Q4 2017 Sales and Revenue Call

Company Participants

- Ian Kelly, Head-Investor Relations
- Victor Peignet, Chief Executive Officer-SCOR Global P&C

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Other Participants

- Frank Kopfinger, Analyst
- Guilhem Horvath, Analyst
- Jonny Urwin, Analyst
- Thomas Fossard, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Global P&C January 2018 Renewals Conference Call. Today's call is being recorded. There will be an opportunity to ask questions after the presentation. In order to give all participants a chance to ask questions, we kindly ask you to limit the number of your questions to two.

At this time, I would like to hand the call to Mr. Ian Kelly, Head of Investor Relations. Please go ahead, sir.

Ian Kelly {BIO 19976646 <GO>}

Good morning, everybody, and welcome to the SCOR Global P&C January renewals call. I'm joined on the call by Victor Peignet, CEO of the SCOR Global P&C Division; Benjamin Gentsch, Deputy CEO of the division; and members of the SCOR Global P&C management team.

Before I start, I would just like to remind you that during the presentation and the Q&A session, we will refer only to the renewals and not to the full-year 2017 group results. These will be presented on the 22nd of February. Secondly, I would like as usual to draw your attention to the disclaimer on slide 2 of the presentation.

And with that, we can start. And I hand over to you, Victor.

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Victor Peignet {BIO 6287211 <GO>}

Thank you, Ian, and good morning to you all. Most probably, all of you have already read the press release and going through the slides that were posted earlier this morning. I would like to briefly give you the main highlights of these renewals from our standpoint. And Benjamin and I will be pleased to answer your questions following.

The main point I would like to stress is the starting point of this renewal season for us. Half of it, you can see in slide 5, is our efficient management of the year-on-year price reductions of the past years. The other half of it you can extrapolate from the results of our 2017 renewal seasons and quarter. It is the very strong growth of our business in 2017, which is at the upper end of the Vision in Action range and our ability to maintain our normalized net combined ratio around 95% while producing return on risk-adjusted capital at (00:02:16).

Our starting point could therefore be summarized in, one, well-contained year-on-year price reductions since 2012; two, relatively high volumes coming up for renewal; and three, the objective to maintain or improve the technical performance of the business.

From this starting point and considering that the price reduction of the past years were mostly fueled by the absence of large natural catastrophes in particular in the U.S. until this year 2017. Our aim has been to restore our portfolio prices and expected profitability towards the levels they were at in 2012-2013 following the last previous year of devastating natural catastrophe, 2011. (00:03:07) to continue to favor a client-by-client approach and to deepen our franchise with selected clients. We did openly communicate our objectives from Monte Carlo and we did stick to those objectives throughout the renewals.

This has led us to limit our growth but not by not fully taking participations we were offered in certain renewing or new large proportional and non-proportional contracts which expected margins were too thin for us. As we were shown all these contracts and as we submitted quotes for them, we could measure the remaining pricing gaps to our orders for proportional and non-proportional at current interest rates and taking into account the estimated loss trends by line of business between auto, umbrella and excess general liability, med mal and professional liability. We could also measure the volumes of additional premium that these contracts would have generated for us or the shares that we would have written should they have met our orders. This information is going to be very useful for us to plan for 2019 and beyond.

What we can say at the end of the renewal season is that we've done half of the way back to the 2012-2013 levels while we have continued to grow at a steady pace of nearly 4%. We are now close to where we were in 2015 in terms of expected profitability KPIs. An important point to end the line (00:04:39) is that about half of the expected profitability improvement comes from management actions. These management actions can be seen in slide 6, column Cancelled and column Share variation. They account for 9% of the total renewable premium.

This puts us well on track to execute Vision in Action considering the two facts that our normalized net combined ratio continues to be at around or below 95% and that we foresee other rounds of market corrections during the rest of the year in particular in the May, June, July renewal season. In any case, the history of all the past years shows that the January renewed portfolio always produces a bit less margin than the portfolios that renew in April and May, June, July, which is a matter of composition and geography.

