Q3 2015 Earnings Call

Company Participants

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

Other Participants

- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- In-Yong Hwang, Analyst
- Kamran Hossain, Analyst
- Michael I. Huttner, Analyst
- Olivia Brindle, Analyst
- Thomas Fossard, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst
- Xinmei Wang, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group's Q3 2015 Results Conference Call. Today's call is being recorded.

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

Bertrand Bougon {BIO 18934799 <GO>}

Good morning, everybody, and thank you for joining the SCOR Group's third quarter 2015 results. As usual, on page two, please consider our disclaimer, which indicates that the presented Q3 2015 financial information is unaudited.

We can now start the presentation, and I would like to give the floor to Mr. Denis Kessler, CEO and Chairman of the SCOR Group, who is joined on this call by the entire COMEX.

[05HFRJ-E Denis Kessler]

Thank you very much, Bertrand Bougon. Good morning, everyone. I'm extremely pleased this quarter as all the lights are green for SCOR. We are recording what we consider excellent results. We've been upgraded by some rating agencies, as you know, during Q3. And we have received positive news from the ACPR, who is the main regulator for the SCOR Group, of its intention to approve the group's internal model. And so it was, for us, it's a major milestone. We'll be spending 10 years to build up this internal model, which is operational, and that would be the tool to assess the solvency and its evolution of the SCOR Group. These are really major achievements for SCOR, which confirms the relevance of our business model and of our Tier 1 position.

On the financial front, SCOR recorded a robust growth of 19.3% in current exchange rates for the first nine months. We have a very strong profitability, above 11% of ROE, and a net income of €492 million, up 31% year-on-year. And we'll come back on that of what we consider again a very solid solvency position.

Both targets of our strategic plan, Optimal Dynamics, have been met or exceeded for the nine months to 2015. The solvency ratio is in the optimal range, and our return on equity exceeding the 1,000 basis points above the risk-free rate targets. We have met the two targets of the group: solvency and profitability.

And we're truly extremely pleased that over the summer we were upgraded back to AA- by S&P and Fitch, and also to A positive outlook by A.M. Best. This clearly confirms that SCOR is a Tier 1 global reinsurer, and it does reinforce the fact that SCOR is a highly diversified market leader with a critical size to fully benefit from economies of scale and economies of scope. This means that we are price makers and we are among those setting terms and conditions, which is a key differentiator in such P&C environment.

SCOR is global and not just international and writing risk today in more than 160 countries. SCOR is a trend-setter and an industry shaper, actively involved in key industry discussions. SCOR is driven by innovation and develops many of its own tools and processes starting with its internal model which is homemade that has been built internally by the SCOR teams. Finally, SCOR is independent, which is crucial in order to serve clients on a global basis without conflicts of interest. Being Tier 1 clearly illustrates the strength in financial (04:06) security and global franchises (04:09) with clients, particularly in the current market environment.

A major milestone has been achieved with the official notification by the ACPR of its intention to approve the internal model. We are, today, officially fully ready for Solvency II. As far as I'm aware, we should be the first company to receive approval for its full internal model, which is (04:37) extremely important.

Mark and Frieder already talked about it during the Investor Day we did September, but let me remind you that our internal model enables optimal and dynamic capital management on a global basis. We made the ambitious choice to have one single model for managing a business and for regulatory purposes.

There are three objectives to perfectly describe the internal model. It's a full model, so it's comprehensive, it's holistic and it's stochastic, (05:13) model in a stochastic way including the operational risks. In addition, the model optimally reflects a vision and experience of the risks we have in the portfolio, and we've mobilized all the underwriters to extract their knowledge and to feed the internal model with a judgment and their knowledge and their expertise.

And as we don't choose any traditional measures, we're not exposed to subsequent changes related to the standard formula. I repeat, we don't use traditional measures to assess the solvency. Based on our full internal model or solvency ratio for year-end 2014 (05:53) stands at 202%, which means that we have twice the level of capital that we would need to respect the portfolio of risk we have booked. Since the beginning of the year, solvency ratio has evolved within the optimal range of the solvency scale, reaching 214% at the end of H1 2015 – at the end of June and 208% at the end of Q3 2016, as you will see later. This solvency ratio, of course, changes since (06:29) interest rate changes.

Let me now hand over to Mark, who will give you more details on the financial performance. Mark, the floor is yours.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Danny (06:38). So moving on to slide six. Let me briefly summarize the key financial figures for Q3 2015 as Danny (06:45) mentioned in his introduction. SCOR wrote approximately €10 billion of gross written premiums in the first nine months of 2015, which represents a 19.3% increase at current exchange rates and a 5.8% increase at constant exchange rates compared to last year. This top line growth is driven by the contribution of both business engines, SCOR Global P&C with an 18.4% growth at current exchange rates and SCOR Global Life with a 19.9% growth at current exchange rates.

SCOR recorded high-quality results for the first nine months of 2015 with a net income of €492 million, an increase of 31% year-on-year, generating an 11.1% return on equity which exceeds the group's target set at 1,000 basis points above the risk-free rate.

