Q2 2015 Earnings Call

Company Participants

- Benjamin Gentsch, Deputy Chief Executive Officer of SCOR Global P&C SE
- Bertrand Bougon, Head-Investor Relations & Rating Agencies
- Denis Kessler, Chairman & Chief Executive Officer
- François de Varenne, Chief Executive Officer, SCOR Global Investments SE
- 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

- Frank Kopfinger, Analyst
- In-Yong Hwang, Analyst
- Kamran Hossain, Analyst
- Michael I. Huttner, Analyst
- Thomas Fossard, Analyst
- Thomas Jacquet, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst
- Xin Mei Wang, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group 2015 First-Half Results Conference Call. Today's conference is being recorded. There will be an opportunity to ask questions after the presentation.

At this time, I would now 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 H1 2015 results call. As usual, please consider our disclaimer on Page 2, which indicates that the presented financial results have been subjected to the completion of a limited review by SCOR independent auditors.

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 team.

Denis Kessler {BIO 1498477 <GO>}

Thank you, Bertrand, and good morning, everyone. I'm extremely pleased this morning with this quarter as it combines a strong set of results, quality results with positive announcements, which confirms the relevance of our business model. On the financial front, SCOR shows a strong dynamism, with a 19.6% increase in the gross written premium, plus 5.3% at constant exchange rate in the first half of 2015 and an increase in the core earnings by 28% year-on-year to €327 million.

Both strategy targets of our strategic plan, Optimal Dynamics, have been met and even exceeded. The annualized return on equity stands at 11.1%, above the target of 1,000 basis points above the risk-free rate, while the solvency ratio calculated by the group internal model stands at 224%, marginally above the optimal range of 185% to 220%.

These excellent results would not be sustainable in the long run without a perfect combination of an intensive and consistent business approach, driven by agility, innovation, franchise and diversification.

First, agility, it's a key success factor for SCOR. Thanks to the commitment and expertise of our teams, SCOR has been able to adapt rapidly in order to seize market opportunities notably in terms of portfolio management, as Victor will explain later in his presentation. As an additional example, to optimize our financial structure, we have been able to successfully issue €250 million subordinated debt at a highly attractive pricing.

Second, our innovation; innovation is part of SCOR's DNA with of course the bringing together of top scientists including the Economic Nobel Prize winner Mr. Tirole during the SCOR Foundation Seminar on Climate Risks last June. Also the 20,000 page filing of a group internal model to the French regulator, the ACPR, in May, in preparation for Solvency II.

Third, the franchise; over time SCOR successfully expanded and deepened its franchise, thereby enabling the group to be a strong and recognized tier I player in the industry. The quality of our franchise is highlighted by Fitch in its upgrade of the Group to AA minus. This upgrade recognizes our Tier I status and reflects not just the development of our franchise, but also our capacity to generate a more stable level of profitability.

It also highlights our strong capital position. And in addition, we are currently expanding our franchise globally with the future opening of two offices, one in India and another one in Kenya, to capture the growth of these emerging economies. This will increase the number of SCOR's offices around the world to 41.

Last but not least, diversification; this is key in a softening and volatile market where value creation depends directly on our ability to optimize risks in terms of assets and liabilities, life and non-life, biometrics and health, property and casualty and so on.

At SCOR, we made the choice to diversify a long time ago. It's one of our strategy cornerstones, which we leverage everyday to a broad offer of cover in terms of both business clients and geographies, the IT portfolio management, holistic information systems and a decision process, which enables us to ensure optimal capital allocation.

I will not explain further today, but we will explore some of these topics and subjects during our upcoming Investor Day. As you know, it will take place on September 9th in Paris.

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

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Danny. Moving on to Slide 4, I will walk you through the key financial highlights for the first half results of 2015. SCOR wrote more than €6.4 billion of gross written premiums in the first half of 2015, which represents a 19.6% increase at current exchange rates and a 5.3% 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 a 19.1% growth at current exchange rates and SCOR Global Life with a 20.1% growth at current exchange rates.

SCOR recorded high quality results for the first six months of 2015 with a net income of €327 million, representing an increase of 27.7% year-on-year, while generating 11.1% return on equity, exceeding the group target set at 1,000 basis points above the risk-free rate.

The P&C net combined ratio for the first half of the year stood at 90.9% in an environment of low natural catastrophes and an unusually high number of major industrial losses, while the Life technical margin reached 7.2%.