I would like to conclude in reaffirming our confidence in our position in the markets and our ability to pursue a profitable growth and deliver best-in-class technical results. For the latter, rendezvous in two weeks' time for our 2017 results call.

Thank you for your attention. And I think now we are ready for the Q&A.

Ian Kelly {BIO 19976646 <GO>}

Thank you, Victor. As the operator of the call said at the outset, please limit yourself to two questions each so that we give everybody a chance. You can come back onto the call to ask further questions afterwards if you wish. And as I mentioned at the start, we cannot at this stage answer questions on the full-year group results. Okay. So we can start the Q&A.

Q&A

Operator

Thank you, sir. We do have our first question from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, good morning. Thanks for taking my questions. So firstly, you've rotated the book a bit from proportional to non-proportional lines. I just wondered, have you also reallocated exposures from Northeast U.S. to Southeast to get a bit more rate? And secondly, given the high non-proportional exposures, will the loss budget rise for 2018 or has this been reinsured out? Thanks.

A - Victor Peignet {BIO 6287211 <GO>}

Well, first of all, the move from proportional to non-proportional is a function of how the market operates. And we have seen opportunities on non-proportional. We have seen also needs to do more management action on certain proportional. So there is a variation. Just to give you a figure, we were basically something like 75/25, prop/non-prop. Well, it leads to a variation of about, well, 2%, 2.5 points (00:07:42). So we are now more in 27% non-proportional instead of 25%. So this is not massive. It's a trend that can be (00:07:53) later on in the year if proportional business behaves differently. So I think, basically, in the portfolio, we continue to be three-fourth, one-fourth, prop, non-prop, one way or another. Regarding the risk profile, we've been extremely careful. We keep the same risk profile. We have not changed our appetite in the U.S. We are not a Florida writer. We continue not

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to be a Florida writer. So overall, while we manage the overall P&L of the portfolio; well, I think that (00:08:27) has been – being nicely renewed by the end of November, while the risk profile of the book stays basically unchanged. And we have no reason to change our cap budget for this year.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great, thanks.

Operator

We will now take our next question from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good morning. Thank you, Victor, and thank you, Benny. It's great renewals, I would say. The point I would make is that in the 2 percentage points of profitability that you mentioned on slide 3, how should we think of this going forward in the sense, a, maybe it could get even better in rest of the year? But equally from the January renewals of 3% pricing from – is it that retro has taken up 1 point, you think, or – but how should we think of this 2%? Really, that's my main question today. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, as we say, we measure expected profitability with two basically performance indicators. One is the loss ratio plus commission ratio (00:09:46) which then plus our expenses translate directly into combined ratio. And the second is the return on risk-adjusted capital that is allocated to underwrite the business and support the exposures. So take an example, if our loss ratio plus commission ratio grows before it was say 90%, the 200 basis point improvement means that it was down from 90% to 88%. But if our return on allocated capital was 8%, it becomes 8% plus to 200 basis points, 10%. So that's exactly what it means.

But when you measure price increases, you measure the price increase for unit of risk. So you compare this contract you had last year with this contract you have this year, you have a certain number of unit of risk in that contract. While the contract may have slightly changed conditions, it globally stays the same, and you compare the premium, so the premium volume gives you the price increase.

Well, in parallel to that, while you look at your loss expectancy which is your loss model, and it may happen that all the increase in price doesn't translate directly in totality in improvement of expected profitability. We used to have a slide that was showing that. Sometimes, well, if it's exactly identical, well, the asset translates. Sometimes when you have trends in the losses that, while it forces you to change your loss model, it can be cat, it can be non-cat, in which case, part of your price increase is eaten up basically by – well, by the loss model changes.