The P&C net combined ratio for the first nine months of the year stood at 90.8% in an environment of low nat cats and an unusually high frequency of large man-made losses such as the Tianjin port explosion. The Life technical margin remained stable at 7.2%, exceeding the Optimal Dynamics assumption, while SCOR Global Investments delivered a solid return on invested assets of 3.1% driven by active portfolio management.

On page eight, shareholders' equity shows that it has increased by 6.5% since the beginning of the year to reach €6.1 billion. The shareholders' equity was boosted by the strong net income recorded in Q3, a strong foreign exchange impact, which increased the currency translation adjustment to €215 million, while accounting for the €260 million in dividends paid out in Q2.

The book value per share stands at €32.65 per share. As part of our successful €250 million dated subordinated debt issuance in June, we called a €93 million debt due in 2020 on July 6. The financial leverage ratio now stands at 23%, below the 25% ceiling stated in Optimal Dynamics.

On page nine, as expected, the operational cash flow is back to a normalized level on a year-to-date basis. It stands now at €558 million for the first nine months of 2015, which is in line with the normalized operational cash flow of about €200 million per quarter. The increase in net cash flows used in financing activities is driven by the dividend payment and debt repayments in Q2 and Q3, offset by the debt issuance that we had in Q2.

The total liquidity increased to just under €2 billion at September 30. It is in line with the momentary pause of the rebalancing of the investment portfolio, on which François will discuss later on. Approximately, €6.1 billion of liquidity, including cash and short-term investments, is expected to be generated within the next 24 months from the maturity of fixed income securities and interest coupons.

I'll now hand it over to Victor for the P&C results.

Victor Peignet {BIO 6287211 <GO>}

Thank you, Mark, and good morning. I'm going to comment on another set of excellent P&C figures at the end of the third quarter of the year.

As you can see on slide 10, the development of our business is well on track with the Optimal Dynamics strategic plan, with growth of nearly 6% at constant exchange rates. This growth corresponds to the indication that we have given you since the beginning of the year.

Thanks to the positive effect of the strength of the U.S. dollar relative to the euro, our forecast for the full-year 2015 is now slightly higher than the €5.6 billion that we indicated to you at the IR Day. We are now estimating that the top line will be in the range of €5.7 billion €5.8 billion for the full-year.

The other performance indicators are similarly showing that our technical ratios are staying in line with the assumptions of the plan, with the only caveat being, as Mark mentioned, that the effect of the low nat cat activity has been slightly counter-balanced by the unusually high number of large man-made losses in Q1 and Q3. In these circumstances, our net combined ratio comes out at 90.8% on a year-to-date basis; and if normalized, based on a budgeted 7 percentage points of nat cat, it stands at 96.2%.

As we explained in our previous quarterly results presentation, it makes more sense to look at the behavior of the attritional loss plus commission ratio, as a whole, rather than at each of the two ratios separately. This is because part of the increase in the commissions on proportional business reflects the sharing with our clients of the decrease of the attritional loss ratios on the underlying portfolios. Because of the unusually high number of large man-made losses in Q2 and Q3, we currently stand at approximately 1.5 percentage points above the 81% assumed attritional loss plus commission ratio that we showed to you at the IR Day. This 1.5 percentage points need to be compared with the 3.1-percentage point charge coming from three major man-made losses, sustained in Q2 and Q3 for net amount pre-tax of €56 million, €32 million, and €28 million, respectively.

These figures confirm two characteristics of our business model. First, our control and medium risk appetite, if one refers to the amounts of this – of each of these three losses relative to our equity, and second, the shock absorbing capabilities of our portfolios; thanks to the combination of their diversification and their balance. Whilst, our normalized net combined ratio for the full-year is likely to stay impacted by the spike of man-made losses in Q2 and Q3 does not call into question a long-term assumption of our global portfolio to run at a normalized net combined ratio of around 94%, nor it does call into question the basis on which the renewals are going to be managed with the clear objective to protect the expected overall technical profitability from the business that is going to be booked.

Paolo will now present the Life figures.

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor. Let's now move on to page 11 of the presentation. I'm pleased to report that SCOR Global Life continues to record healthy growth and an excellent technical performance in the first nine months of 2015. We are consistently delivering above the Optimal Dynamics assumptions in line with prior quarters and the disclosures given at the recent Investor Day.

Our gross written premium reached €5.6 billion, which represents a growth of 19.9% at current exchange rate, or 5.8% at constant exchange rates. This growth is well balanced across our three key offerings.

In Protection, we're successfully growing through new business flows, in particular, in Asia Pacific, where we are growing at the rate of over 20% year-over-year. In Longevity, starting from a relatively small basis, we continue the strong trend shown during the recent Investor Day. In Financial Solutions, we are at last year levels in terms of premiums. Regulatory regimes remain influx, and this has influenced in the current business pipeline in this line. Nonetheless, we've seen an increase in new business opportunities; notably, in Asia.