Finally, SCOR Global Investments delivered a solid return on invested assets at 3.4%, driven by the active management policy, which has enabled the group to record capital gains of €129 million in the first half of the year.

Moving on to Page six, the shareholders' equity increased by 5.2% since the beginning of the year to reach €6 billion. The shareholders' equity was boosted by the strong net income recorded in the first half as well as the strong foreign exchange impact, which increased the currency translation adjustment to €280 million for the first six months of 2015, and it was also impacted by the dividend paid in Q2 for €260 million.

In June, we were able to successfully place a €250 million dated subordinated debt issued with a coupon set at 3.25%. We called two of our existing debts due in 2029 and 2020, respectively, for €10 million in June and €93 million in July.

The book value per share stands at €32.29 per share and the financial leverage ratio stands at 24.1%, below the 25% ceiling. If we include the July redemption of the €93 million debt, our leverage ratio would have been 23.2% as at June 30.

On Page seven, the operational cash flow stands at €130 million for the first half of 2015 and was impacted by foreign exchange rate movements notably on currency hedge settlements as well as volatility and seasonality in technical cash flows. On a normalized basis, the net cash flows from operations would be approximately €200 million per quarter. The increase in net cash flow from financing activities is principally reflecting the dividend payment and the debt issuance in Q2.

Total liquidity increased to €1.7 billion at June 30th, in-line with the temporary pause of the rebalancing of the investment portfolio. Approximately €5.8 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.

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

Victor Peignet {BIO 6287211 <GO>}

Good morning. I'm pleased to say that we are reaching mid-year in a favorable situation despite the trends that are prevailing in the reinsurance markets. The situation is favorable because of the very strong underwriting performance recorded to-date for 2015. Our competitive situation is also favorable thanks to two prospects. The first prospect is future technical profits because of the quality and the diversity of the business that has been booked throughout the first half of this year. The second prospect is new business development with existing clients, including a promising pipeline of large deals linked to capital management in a context of changing regulatory environments

Let's talk about the underwriting performance first. This performance is measured first by the combined ratio that stands at less than 91% on a year-to-date basis, and second, by the steady growth of gross written premiums. This growth comes out at nearly plus 6% at constant exchange rates, which is right in-line with our expectations for 2015 as we previously communicated.

This growth is also very well spread out in terms of geography, helping to further improve the already high level of diversification of the P&C portfolios. Regarding the year-to-date net combined ratio, whilst it does reflect the continued low level of natural catastrophe related loss activity, it contains a higher than normal weight of large industrial losses since the beginning of this year.

The second quarter in particular has been affected by an unusually high number of large industrial losses coming from a variety of sectors, with offshore energy being the dominant one. You will have noticed that the now reserved amount of €55 million before tax for the large offshore loss that occurred on April 1 – which was commented on when we released our first quarter result – is in-line with the preliminary indications that were given at the time.

While this unusually high content of large industrial losses impacts the normalized net combined ratio at mid-year, it does not indicate the development of any particular pattern and therefore it does not jeopardize our prospect of achieving by year-end close to the assumed 94% normalized combined ratio for the full-year provided the manmade loss activity gets back to normal – to its normal average during the remaining two quarters.

Moving on to the prospect of future technical profits; as we reported from the January and April renewals, as we are now reporting today for the June-July renewals, we have been able to contain the overall weighted average price reduction at each renewal and on a year-to-date basis the reduction is limited to about minus 1%.

At the same time, we have seen an increasing number of opportunities to further strengthen our position with existing clients. And we have been able to seize these opportunities and terms and conditions that comply with our requirements in terms of expected profitability, contract structures and contract wordings.

This influx of new opportunities is due to a combination of two factors. Firstly, our clients and their brokers appreciate our technical and commercial approach to relationships at a time when a number of them continue to reconsider their reinsurance purchases and to restructure their programs.

Secondly, we are seeing the effects of the timely launch of several business initiatives, including the global insurer initiatives, the client focused initiatives in the U.S. and the transfer of products and know-how in partnerships with clients from emerging markets, particularly in the Asia-Pacific region for the time being.

At the June-July renewals, these new opportunities are the main contributors to a growth of nearly plus 14% in gross written premiums despite the cancellation of premiums amounting to 8% of the total renewable volume.

In addition to this flow of business, we are also seeing an increasing number of potential large deals, each corresponding to a particular situation that has developed for a given client, but all related one way or another to capital management.