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So we think that the 200 basis percentage points, well, what does it give us? It give us a margin to maneuver and keep our combined ratio around 95%. Part of it which translate in combined ratio, part of it will translate in reserves and that's it. And, overall, it gives us a nice buffer to be able to affirm today that our net combined ratio will continue to trend, basically, while a bit lower than what we had assumed in Vision in Action.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you very much.

Operator

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

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much for the helpful presentation. So, two things, Victor. You yourself have emphasized the absence of large deals in contrast to your competitors and the fact that you've got very good visibility on the stuff you walked away from. At the risk of being hypothetical, could you kind of indicate if you had decided to bite the stuff that your peers have liked? What would your volume have looked like, presumably it could have been a lot higher? But how much lower would your rates increase being relative to the 3%?

And then, secondly, whilst in general you seem to be more conservative, your non-proportional motor figures do look pretty big versus peers, 19% rate and volume, I think. I'm inferring from that that you're a bit more comfortable about the changes that have occurred with regards to reinsurance falling through from Ogden in UK Motor. So, you seem a bit more optimistic than some of your peers. So, could you just comment a little bit about where we are with regards to UK Motor reinsurance specifically? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, our total volume of UK Motor, I believe, has moved up by about €20 million, a bit less than €20 million. So, from €30 million to €50 million, something like that. You put that in perspective of the €6 billion division and you understand that our UK Motor non-prop today is higher than our UK – our French non-prop motor, but I mean all of that, to me, is not massive.

It looks big, but at the end of the day, it is what it is. So, while we have a certain number of contracts in UK non-prop, the share – the price increases have been, well, very different from one to the other. We have taken management actions on the proportional part of our UK portfolio on motor. And we have increased some of the non-proportional – large part of the increase is actually increasing prices actually. So nothing really very, very significant in all this, at the scale of the division.

Regarding what would have happened, first of all, what would have happened if we would have taken those contracts at the current price in terms of improvement of profitability, well, of course it would have deteriorated it, I didn't calculate it because it was out of

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question. So – but I can tell you how much more premium we would have written, about 10% additional growth. And we, of course, did that calculation, that's obvious. But we were not ready to take that.

To give you an idea, I think on the proportional and a lot of it is U.S.-driven, but not exclusively U.S. We have seen so in European or international, as well as Australian. Well, overall, on the proportional, we are not talking of massive differences, but we are talking of few points of commission reduction that we're missing in our opinion.

And on the non-proportional gain, we may not be talking of massive differences. We are talking of differences in high single-digit, low double-digit sort of price increases that was missing. So, what we did basically, we looked at all those contracts, some of it was basically interesting for us. We would have like to add it. We talked to clients. We tried to negotiate. Well, we didn't manage to get to the terms and conditions that we felt were required for us either to renew at existing participations or to take participations on new contracts, and we basically passed this year. Well, I think we've managed, all the discussion with the clients in a very open way and we are – we hope we are comfortable with the fact that business will be shown again to us next year and we'll take another view.

On some cases, we will even work during the year with the client to try to improve our assessment of the business. So, that's – at the end of the day, we are in repeated game sort of business. The game will repeat next year. But in the meantime, while the philosophy we have is we come on board for good. So, if we come on board, we are confident that we are able to stay. And the re-entry point in certain businesses has got to be the right re-entry point and it was not by far, but it was not.

Q - William Hawkins {BIO 1822411 <GO>}

That's very clear. Thank you very much.

Operator

We will now take our next question from Guilhem Horvath from Exane. Please go ahead.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes. Good morning. Thanks a lot for taking my questions. The first one is on the technical profitability improvement, it's two points. And the fact that you said, Victor, that some of it will go to combined ratio and the rest will go to reserves. Should we interpret the fact that you keep this combined ratio target flat as more disciplined on the reserving side or are you changing something on the reserving here? So, this would be my first question.

And second is on your growth in catastrophe – in property catastrophe. Can you elaborate a little bit more on where are your main exposures today post-renewals, because I see that are growing in – a little bit in

LatAm and Caribbean, quite a lot in U.S., I guess part of it is due to pricing. But just one view, you said you were not particularly a Florida writer, but just where are your main

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exposures? Thanks.