Overall, our technical performance over the first nine months of 2015 stands at 7.2%, ahead of the 7% expected in Optimal Dynamics. We've been able to deliver this strong technical margin, thanks to the profitability of new business, which continues to meet the group ROE target of 1,000 basis points over the risk-free rate. And thanks to a very healthy in-force portfolio with mortality experience in line with our expectations. In particular, and in anticipation of any questions, as of Q3 closing, our U.S. mortality book is performing to plan.

With this, I will now hand over to François de Varenne, CEO of SCOR Global Investments, who will update you on our group investment strategy.

François de Varenne

Thank you, Paolo. Moving on to slide 12, SCOR's total investment portfolio reached €26.3 billion at the end of September with an invested asset portfolio of €17.4 billion, which remain broadly stable compared to the previous quarter.

The global environment remains very challenging. Uncertainties related to Central Bank strategies, notably, regarding future rates hikes by the Fed, an enlarged QE in the Eurozone, coupled with a slowdown of emerging countries, in particular, in China, ongoing geopolitical tensions have generated increased volatility and risk aversion across all markets. In this context, SCOR Global Investments has maintained the cautious strategy implemented in the course of the second quarter of this year. We have tactically and momentarily increased our liquidity well above our strategic allocation objective at 11% of invested assets.

In the same time, the duration of the fixed income portfolio remains broadly stable at four years. The high quality and high liquidity of the fixed income portfolio has been maintained with a stable average rating of AA minus. Besides, SCOR Global Investments has maintained a very strict policy of avoiding any sovereign exposure to Eurozone-peripheral countries. At the end of September, expected cash flows on the fixed income portfolio, over the next 24 months, stand at €6.1 billion, including cash and short-term, facilitating a dynamic management of the reinvestment policy.

In spite of the adverse economic environment and the prolonged low-yield context in all major currencies, SCOR Global Investments manages to deliver a strong and recurring return on invested assets, which stands at 3.1% for the first nine months of 2015 well above our duration adjusted risk we benchmarked. In comparison, the performance during the same period in 2014 stood at 2.9%.

Our investment yield on yielding asset classes stand at 2% at the end of Q3, reflecting the decrease in global rates that occurred in the course of the quarter. SCOR Global Investments remains confident despite an exceptionally low-yield environment in its ability to deliver for the full-year 2015 a return on invested assets in the top of the 2.7%, 2.9% range that was mentioned at the beginning of the year, and above (17:37) 3% in 2016.

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

Bertrand Bougon {BIO 18934799 <GO>}

Thank you, François. On page 13, you will find the next schedule events, which are the January Renewals on February 9, 2016 and the full-year 2015 result on February 24, 2016.

With this, we can start the Q&A section.

Q&A

Operator

Ladies and gentlemen, we will now move onto the Q&A session. We will now take our first question from Michael Huttner of JPMorgan. Please go ahead.

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

Fantastic. Can you hear me?

A - Bertrand Bougon {BIO 18934799 <GO>}

Yes. Sure, we can.

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

Yeah. Fantastic. Good morning. Lovely results. It's nice to see companies doing fantastic. So my real only question because, Mark, you said it with such enthusiasm is the €10 billion. You said, oh, €10 billion, oh, yeah, it's great numbers; premiums, of course. I know it's not profits. But my question really is, when would you reach €20 billion? (19:41) I know it sounds flippant and you might say, oh gosh, come on. But given the strong solvency, the good outlook on margins, which you're stating, again, and et cetera, surely, you must be thinking, oh, we could accelerate growth a little bit here. So, really, the question is to know how that has evolved and how quickly we could see maybe a deal, even. That's it. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Mark, you have the floor. (20:16) how you answer, by the way.

A - Mark Kociancic {BIO 17852409 <GO>}

We had some technical issues with the sound. So I think I've got the gist of your question. I think there's an organic element to it, and a M&A question embedded at the end. So the growth, you're right. I mean, we're currently at just under €10 billion in gross written premium year-to-date. It's a very significant achievement. We're having significant organic growth this year.

Historically, we've also had acquisitions that have really helped us especially on the Life side in terms of developing franchise. So the key metric for us on growth is that it's profitable, that it meets the objectives of the group in terms of a threshold ROE, and that's the test that's provided to the growth. Otherwise, we won't grow. It simply has to be as simple as that.

On the M&A side, I think we've made this very clear at the IR Day that we're a Tier 1 reinsurer. We're fully global and capable with our franchise that M&A is not a necessity for us. It's an option if something was to come up, but it's clearly not something that's needed for the group to be successful. I think we've demonstrated that now with the organic growth figures that you've seen. And the types of companies that are engaging in those discussions of M&A are really being forced by the market to do so, SCOR's not in that position.

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

Okay. Thank you.

Operator

We will now take our next question from Kamran Hossain of RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning. Just I wanted first of all, to say congratulations on the model approval. I've got two questions. The first one, now you do have your model approved, have you got any thoughts about adjusting the, I guess, the solvency ranges? So I guess, anything over 220% (22:23) you signaled at the Investor Day could come back to shareholders. Any thoughts about adjusting that in the near term?