In this respect, the launch of our alternative solution initiatives 18 months ago has proved to be timely and helps to position us at a strategic level with our clients. The team has been particularly active since the beginning of the year, has gained in reputation and recording a number of significant wins.

Two such deals were booked at the June-July renewals and bring the total growth in gross written premiums up to nearly plus 24% in the total volume of premiums up for renewal. It's worth mentioning that these two deals are not one-off deals and are here to stay with us for at least several years.

This concludes my presentation of the mid-year results for the division. And I will now give the floor to Paolo for the Life side. Thank you.

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor. Moving on to Page 11 of the presentation, SCOR Global Life continues to deliver healthy growth and a strong technical performance in the first half of 2015. Our gross written premiums reached €3.6 billion, which represents a growth of 20.1% at current exchange rates or 4.9% at constant exchange rate. I'm pleased to say that this growth is well balanced, both from a business perspective and from a geographical perspective.

First, SCOR Global Life has been able to grow in each of these three business areas: Protection, which is core to our offering; Financial Solution and Longevity. In Longevity, we expect to meet the gross written premium assumptions for 2016 as set out in Optimal Dynamics already 2015 as deal flow continues to be strong.

Second, SCOR Global Life has been able to successfully execute its strategy of expanding its market footprint, particularly in Asia-Pacific where premiums are up 26% at constant exchange rate compared to last year.

As a result, we have been able to deliver a robust technical margin this semester at 7.2%, ahead of the 7% expected in Optimal Dynamics thanks to the profitability of new business, which continues to meet the group ROE target, and thanks to the claim and persistency experience of the in-force book, which is in line with our expectations.

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 reaches €26.1 billion at the end of June 2015, with an invested asset portfolio of €17.3 billion, compared to €18.1 billion at the end of March 2015 and €16.2 billion at the end of December 2014.

These changes in our invested assets are mainly explained by FX movements during the period and to a lesser extent by mark-to-market changes driven by interest rate volatility. The global environment remain very challenging. Uncertainties related to central banks exit strategies, notably regarding future rate hikes by The Fed and the Bank of England coupled with strong geopolitical tensions around Greece and a slowdown in emerging countries, in particular in China, have generated increased volatility and risk aversion across all markets.

In this context, SCOR Global Investments has momentarily paused its rebalancing strategy of shifting the portfolio towards the strategic asset allocation set out in Optimal Dynamics.

Liquidity has tactically been increased by 4 points to reach 9% of invested assets. At the same time, the duration of the fixed income portfolio remains stable at 4.1 year. The quality of the fixed income portfolio has been maintained with a stable average rating of AA minus.

Moreover, SCOR Global Investments has maintained a very strict policy of avoiding any sovereign exposure to Eurozone peripheral countries, which could have been seen as conservative during the previous quarters, but which has been particularly relevant given the recent Greek turmoil.

At the end of June, expected cash flows on the fixed income portfolio over the next 24 months stand at €5.8 billion, including cash and short-term investments, facilitating dynamic management of the reinvestment policy in case of a potential interest rate increase.

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 3.4% for both the second quarter of 2015 and for the first half of the year. In comparison, the performance during the first half of 2014 stood at 2.9%.

During the first half of 2015 invested assets generated a financial contribution of €297 million, of which €128 million of realized gains. Those realized gains come mainly from the fixed income and equity portfolios, which validates the dynamic management of the investment portfolio pursued by SCOR Global Investment and the diversification across a wide spectrum of asset classes.

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 at the top of the 2.7%, 2.9% range that was mentioned at the beginning of the year.

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 scheduled events starting on September 9 with Investor Day and the third quarter results on November 4, as well as also conferences, which we are planning to attend over the remainder of 2015.

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

Q&A

Operator

We can now take our first question from Michael Huttner from JPMorgan. Please go ahead, sir.

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

Good morning, thank you very much and well done for – fantastic results, very lovely. Just due to (20:45) solvency 224% is the figure on the slide. Does that include the benefit of the €250 million bond issue and the rise in risk-free since the start of the year and what could be the impact out of that?

And then the second question is relating to the consolidation in the industry and your strong growth. So is the strong growth you're seeing partly because all the clients are kind of scared of having all their reinsurance with just one large group with a big chain credit risk or – and if not, would you be tempted to do a deal yourself? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Michael. Mark, the first question?

A - Mark Kociancic {BIO 17852409 <GO>}

Sorry. For the solvency ratio, the 224% was our estimate based on the 2014 yearend figures. It does not include the June issuance of the €250 million. That would be approximately a little over 6 basis points of positive benefit. And the current rise that we've seen in interest rates this year is not reflected in that figure thus far.