A - Victor Peignet {BIO 6287211 <GO>}

Well, the main exposures on cat this year will be shifted from U.S. to Europe. There are two reasons for that. First of all, with the depreciation of the U.S. dollar against the euro, which is very significant, and secondly, the success we've had with a number of European based global insurance. So, I think there is an increase of our exposure to European wind that is going to become now the top exposures, it used to be U.S. for the last three, four years, it used to be Europe before, but we had a shift, this is largely driven by the dollar/euro exchange rate.

Regarding the net, as I said, our retrocession program has been renewed and we have basically tailored our purchase of retro in order to keep the profile of the book more or less unchanged. So, in terms of exposure - net exposure, we are basically at the same profile as we were before.

The combined ratio, well, as I said, I mean, we improved the expected profitability. This is pricing. So, there is always uncertainty in pricing. There's lot of hypothesis. But, I mean, you have seen that we have been able for the last few years to keep our combined ratio between 94% and 95% on a normalized basis quarter after quarter, and - but 2017 is no different. So, by improving the expected profitability by 200 points, we give us and you, by the way, more comfort in the fact that, yes, this sort of range and the 95%-ish (00:19:53) we can keep. And then we see our pricing translate into actuals. And depending on that combined ratio we'll adjustment, but I think we can be comfortable on the 95% indication, not target, assumption.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Anything on reserving change or nothing changed?

A - Victor Peignet {BIO 6287211 <GO>}

Oh, I think our reserving is - has always been the same. It stays the same, so no change in the reserving policy, it's a prudent reserving policy, but we've not changed it, no.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Thanks very much.

A - Victor Peignet {BIO 6287211 <GO>}

Same team is including actuaries (00:20:27) and same policy.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Good. Thanks.

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We will now take our next question from Frank Kopfinger from Deutsche Bank. Please go ahead.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good morning, everybody. I have two questions. I want to come back on this combined ratio question. I'm not cleared or for me it's not really cleared (00:20:51) you didn't change your combined ratio target. You show now 3% price improvement. You point to the upcoming renewals with better margins due to business mix, and still you stick to the combined ratio range for now. So, could you comment on how you see this? You talked about a higher comfort level now. I would like to understand why you didn't touch it now?

And then secondly, given the 3% price increase, is it fair to say that overall and taking your historical numbers into account, that you overall shifted the price point to a level of 2013? Is this how I could see it?

A - Victor Peignet {BIO 6287211 <GO>}

If you look to slide 5, to take your second question first, you will – just a second I'm just getting it myself. If you look at slide 5, you see that over the past four years we have had price reductions that we have been able to contain at about 1% per year. So, if you look backwards, while you – the 3%, well, as I said in my speech, the 3% gets us back to more or less 2015.

And if we go back to our return on expected capital that we had in 2015, we are more or less there. Not yet totally there, but I hope that for the rest of the year, we will see further improvement of the margin, which is why I say, well, basically we are back at around 2015.

We need another go of about – well, as you can see here, 2 plus 2 (00:22:50), we need another go of the same, in a way, to get back to 2012, 2013, which is why in my speech I said that we did half of the way. But the objective was really to get towards 2012, 2015. I don't think we were believing that we will be able to achieve it entirely, but we went towards that, and we did a good part of the year, all the way.

Regarding the combined ratio, we started Vision in Action saying 95%-96% and even more 96% than 95%, now we are below 95% in normalized, in our results quarter-after-quarter with that improvement. But we feel comfortable that we will stick there.

But imagine that later in the year or next year, the market moves a bit more on the casualty side and we take more of the casualty business, which is what we intend to do. Then, we will have to accept a bit of higher combined ratio. So, we will use part of those 200 basis points improvement to fuel basically, while the growth we could have on casualty, and to try to maintain the combined ratio around 95%. So, part of it is the kind of a buffer that will allow us if prices are there to take business – casualty business or professional liability business that is inherently to higher combined ratio.