And the second question, just on mortality. Just coming back to Paolo's comments on slide 11 that you've had – you've got a healthy in-force portfolio with mortality experience in line with expectations. In the last couple of days, you've seen a paper from Angus Deaton, one of the Nobel prize winners for economics, about U.S. mortality. And in that paper, he basically looks at changes to mortality rates for groups in the U.S. So one trend he's highlighted is that white middle-aged Americans are seeing, kind of, I guess, deteriorating mortality. How – what's factored into your assumptions for your EV? Because I know that your EV is very, very, very sensitive to any changes in mortality assumptions. Could you just talk me through that, so just kind of give me a little bit of comfort that I'm not making a mountain out of a molehill. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

With regard to your questions, maybe we should start by mortality in the U.S. I have had the pleasure – I know Angus Deaton. I worked with him back in 1982. And he's a great guy. So I'm very happy as far as him concerns, it's a personal statement, he's got the Nobel prize anyway. Paolo, on mortality in the U.S.

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

Yeah. I think the – the five-second answer is that the data released in July around mortality improvement or a decrease in mortality improvement does not have, at this point, the material impact on our projection and our model. That's the five-second answer. Now if you allow me, like, just a couple of minutes on this to get a bit more into the details.

First of all, I'd like to make – there are two comments we really need to make as introductory comments to this. First of all, the insured populations are significantly different than the overall general population. Particularly, in the U.S., the insured population tends to be focusing much higher socioeconomic classes, which have access to better healthcare and living conditions. So, to give you an example, the average policy written by our clients in the last three years of our top 10 clients is about $600,000 per policy.

In addition, there is a tight medical and financial underwriting process at origination, which tends to eliminate applicants with poor health status and ensure the assured amount is commensurate with the insurable interest. And this tends to result in a greater proportion of preferred risks overall in our population.

This is supported by the fact that when we look at our data, actually, the cause of death are different than the general population cause of death that you find in this industry (25:20) data. The second general comment is from an insurance regulatory perspective, the industry is not allowed to differentiate premium or underwriting by race or ethnicity. So even if there could be a direct correlation between ethnic groups and higher and lower expected mortality, data by race and ethnicity is not captured and, therefore, cannot be studied by us.

Therefore, when we look at our experience, we look at total by age group and gender for trends in mortality improvement overall. But we cannot give any weight in our analysis to any paper published that uses race as a discriminator despite, I think, personally, the fact being extremely interesting and relevant for public bodies. These are two general comments on this.

Now, coming to the fact underlying the article that you had mentioned, in July, there was new U.S. national population mortality data were released. We're seeing what we call the Human Mortality Database, the HMD. The HMD update included three additional years, 2011, 2012, and 2013. And we need to remember that the last census in the U.S. was in 2010 and, therefore, exposure data post-2010 are based on extrapolations. And it is important also to note that the last census gave material update. The last census in 2010 gave a material update to data between 2000 and 2010. So that data are still provisional.

Said this, the data do indicate a slowdown in mortality improvement. So what does that mean for us in more detail? Well, our experience, we think, the insured population is significantly different than that of the general population, and we expect this difference to continue into the future. In addition, we have historically set our long-term improvement assumption at a conservative and of a reasonable range.

So as a result, the impact from the reduction in population mortality improvement, as I said at the beginning, has no material effect effectively on our projections and models as it is largely muted with some variations by gender and age and cohorts. Our global mortality R&D center, which is now based in the U.S. continues to monitor these trends very closely, and we will reflect changes in our long-term estimates as needed in the future.

Q - Kamran Hossain {BIO 17666412 <GO>}

That's fantastic. I really appreciate your comments on that.

A - Denis Kessler {BIO 1498477 <GO>}

Frieder, maybe on the solvency position?

A - Frieder Knüpling

Yeah. As we stated during the IR Day, we are comfortable with the solvency situation of the company as it is currently. We are where we wanted to be in the center of the optimal range. And as you know, we are now in the process of preparing our next strategic plan, which we are going to disclose in less than a year from now.

As part of this, we will also reassess solvency targets and potential need for any adjustments now given that the model has been approved. But, at this point, there's no intention to change the solvency targets in the short term.

Q - Kamran Hossain {BIO 17666412 <GO>}

Perfect. Thanks very much.

Operator

Thank you. We will now take our next question from Xin Mei Wang of Morgan Stanley. Please go ahead.

Q - Xinmei Wang {BIO 17860767 <GO>}

Hi. Good morning. Thank you for taking my questions. It's Xinmei Wang from Morgan Stanley. I have two questions, please. So first is on the cost ratio. We're still seeing that trend above the guided amount of 4.8% for Optimal Dynamics plan. So, I'm just – I'm wondering why those costs are still coming in higher than expected and how we should be thinking about that trend for the full-year and for next year, as well?