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

Got it. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Victor, on the effect of consolidation?

A - Victor Peignet {BIO 6287211 <GO>}

Well, there's always probably in the minds of the client the fact of not concentrating or over-concentrating their recoverables with any particular re-insurer. But I don't think that's the main driver for the growth. In my opinion, the main driver for the growth – and the growth is already concentrated in the U.S. at the moment as you can see in the reports of the renewal, for instance, and in Asia-Pacific. I mean the growth is just a resultant of the business initiatives that we have taken.

I think the global insurer is certainly one where we spread across all the alliance and all geographies. I think the U.S. focus is working very well. As you can see, we are reporting new clients coming in. Those new clients are all U.S. clients. We are talking about 15 new clients in the U.S. Our total book of clients at the moment on the treaty side in the U.S. is about 300. So – well, it's picking up and I think the traction is there. So, no, I think there are a number of restructuring of programs and every time there is a restructuring, cards are back on the table and there is a redistribution and we are benefiting from it.

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

Okay. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Michael. Next question?

Operator

Thank you. We can now take our next question from Thomas Jacquet from Exane. Please go ahead, sir.

Q - Thomas Jacquet {BIO 4110153 <GO>}

Hi, good morning. My first question is regarding your shareholder base. Did you receive any declaration from your largest shareholder and maybe you could say what would be the management's reaction to an offer on your share – on your company?

And my second question is relating also to the arrival of a new generation of investors in the reinsurance space. We've seen some deals from Chinese companies with a very different view on the asset allocation. Do you think it's only a short-term trend and plus the arrival of a new capital or is it something that could change the equilibrium of pricing because of a different cost of capital for these guys?

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Thomas. The rule certainly we follow is not to comment shareholders' decisions or shareholder strategy. And so all questions related to Sompo has to be addressed to Sompo. Sompo has informed the market that they have now bought Martin Ebner's shares, which is around 7.9%, and so that's what they have registered. But to our knowledge, they didn't cross the 10% threshold because it should have been something sent to the AMF and we haven't seen this declaration, it didn't take place yet.

And so Sompo has made the declaration that they would like to reach 15% in the future of a shareholder. So I will stop there because those are public announcements by Sompo and we have a rule, we don't comment on shareholder's attitude, we don't comment on shareholders' prospects and we don't comment on shareholders' strategies. Let's be clear on that side.

To my knowledge – but I did read the press this morning. There's no bid on SCOR, at least not at the time I'm talking to you. But I promise you, Thomas, I would immediately call you if this is the case.

On the attitude of Chinese investors, it's true that we see Chinese investors in the insurance and reinsurance area. Well, I mean, we've seen two Chinese investors interested by expanding and investing in insurance and reinsurance. And I ask Mark Kociancic to comment because he is head of strategies at SCOR.

A - Mark Kociancic {BIO 17852409 <GO>}

Yes. It's not just limited I think to Chinese investors, but it's more of a global trend that we've seen all kinds of different forms of capital pursuing both life and non-life operations. I think it's certainly here to stay. There's clearly been all kinds of arbitrage that's been demonstrated for the past few years and there's a continued appetite in this environment to pursue assets in the insurance space. It's a very lucrative area from their perspective and I think you will see that.

The other side of it I think is – your comment on the lower cost of capital from some of these regions, that's something that we've seen demonstrated in a few of the transactions that we've been following the last couple of years, and that's part of this arbitrage process as well. So in my opinion here to stay and will continue.

Q - Thomas Jacquet {BIO 4110153 <GO>}

Okay. Thank you very much.

Operator

Thank you. We can now take our next question from Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning. It's Kamran Hossain from RBC. I've got three questions. First is just on the mid-year renewals. Could you let us know how much of the business that you raised at the mid-year renewals – obviously, you had very strong growth – how much of that you led this year versus last year?

