a range of 50 basis points because there is uncertainty on the level of interest rate and spread and potential level of realization of capital gain, especially on the real estate side. The good news is that if you observe the market over the last few days, there is traction again on U.S. interest rate increasing a little bit, with speech of central banks that are a little bit more hawkish compared to before. And maybe they start to think about more deeply about inflation, which could be a good dynamic for the increase of interest rate.

And in any case, we will have also, as I mentioned it in my previous answer, a significant amount of financial cash flows that through redemption of our bonds next year. So that's why I still maintain almost 15 months before the end of 2022, a pretty large range.

One point, and if re-risking in your mind was linked to the additional commitment that we are taking on value creation assets, so namely on private equity fund, infrastructure funds and private debt funds that we select, the answer is no because this type of funds, you take a commitment, you are drawn by the fund over a period that could be between 1 and 3, 4 years depending on the asset class. And then you wait for the return on those funds.

So for next year, the EUR 400 million that we are investing this year and in 2022, that's what I said during my speech, we are building the future financial contribution, not the one for 2022. Again, the good news is that under IAS 39, take the example of an investment in a private equity fund. You take a commitment, you are drawn during a period of 3 years or

4 years, and you have to wait on average, I would say, what, 5, 7 years to start to see the performance coming back in your portfolio.

Under IFRS 9, we will mark-to-market all those trends on a quarterly basis. They are mark-to-market today in shareholders' equity, but they are going to mark-to-market, as you see on the slide, through the reclassification in P&L every quarter which means we will have a little bit the J curve at the beginning. But quickly -- we will recognize more quickly or quicker than before the performance of those funds, which is, again, a good news for us.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Vinit. I think we have time for 1 last question.

Operator

Our last question comes from Thomas Fossard of HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

If you allow there is a question more related to the first session on the combined ratio target of heading below 95%. Can you talk about how conservative you believe this target is? Given that in H1, I think that you indicated that the normalized -- fully normalized also for man-made losses in H1, the normalized combined ratio was running at 93.5%. You're going to get additional rates on top of rate increase that you had already this year. And actually, this is going to flow through the P&L.

And also given the differentiated growth rate you're targeting for 2022, targeting specialty lines, which are currently running probably with a combined ratio, which is below the 93.5%. 95% looks to be relatively -- I know this is in line with your previous guidance and message but looks to be relatively conservative. So I know that you're increasing the cat budget as well. But I mean, all in all, I mean, any sense of how confident you are and how low you could be?

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

Thank you, Thomas. I think there might be some slight conservatism in the guidance. I think our preference is to over deliver rather than the contrary. We do see expected profitability, as Romain pointed out, improving by about 2 points for the business we wrote in 2021 compared to 2020. And we have seen, as you said, a very good normalized net combined ratio in the first half of the year.

I think we don't have enough information today to know if it's really COVID-related with a restart of the economic activity or if it's a steady-state status of the market. So that's -- I think that's one element that causes us to be cautious. The other one is the rebalancing away from cat-exposed business, which tends to have a lower combined ratio as well as enhancing the retro program. So all of this -- and absorbing higher cat budget. So all of this has led us to give a similar guidance to what we gave last year at the IR Day. But there is some conservatism in that approach. Hard to quantify at this stage.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Thomas. So that concludes the second Q&A session. As always, the IR team would be happy to answer any further questions you may have. So please don't hesitate to give us a call. I will now like to hand back to Laurent to close the day for us. So back to you, Laurent.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you very much, Olivier. Thank you for all your questions. When I look back on all the questions we've been having over the years, it's quite pleasing to see a good spread of questions, clear focus on capital allocation, deployment return, a good spread of questions on the businesses, both like in P&C and the assets. Be assured that this is very useful for us. This is useful feedback. This is useful discussion, and we'll build it as well in the building of the upcoming strategic plan.

Now let me give you some perspective on the next few months and how we see the framework of the upcoming strategic plan. Essentially, we see 3 key themes, and you had a glance on Francois' slide. First of all, our people and culture. They will be our number one differentiator. We're in the business of innovation. We're in the business of solutions. So nurturing that culture is critical, and we will do so.

The second is business leadership in front of clients, in front of the market but also with the broader business partners and defining a differentiated value proposition is critical, and this translate into our business right up to the equity story. Third, the financial performance. As I said, there is no complacency and we look to improve further. A lot of the discussions we've been having with investors over the past few weeks have been extremely useful. We have answered a number of the questions today and be assured that we'll continue to do so.

To close the event, I'd like to thank you for your attention and the engagement in the Q&A. We very much look forward to seeing you on the road in the coming days and weeks during the planned roadshows and investor conferences. Thank you very much, and I hand over to Olivier.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Laurent. So that concludes our 2021 Investor Day. Thank you very much. Have a good afternoon.

Operator

This concludes today's call. Thank you for your participation.

Ladies and gentlemen, you may now disconnect.