And my second question is on P&C. With the 7% growth in premiums at 3Q on constant FX, would you be able to give some color on where that growth is coming from? And maybe talk about how that ties into your outlook for pricing in 2016. Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Let me answer on the cost ratio question that you put forward. We're currently at basically 5% ratio on a year-to-date basis, 5.01%. And for us, the cost ratio assumption that we had in the Optimal Dynamics plan was to get to roughly to 4.8% by the end of the plan. So we're slowly trending down that way. I think in the first half of the year, we had some significant costs, for example, associated with Solvency II.

If you look at our stand-alone Q3 quarter-to-date ratio, you'll see something more in line with 4.8%. It's actually 4.82%. So it's in the ballpark. I would say – I'm not trying to diminish the relevance of the assumption, but I mean, the first focus is profitability. So there are instances where we will spend more to get to more. So that the 4.8%, I think, is still legitimate for next year. And it's trending that way, but we have had some additional expenditures in H1 of 2015.

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, the growth is coming from the initiatives of the plan, in particular, to the Lloyd's and our channel syndicate, and the client focus initiative in the U.S., especially on the E&S portfolio. (31:06)

Q - Xinmei Wang {BIO 17860767 <GO>}

Okay. Thank you.

Operator

We will now take our next question from In-Yong Hwang of Goldman Sachs. Please go ahead.

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

Hi. Good morning. In-Yong Hwang from Goldmans. Two questions from me. Firstly, on kind of your outlook for January renewals next year. I was wondering if there was anything different that you've seen at Baden-Baden compared to what you were talking to in Monte Carlo, how you see that developing there.

And secondly, on dividends, we've seen a very kind of steady trajectory in your nominal dividends for the last four years and the payout has been roughly around 50%. I was wondering if that's a level that we should be expecting to continue or whether you've seen any kind of changes and opportunity to deploy your capital over the last 12 months that would cause you to think differently about dividends. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Well, I don't think that Baden-Baden has really changed the picture that we had in Monte Carlo. And I'm just back from the SIRC Conference in Singapore. And I think that confirms that what we were talking about, which is a soft landing of the soft market is still very much there. And we believe that whilst the market is continuing to be competitive and there may be some price reductions on the best clients and the best contracts while the reduction should be lower than what we experienced last year.

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

Great.

A - Mark Kociancic {BIO 17852409 <GO>}

On the dividend question, a few points to be made here. We discussed this as well during the IR Day, because I do think it's a very important component of shareholder remuneration. And so this decision process for us really starts to take shape in the beginning months of 2016. I mean, the first objective for us is to secure the solvency position that we want to be in, which is in the optimal range. And then we start entertaining the question of organic growth. Can we grow at an accretive rate of the 1,000 basis points of ROE, and then the residual would be left for the dividend question.

So we've had successful organic growth through the last several years, and you've seen us increase the dividend historically. And it's essential for us that when we do increase it, that it's sustainable as well. So we're very proud of the fact that over the last 10 years, we're one of two companies that has had a stable or increasing dividend. While I can't give you guidance for next year, our history, I think, speaks very well to what you can expect in the future.

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

Great. Thanks very much.

Operator

We will now take our next question from Frank Kopfinger of Commerzbank. Please go ahead.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good morning. Thank you. I have two questions. One on the investment income and one on the reserving situation. On the investment income, I thought that the regular income in Q3 was able to keep the level of Q2, the €110 million in Q3 versus €113 million in Q2. In Q2, I assume this was also driven by the dividend income, so there must have been something in Q3 that could somehow compensate for the lower dividends and compensate in Q3. And I was wondering whether you could elaborate a little bit on this, and whether that the €110 million level is the new regular investment income level that we should expect going forward.

And then, on the reserving situation, historically, you had no real impact from reserve releases being different from your major peers. And I was wondering whether you can comment a little bit on how you see reserving situation and whether at some point in time we should also expect some impact from reserve releases. And I clearly see that you have a different setup and portfolio mix than most of your peers, but nevertheless, is there a situation or possibility that in some point we see also reserve releases at your side?

A - Denis Kessler {BIO 1498477 <GO>}

François?

A - François de Varenne

On your question on the investment income or the recurring yield on our portfolio, if you look at the appendix on slide 34, you've got the detail of the income quarter-after-quarter in yields. I explained for the Q2 recurring yield, we had one-off effect, positive one-off effect in Q2 and the seasonality of the dividend (36:19) of this effect in Q2 our recurring yield was at 2.2%. We have same effect this quarter, so the 2.5% income yield delivered by the portfolio is also impacted by some non-recurring positive one-offs.

We have positive impact from inflation in bonds at 48 (36:42) bps during this quarter. And we have also some positive impact from some collection of previous quarter for 25 bps also in this quarter. So restated of these one-offs and positive one-offs this quarter, the recurring yield on invested assets stand at 2.2% this quarter, stable compared to, let's say, the restated or the normalized income yield in Q2 at 2.2%.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Francois. And if we go back now to the reserve question, Frieder?