And the second question, obviously the economic solvency is going in the right direction. It sounds like it's going to be north of 230% once you make all the adjustments. Can you just comment on what the impact of very strong premium growth on a reported basis does for the S&P capital model? Just interested in kind of how those two models square off against each other. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, Kamran. Maybe again on the renewals, Victor, if you could give some more flavor or color.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think on the renewal, we have been leading about one-third of the business of the premium we underwrite. I think this is not materially moving. We are still about there. The only remark is that because of this influx of deals that are negotiating much more on the one-on-one basis than on the syndicated basis, well, this part of the premium can be considered in a way as a premium we lead in a sense that we stand by our terms and we negotiate our own terms. So I think if you add that up, yes, probably our leaded premium volume is going to be at the end of the year increasing from what it used to be last year and the year before.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Victor. Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

On your second question related to the S&P capital impact of strong growth, several points to make here, actually. I think the impact is somewhat more modest than you might think or muted, largely because a significant chunk of the growth that we're having is FX related. So when we reported a figure – premium growth of approximately 20% for the year, constant exchange rates were a little over 5%. So there is a good chunk that is related to FX.

Why is that important? Well, we also have a significant amount of shareholders' equity denominated in foreign currency and it's usually matched to the underlying growth of the premium. So that helps to support the growth as well. And traditionally, if you look back on a historical basis, we've had significant capital generation internally to support our growth overall from our business plan. So I expect to have a rather modest impact from the growth. It shouldn't be that material to the S&P ratio because we are self-sustaining with not only our strategy, but the earnings growth that comes along with it.

Q - Kamran Hossain {BIO 17666412 <GO>}

Perfect. So this year is the year for the upgrade then? I'll let them answer that.

A - Mark Kociancic {BIO 17852409 <GO>}

We would certainly welcome it.

Q - Kamran Hossain {BIO 17666412 <GO>}

Perfect. Thanks very much.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you for your support. Next question?

Operator

Thank you. We can now take our next question from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good morning. Vinit here from Mediobanca. Just one thing. Victor, you – sorry, two questions. Victor, one, you mentioned the promising pipeline of solvency relief deals and we recently heard from another reinsurer that at least in China there are fewer of those. Could you just comment on what could be driving the clients to go for solvency relief when the equity value is also rising for them, probably?

And the second thing is on this industrial loss normalization that we expect. I know you commented that there's no pattern, but is there any chance that some of these higher incidents are coming from some recent treaties in the last few years where there were some terms or conditions or - I'm just wondering why you expect a normalization? Maybe there is just no pattern that said, but just a comment would be useful. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Yes. I didn't talk specifically on solvency relief. I was talking about capital management, which in my opinion is different. I mean, you can manage your capital and look at your own cost of capital, compare it to diversified reinsurer cost of capital and you might find ways to make certain contracts with the reinsurers, which improves your overall return. So it's much more capital management than solvency relief.

Regarding China and your comment, I think we will see at the end of the year - well, there are two things in China happening at the moment. There is C-ROSS, of course, which is the new regulation that reduces capital requirement in certain lines of business.

There is also an ongoing liberalization of the motor business in China. So the two tendencies or the two trends are a bit contradictory as far as basically equity shares on motor in particular are concerned. So I think it's probably too early to say anything about what's going to be the sessions on motor in China at the end of the year.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

What was your second question?

Q - Vinit Malhotra {BIO 16184491 <GO>}

The second question was on...

A - Denis Kessler {BIO 1498477 <GO>}

Large loss pattern.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think the large loss pattern - well, there is no commonality between the losses. They are coming from different sectors. I mean, we have offshore energy losses, but we have also satellite losses, we have general industry losses, food processing, in particular.

I think nothing in those losses indicates that there could be any form of, say, for instance, economic downturn, causations or things like that. So because there is no commonality - well, it's just coincidence that they all occurred in a very, well, compact period of time. So

I'm quite convinced myself that it's a kind of a peak and there is no reason why it should not come back in the next quarters to a more normal sort of occurrence numbers.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. And nothing in the treaties of – you know, in recent years there may have been pricing pressures or some terms and conditions, nothing there, right?

A - Victor Peignet {BIO 6287211 <GO>}

No, the losses themselves are all straightforward losses. The amount that is of the indemnities have got nothing to do with problems in the contract. They are genuine losses and the covers are genuine covers. Well, I mean, it's just a question that they are large. Some of them may be complex technically and they may take a bit of time to adjust. But there is no controversial elements on the contract wordings, for instance, at all.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, thank you.

Operator

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

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

Hi, this is Xinmei Wang from Morgan Stanley. I have two questions, please. So first is on the P&C commissions ratio, which I think increased about 40 basis points from 1Q. I mean, I assume it's coming from some mix effects as we saw last quarter. But I was wondering if that's a number we should expect to return to on a full-year basis, as I think you've preciously said it should be around 23%, 23.5%. So could you give us an update on that number please?