A - Frieder Knüpling

Okay. So our Q3 reserves are, as always, best estimate plus a prudent margin. It's very consistent with previous quarters. That hasn't changed in any significant way. As you know, we have had a very stable and consistent reserving policy over the past years, which focuses on, as I said, reserving best estimate plus a prudent margin. But without the aim of managing our bottom line in an undue way through our reserve releases or one-off reserve movements, so our focus has always been on generating sustainable results and reserve movements are not supposed to influence this in a significant way.

Having said this, our intention is also not to accumulate useless reserve buffers in the future. So if reserves were to develop such that the margin increased in a significant way, we would make sure that this will reduce to a level, which is more commensurate with our current reserving policies. So I don't want to exclude any reserve releases for the future, but this is not our focus currently when – as I've said, we're not using that to manage our bottom line.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thank you.

Operator

We will now take our next question from Olivia Brindle of Bank of America. Please go ahead.

Q - Olivia Brindle {BIO 17273762 <GO>}

Hi there. Good morning. I just have one question relating to the underlying profitability in P&C. So as you pointed out, if we take the net attritional and commission ratio, you are 1.5 percentage points above what you've guided to at the Investor Day, but the offset from large man-made claims is 3.1%. So by implication the underlying was actually a lot better, if we exclude those man-made claims. (39:26) my expectation of what that ratio should have been the third quarter was clearly better as well. So I was just wondering if you could comment on why that might be and what happened in the third quarter that would have caused to be that much stronger. Is it just good luck? Or have you done anything in particular around the portfolio that has driven that? That would be great. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Olivia. Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think we have an attritional loss ratio trend that has been downwards for the last few years by managing the portfolio. We are continuing that. And as I was commenting while this is reflected also in the commission in the sense that when the underlying loss ratios are improving, we share the benefit of it with the clients while allowing larger commissions, which is why we look at the sum of the two.

So I don't think there is anything in particular. I mean, I think the underlying portfolio is just behaving as we thought it would. And if you look at it, I mean, overall, I think we have a spike for two quarters, and I expect that to renormalize over the next few quarters.

Q - Olivia Brindle {BIO 17273762 <GO>}

Okay. Thank you.

Operator

Our next question comes from Thomas Fossard of HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning. Three question for me. The first one would be on, first, the group tax rate. Year-to-date, you've got a group tax rate of 26.5%, which is quite different from the 22% guidance you've been providing. So, I guess, this is more a function of where you're getting your strong results currently probably in high-tax countries, but could you just comment on the – eventually the need to reassess the 22% normalized tax rate for the group?

Second question will be for Victor, more thinking about the full year 2016 GWP numbers, could you just remind us how much of the – are you writing currently from the big Chinese motor quota-share? And how much of that could be non-renewed, I mean, in 2016, due to C-ROSS implementation and potentially good margin of Chinese primary player?

And the last question will be for Mr. Kessler and related to slide four. I was interested in – by the independent player box. Would you say or would you consider possibly Sompo increasing its stake to 15% as something which would jeopardize the perception from your client that you're an independent player in the market? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you very much, Thomas (42:50). Why don't you talk about the tax rate?

A - Mark Kociancic {BIO 17852409 <GO>}

Let me start with the tax question. So, year-to-date, you mentioned we're at little over 26%, so that's largely a function of the geographic mix of business and profitability. So, we're in a low nat cat environment this year and that tends to concentrate profits into higher tax jurisdictions. So, for us, when we confirmed the 22% tax rate, which I'm doing right now, the statutory rate mix of our operating plan is still at the 22% level. That means in a normal loss environment, where we have a normal distribution particularly on the P&C side for nat cats and large losses, we do end up with a 22% rate.

We have had quarters in the past, I can recall, where we've had effective tax rates in the high-teens. So it really depends on the distribution. In Q3, we can see for example, that we're at 24.2%. So, I do confirm the 22%. We still have the 22% rate when we look at the normal distribution of losses and what we're seeing right now is just normal volatility based on the profitability of the business engines.

Q - Thomas Fossard {BIO 1941215 <GO>}

So a 22% long-term normalized unlikely for full year 2015?

A - Mark Kociancic {BIO 17852409 <GO>}

Unlikely for this year. I think we have to have something dramatic just because of the size of (44:25) thus far. And I would say that the assumption holds for the Optimal Dynamics plan, which concludes at the end of next year. We'll reevaluate - at the IR Day, we'll obviously discuss it, but I see nothing to change it right now.

Q - Thomas Fossard {BIO 1941215 <GO>}

Understood.

A - Denis Kessler {BIO 1498477 <GO>}

Second question is about the Chinese situation due to C-ROSS. Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I mean, this year, the renewal are going to be very late. The Chinese renewal are generally very late. So all of this for the moment is not even yet started to be discussed. So, I think it's very, very early in the process to talk about what's going to happen. But in the very worst-case scenario, where this would be discontinued. We ourselves have had a very limited activity on those motor quota-share, as both in terms of number of clients with whom we have entertained those, as well as premium volume that it represents. You are in a very low-single digit of the total premium of the division. So I don't expect that to have an impact whatever happens. But, again, I mean, the situation is not that simple, and there will be a lot of discussions during the next almost two months before we launch somewhere with our Chinese clients.

A - Denis Kessler {BIO 1498477 <GO>}

What we can add, Victor, is we have taken, of course, measures to be fully compliant with the C-ROSS new regulations, so we are ready. We've done exactly what needed to be done. So, we are in China, we are growing in China, we have a strong relationship with the Chinese clients. And we have exactly – we are set to benefit from market opportunities for (46:15) change of regime is quite important, to go from the traditional Chinese solvency regime to the new C-ROSS regime. We did anticipate it, and I believe that we're exactly where we should be at this stage.

So, your last question, I cannot – I will not talk on behalf of Sompo. I mean, this is – any question related to Sompo's strategy or decision, it needs to be asked to Sompo. It's a rule that we always follow. At the time I'm talking to you, Sompo didn't cross its 10% threshold. That's a fact.

I know it because if Sompo were – did cross10% threshold, you have, in France, mandatory declaration to the market authority, to the AMF. And we haven't seen the declaration by Sompo. So, it's a situation where today Sompo's stake in SCOR is below 10%, and that's a fact. I said and I repeat at this call, it is an independent company with a very well diversified shareholder base, who is below 10%, the next shareholder is below 5%, today and then we have lots of shareholders with stakes between 3%, 2%, 1%. That's what we mean to be independent, which is through the well-diversified shareholder base with no shareholders, who seem to take the control or having an influence on the SCOR strategy, on the SCOR's management, and that's exactly where we are. So, it's the position of SCOR. We are and we wish to remain an independent company, Thomas. So questions related to Sompo needs to be asked to Sompo.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

Operator

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

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

Hello. Hi, there. Just one small technical question. When I look at the Life results for Q3, there is a very positive result from retro, which is normally, sort of, negative. Is there some kind of recapture gain in here? Is that influencing the bottom line result materially? I'm just trying to understand if there's any kind of particular lumpiness to the particular Q3 result, which appears to come through that line. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, Andrew. Victor, on retro?

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

No, it's a Life question.

A - Denis Kessler {BIO 1498477 <GO>}

Sorry. Sorry. (48:57). Victor can answer any questions, anyway. (49:01)

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

Fair enough.

A - Denis Kessler {BIO 1498477 <GO>}

(49:03)

A - Victor Peignet {BIO 6287211 <GO>}

I think, first, we need to look at its total net technical results for the first nine months, where we're moving from, I think, about €185 million (49:11)last year to €250 million (49:13) this year, so we had a strong improvement. So that, we're really benefiting from profitable growth and also for the continuous work we're doing on optimizing our in-force book. In terms of the split between gross and retro, we had a one-off model change last year that somehow skewed the split with minor impact on the net result, and that also distorts the comparison in terms of prior year from gross to retro. We're not commenting on specific action we are taking but we are taking significant time to optimize our in-force book both on our gross and our retro side, but we're not making any specific comment.

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

When you say optimizing in-force, you're talking here any sort of repricing on...

A - Victor Peignet {BIO 6287211 <GO>}

We're talking about the (50:07) selective rate increases and selective optimization of retro programs.

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

Okay. But there's nothing you would say is unusual about the quarter? Doesn't sound like it. (50:29) Okay. Thanks.

Operator

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

Q - William Hawkins {BIO 1822411 <GO>}

Hi. Thanks very much. Two questions. Back on Life reinsurance, clearly your results continue to benefit from the fact that you were able to re-price your exposures when you acquired the two big portfolios in the States. Is there any way, Paolo, you can give us an indication of how helpful that has been to maintaining your margin? So if you went back to the original assumptions of the portfolio you bought, how much poorer would margin be versus the 7%? And then secondly, just a very small one. Thank you very much for giving your Solvency II ratios quarterly. That's really helpful and I hope you will continue to do so.

Can you just tell me what's your policy with regards to accruing dividends? Are you accruing some notional dividend in the interim period or do we just get hit with that at the end of the year? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, William. On the Life insurance, Paolo, again.

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

Yeah, I think we're still – in terms of where our PGAAP assumptions were set for the two books, I think we're still healthily in between or below those assumptions in terms of the mortality trends. In terms of how much that has benefited us, I mean the ability – I don't know if interpreted your question correctly. But the fact that we bought the books and re-priced them, one in 2011 and one in 2013, that has – yeah, it has a tremendous benefit for us. I mean, to get a sense of it, you just have to look at some of our competitor results as they come through on the U.S. mortality side. We have very little of those impacts in our portfolios because effectively, those were considered when we purchased both the Transamerica book and the Generali book.

So, we will not be discomfort – I will not be sitting here being so comfortable about U.S. mortality if we had originated that mortality ourselves in those pricing eras. We sit here comfortably because we have priced the issues as we were purchasing those books. In the price we paid, we had largely priced all the issues that you see coming through our creditor books.

Q - William Hawkins {BIO 1822411 <GO>}

But I don't know if you could hazard a number whether your 7% would have been 6%, 5%, 4% or 3%, if you hadn't done that.