And my second question is on the specialty market. So I saw you – there's a €37 million new aviation deal. We've had some commentary of the specialty players that rates are declining in that market, perhaps moderate rate of decline, but still declining. So I was wondering what your outlook is was for that market and if you think there are more opportunities there.

And then more generally on specialty lines, do you see rate declines in the market or are you comfortable with what you're seeing at the moment? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks a lot. Maybe we start with the commission.

A - Victor Peignet {BIO 6287211 <GO>}

For the commission ratio, the answer is going to be the same as the last quarter because I think I got the same question in the last quarter. What we are seeing is a shift between the attritional loss ratio and the commission ratio – SCOR's response to an increased weight of proportional business in our portfolio. Nothing wrong with it. I mean, that has been the trend for the last 18 months or so.

I believe that there is a bit of seasonality there. So on a prospective basis, I believe we should land for the full-year on 24.5% of commission. What is important to look at is what we call the technical ratio, which is attritional plus commission. And if you look at this one, well, the trend continues to be a bit downward as it has been for the past few years. Benjamin, maybe you want to comment on the specialties and the aviation in particular.

A - Benjamin Gentsch {BIO 5633839 <GO>}

Yes, just to comment on the aviation (36:54) cost that we had that is displayed (36:55) here. It is, as mentioned, driven by one large contract that we have subscribed newly with an existing client. This comes from the strategy of basically redesigning the aviation portfolio such that we rely on a few important relations with clients where we want to have strong participation with the leading players in this market and not with just followers or small players in the aviation market. So it's really this strategy of having four cornerstones in the aviation market with large participations there.

Specialty overall, as you can see also on this Slide 9, has not grown in the other lines of business tremendously. It is a very stable renewal. And this is a reflection of how we see the market. It is not moving very strongly, definitely not moving in terms of price increases. It is behaving like the overall P&C market. So we think still – and you could see this in the traffic lights that we have displayed in the Monte Carlo presentation, you could see that many of those specialties are just considered to be priced adequately.

So we think there would be some potential for price increases, but currently don't see them. So it's a stable market, still some opportunities, but not enough yet to grow strongly. So the real growth was coming from this one strong – one large deal that we did. And as Victor has mentioned in his introductory remarks, this is a deal that we have done for a couple of years. So it's not a one-off.

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

Thank you very much.

A - Denis Kessler {BIO 1498477 <GO>}

Next question?

Operator

Thank you. We can now take our next question from William Hawkins from KBW. Please go ahead, your line is open.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. Back to Vinit's question on manmade losses, could you give us an indication of what you think has been the normal manmade loss impact on your combined ratio over the past few years, so what's been the average? And then what was the total impact in the second quarter? You kindly mentioned I think the Pemex figure, but it sounds like there's lots of other stuff going on as well. So what would you say was the manmade impact in the second quarter?

And then secondly, your investment revenue, so the income line before capital gains, I think there has been quarterly volatility now in the first and second quarter from marking to market some inflation linked bonds. Could you tell us what the second quarter impact was and remind me what the first quarter impact was and ideally also say how much of those numbers was in the P&C division, specifically? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Let's go back to the manmade losses and Victor.

A - Victor Peignet {BIO 6287211 <GO>}

I think the average is between 5% and 6% part of the combined ratio, I believe. As far as this particular quarter, I think we are - well, we are higher. I don't think we have our market share of those losses. If you take Pemex, for instance, I think we are below our average market share on the offshore market on that loss, probably a bit the same on some others.

I would say that this quarter stands at about 2% combined ratio higher than what we have been the kind of a normal. So if you look at that, I mean, our 57.5% on a year-to-date basis, you look at it - well, you take 2% more, so it means that our attritional for this quarter year-to-date is about 55.5% very close to the 56% that we were trending to.

Q - William Hawkins {BIO 1822411 <GO>}

That's very clear, thank you.

A - Victor Peignet {BIO 6287211 <GO>}

So I think what it means to me is two things because we have consciously limited our shares to portfolio shares and we are avoiding to create peaks in our portfolios. We are probably in a relatively good position to absorb those losses. And when we have an unusually high number of those - well, we are not on all of them, again, due to probably the - not probably, certainly, the selectivity of the underwriting. So even in that situation you see that our portfolio is capable to absorb and withstand those - well, not shocks, but semi shocks.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

François?

A - François de Varenne

So, on the impact of inflation, so you're right. So in Q1 the income yield on the portfolio was 1.8% and I mentioned during the call – the presentation of the Q1 results the one-off – negative one-off impact on the inflation linked portfolio of 23 basis points.

In Q2 we have two effects. So the first one is the dividends on the equity portfolio. This is a seasonal effect that we observe each year and the effect here is roughly 20 basis points. And we have the opposite effect on the inflation in portfolio observed in Q1 and here this is a positive effect of 17 basis points.

Q - William Hawkins {BIO 1822411 <GO>}

Sorry, François. Could you put that into euros, please?

A - François de Varenne

In euros?

Q - William Hawkins {BIO 1822411 <GO>}

Yes.

A - François de Varenne

Roughly the inflation linked portfolio we have an exposure of €750 million today.

Q - William Hawkins {BIO 1822411 <GO>}

So I can just take 17 basis points on that?

A - François de Varenne

Yes.

Q - William Hawkins {BIO 1822411 <GO>}

And how much is the non-life?

A - François de Varenne

Through IFRS rule where we have to capitalize the new inflation level until the redemption of the bond each quarter. So when we have revision of expectation on inflation, we have to book this impact under IFRS.

Q - William Hawkins {BIO 1822411 <GO>}

And how much of that is non-life, the vast majority, yes?

A - François de Varenne

Yes.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

Thank you. We can now take our next question from In-Yong Hwang from Goldman Sachs. Please go ahead.

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

Hi, I'm In-Yong Hwang, Goldman here. Two questions; one on July renewals and it looks like bulk of the new business that you got there came from your global insurers initiatives. And just on that, do you still continue to see the same level of opportunities there or is there any sense that all the low-hanging fruits have been picked in that initiative, and you need to turn your focus more to, for example, the U.S.?

And secondly, in the July pricing trends, it looks like in the U.S., we could be potentially seeing the floor to a lot of the pricing declines that we've been – since the last two rounds. Could you talk a bit more about what you're seeing in Europe and Asia, the price declines there seem to be continuing? Is that more because of the new capital that we've been talking about earlier in the call or is that kind of (44:20) the U.S. capital is trying to find new geographies to find better pricing? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I don't think we are at the end of the global insurers initiatives. I think we still have room to progress in there – I mean, with a certain number of them. So certainly not. In addition, the same approach is now being extended to regional insurers that are expanding in their own regions and what has been successful with the global insurers we believe is going to be successful with regional. So our list of global, which is about 14-15 of them, we are heading to that now, regional insurers to whom we are offering the same sort of organization, specific organization.

Regarding the pricing trends, well, I don't think the pricing trend downwards is due to alternative capital. I mean, that applies for cat business certainly and to a more limited extent, because I think that on U.S. cat, for instance, some of it has been retrenching recently. No, I think it's just over capacity in markets, activity of brokers, pressure on budgets on the client side, economic downturn that puts all the chain under pressure. That combined with the fact that for the moment at least the results are very good. Well, that creates a very heated market where you have to operate with a lot of discipline and that's what we are doing.

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

Thank you.

Operator

Thank you. We can now take our next question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Good morning. Just two question, one for Victor, one for François. The question for Victor is, now that the – probably almost the entire P&C book has been renewed, could you tell us if there has been any significant changes between the type of business you have written or the structure of the portfolio between proportional and non-proportional versus last year? That will be the first question.

Second question would be for François. Obviously, you've got this active capital investment management and gains extraction. But I just wanted to get your feel on what was the sensitivity of your fixed income portfolio, because looking at the unrealized gains on the fixed income book, you've got €120 million unrealized gains, which seems to be rather low especially if we are now expecting the U.K. and the U.S. interest rates to move up, which potentially could lead to be in negative territories pretty quickly. So I was wondering how you feel currently about this. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

As I said, there is a bit of an increase of the weight of proportional in the book by a few percentage points. That's – fundamentally the structure of the portfolio, the composition of the portfolio is not materially changed, but there is a trend to book more proportional – which corresponds basically to the fact that we operate as a Tier I global reinsurer. And there are opportunities on proportional that only those ones are being offered at the moment. We will – on the IR Day, we will come with the same presentation as last year, a bit more focused even on segmentation of clients and portfolio. So you will have a very, very precise view of how we have evolved during the year. But structurally no massive changes.

A - Denis Kessler {BIO 1498477 <GO>}

And also to increase the propositional part of a portfolio is rather opportune because the rates for primary insurance fare better than the rates for reinsurance. So that explains partially the performance of SCOR as compared to some of the peers that do practice mostly non-proportional business. François?