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

I don't know. I mean those books are, if you look back at pricing era – if you go back at pricing eras prior to 2004 compared to our PGAAP assumptions in terms of actual versus expected, those pricing eras are doing just bad. I mean you're talking several tens of percentage points.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

And, Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

On the dividend question, well, there is no notional accrual, it's done pretty much at the year-end. You have to have a key triggering event for audit purposes which is the board declarations. Without that, you cannot accrue it.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question comes from Vinit Malhotra of Mediobanca. Please, go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hello. Hi there. Good morning, everyone. Just on the slide 10, the normalized combined ratio and the man-made relationship, for Victor. Last quarter, I think, Victor, you mentioned 5 point to 6 point as a normal man-made level in a quarter. And from the two numbers of €32 million and €28 million on the slide, this third quarter looks somewhat similar to that 5% range, but I'm just wondering, I mean, when you say that it should normalize over the next period or next few years – next year. What normalized level of man-made would you expect? Still a 5% to 6%, just any thought from this, please?

And second question, just on this Solvency II, 6 points of lower solvency in 3Q, could you just comment on what's driving that? Mainly, you have said macro factors. Is the debt – is a calling of the debt maybe 2 points driving some of that? And the reason I ask is that one of the other larger insurers has last week given us a much lower impact in the quarter, and they have presumably a bit more life hearing than you would've had. I just was just curious. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think it's extremely difficult to normalize man-made. I mean, that's extremely complicated. But what I'm saying is we do not see any particular pattern. We see a spike of a few losses. We had that some years ago, so we do not feel that there is any particular problem in the portfolio, any pattern, general pattern that should indicate that this will continue.

So normally, while next quarter, we should see the number of losses coming back to where they are in normal cases. And basically, what we indicated at the IR Day was an attritional at 57%, commissions at 24%, while we should be this quarter, if we did not have those man-made, our attritional would have been a bit better than the 57%, and the commission a bit higher. So we would have been at 56%, 25%. And we are at 57.5%, 25%. So, I mean, I think, to me it's just going to come back to 56%, 25% in a matter of a few quarters.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Fair enough. Thank you.

Operator

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

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

I'm digging for questions here at your results. Either your results are too good or you're being very cautious. It's – normally speak more. It's not a criticism. It's just my – it seems to be that way. Anyway, as a question, Tianjin was incredibly low for you and you did kind of say that you're keeping your large losses to within a low number compared to shareholders' equity, I'm guessing it's 1%. So, maybe you can explain a little bit how come Tianjin was low and where the 1% is just my imagination or is about right. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I don't know. We do not have any particular reference to percentage of equity. I mean, we underwrite and then Tianjin, the lowest estimate we have is coming from, well, the type of underwriting that we develop both internationally and locally in China. So I think that's in – every company has a different underwriting approach. And then, when a loss like this occurs, depending on what sort of business you have underwritten, whether you've written non-proportional cat or whether we have returns of business, you happen to have the losses distributed differently.

And I think this will happen more and more because, I mean, one thing which is obvious is that there is more and more differentiation of underwriting opportunities and there is more and more differentiation between clients in the relationship with reinsurers. So, I think you will have divergence of impacts of losses between reinsurers just because, well, the underwriting policies are not the same.

And there are still uncertainties on Tianjin. I think we are giving a best estimate of where we are. There are uncertainties that remain about that loss in certain areas of contracts in particular, as well in the loss adjustment itself. But we are not – we don't think that our figure is – we think that our figure is quite representative of where we are.

A - Denis Kessler {BIO 1498477 <GO>}

It's true that when you plot the net claim or net cost of Tianjin, related to the premium income group by group (59:44), equity base group by group, this is a very large variation (59:49) situation where it does measure as a relative maybe risk appetite, because it's highly (01:00:00) quite open. So, in this case, we have here certainly at the low part of the graph, when you relate Tianjin loss to premium income (01:00:13) group. So, to my point of view, it's kind of increased measurement of the risk appetite group by group, the quality of the underwriting (01:00:22) and the diversification of the group. So, (01:00:26) ask us to be more bullish, so we are more bullish now.

We did answer the question why we need to be above (01:00:34) the evolution of the solvency ratio, Frieder? (01:00:38) able to answer all questions that were asked.

A - Frieder Knüpling

Yeah. It's not for us to comment on how the movements compare to our peers. I mean, just to mention potential differences, we need to us a full internal model without any transitional measures. And transitional measures can mitigate the impact of changes on financial markets and market risks to some extent. So, that could be potential reason, but then also our portfolio is different, our risk profile and our model is different. So it's hard to explain the difference that you are referring to.

A - Denis Kessler {BIO 1498477 <GO>}

Next question?

Operator

Thank you. We will now take our follow-up question from Vinit Malhotra of Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Oh, I'm sorry. Please ignore this. I was just following up to say that the question was still open. Thank you. I don't have any follow-up. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

We have no answer to this question either, so it's okay.

Operator

As there are no further questions in the queue, that will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, all. Bye-bye.