A - François de Varenne

Thomas, on your question, I think we made the demonstration not only since the beginning of this year, but over the last few years on our ability and capacity to deliver recurring contribution coming from realized gain on the portfolio. And I think we demonstrated that this strategy is not linked to the fact that we want to milk the fixed income portfolio, but that's linked to the active strategy we've got. So to manage the fixed income portfolio, but also to take the performance on non-yielding asset classes, where, again the gains are the only solution under IFRS to recognize the performance.

So that's the first point. I think we made the demonstration this year in particular since the beginning of this year that the contribution on the realized gain is really coming from non-yielding asset classes, in particular equities, but also we had some gain on the real estate portfolio this year and last year and we still expect in the future to generate realized gain from those asset classes.

You're right, if interest rates are going to increase especially in the U.S. and in the U.K. that will be a negative news, unrealized gain on the fixed income portfolio denominated with those currencies will decrease. But I remind you that we have a short positioning in terms of duration. So the impact compared to peer will be extremely limited – and that's a positive news.

I remind you also that since we have a shorter duration on the asset side compared to the liability side, it means that if interest rates are going to increase, we are going to increase the economic capital in the economic balance sheet. So the opposite effect that one observed under IFRS. And of course given the short positioning and the huge amount of liquidity we've got on the portfolio over the next 24 months, the positive news is that our reinvestment rate is going to increase and is going to increase more rapidly again compared to our peers.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Maybe one question for Paolo, if I may, on the 7.2% technical margin. Obviously, you're pointing to mortality in-line with expectation. So I know it's tiny things, but is there anything to read in the 20 bps better margin reported in Q2? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Thomas, to ask that question to Paolo, who is falling asleep. So, Paolo, wake up, your question.

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

No, there is no key driver on it. Overall experience, as I said, during my brief presentation both on persistency and claims experience has been neutral to slightly positive in the first half. We are picking up very good business from a profitability perspective and we spend a lot of time optimizing the performance of the in-force. So I think you're probably going to see that there to stay for the – close to the rest of the year.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

Operator

Thank you. We can now take our next question from Frank Kopfinger from Commerzbank. Please go ahead.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thank you. Good morning, everybody. I have two questions for François. My first question is on your rebalancing strategy, which is now on hold. Could you elaborate a little bit what's your strategy there going forward and what would be the driver to rewind it again? Or the flip side of the question is certainly should we expect that your liquidity position is going to rise again as obviously the economic environment remains uncertain?

And the second question is, coming back to William's question on the sensitivity or the impact from this inflation linked securities. I wasn't clear with the 17 basis points and the 23 basis points impact, whether the basis is whether you're referring to the return on investment here or whether it's really the 17 basis points on the €750 million that you were mentioning?

A - François de Varenne

On the rebalancing strategy, as I explained during my talk, it's a tactical move and a decision that we took at the beginning of the second quarter of this year just to cope with the current uncertainties, namely in the Eurozone, it was impossible to predict the outcome of the Greek situation. In the U.S. and in the U.K. we see again a growing uncertainty linked to the timing of the first interest rate hike by central banks and then the pace of implementation of their exit strategies. And in emerging countries, that's linked to the Chinese situation.

So it's really a tactical move. We increased liquidity from 5% to 9%. Don't expect a major increase in the future. You know that at SCOR we have a culture to protect the value of the portfolio as soon as we see uncertainty growing. Having said this, what we expect in the future is positive news. Since 48% of the portfolio is denominated in USD, 10% of the portfolio is denominated in GBP, what we expect in the future on the portfolio are positive news linked to the fact that those two central banks are probably going to increase interest rate after the summer or by the end of this year, so which means we will reinvest at higher rates in the near future.

I come back on the inflation book. So the impact mentioned is the impact on the total yield, not the impact on the portfolio. Again, it was a negative one-off in Q1. It's a positive one-off in Q2. Overall, in H1, it's almost neutral. So that's just linked to the IFRS rules. But on the first six months, let's say that the impact is really marginal.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay, thanks.

Operator

As there are no further questions in the queue; that will conclude today's Q&A session. I would now like to turn the call back over to you, Mr. Bougon, for any additional comments.

FINAL

A - Bertrand Bougon {BIO 18934799 <GO>}

Noticing that's the end of this session, thank you very much everybody and looking forward to seeing you during the Investor Day.

Operator

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