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So it's – which is why I don't want to go down – further down than the 95%. I think 95% is excellent, and 95% with the 200 basis points of improvement gives us that buffer to grow the business as soon as the casualty reaches the level, where it's (00:24:38).

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thanks. Very clear.

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A - Victor Peignet {BIO 6287211 <GO>}

This is all portfolio management. And I think that we've spent a lot of time and energy to equip ourselves with portfolio management tools, and our teams now are totally into that, which explains also how we are able to manage the lending of the renewals.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thank you.

Operator

We do have our next question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning, Victor. It's Thomas Fossard from HSBC. So, two question on my side. First one is to better understand how the potential developments regarding the April 1 and the July 1 renewal. Can you please indicate how much cat was – cat business was renewed in the January renewals and how much would be – what would be the component of cat business in April and July 1? And in terms of potential further price momentum, is that only driven by a mix business or would you expect, I would say, additional further momentum to be felt in (00:26:07) H1?

And the second question may be related to the first one is, can you tell us on the HIM losses, what you've seen in terms of declaration so far and how much you've been paying in terms of cash and how does that compare to, I would say, previous U.S. cat events of the same type? Thank you.

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A - Victor Peignet {BIO 6287211 <GO>}

Okay. Good. Okay. On the cat business about half of the U.S. business renewed at 01/01, so we are left with half of the business to be renewed, in the course of the year, it's more May, June, July. Well, as you know, April is more driven by Japan and Australia to a certain extent.

So, we are – it's a feature of the market that we have a lot of cat exposure that renews in the course of the year as opposed to 01/01. And that's part of the reason why I was saying that in my speech that historically, we start with 01/01 renewals, but we have a certain expected margin out of those 01/01. And then going through the year, we see that every year and it develops more or less in the same way every year while the expected margin improves gradually as we walk into the year.

And we have developed graphs to follow that, and it's pretty consistent year-on-year. Of course, if there are major events, but there are different inflictions, but year-on-year it's the same sort of trend, which is why we are hoping that while market correction or normal market corrections, but we do hope that there will be market correction. But even if there will be market corrections, the margin will continue to slightly improve. So, that's for the...

On the HIM. On the HIM actually what we see is that our total aggregate doesn't move a lot, gross and net. There are variations. And basically, we see Harvey and Maria going down. We see Irma going up a bit. But if we add the three, we are more or less there. What the lesson I drew from that is that when you got those type of massive losses, the fact that we were able in October-November to pitch at market levels and for our own share on numbers that, well, continue to stand, well, pretty well, I think it's reassuring in our capabilities to basically assess our exposures and the consequences of such events.

So, today, I would say that we are almost – you remember that we indicated market loss of about €95 billion and we have different pitch for each and every. Today, we are almost like if we were at €30 billion, €30 billion, €30 billion, €90 billion (00:29:03) on the three, instead of the €95 billion. Well, our €95 billion was including a bit of the – was excluding a bit of the NFIP, while the €90 billion would be including NFIP. So there's a bit of variation, but I think you see that you're still in the ballpark. Then, if you add to that the Californian fire, you are still in the €100 billion line. So, overall, not massive movements. What we see is of course that the incurred, which is the declared losses, are coming, well, very slowly, which is not a surprise. It takes 18 months to two years for that sort of loss to develop. And probably in this particular case, we may see even longer developments for the Puerto Rican side of the loss. So it's not surprising. And we are today having as declared losses out about half of the total estimate. And in terms of payments, well, probably between one-third and half of the declared. So it's slow to get in cash to translate in cash flows. But again, that's not surprising. That's the way those losses develop. But as you have seen in our Q4 results, well, we have very limited dilution on the overall.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay, thanks. Can I add one last question on the retrocession? Any significant change between traditional retro and non-traditional retro going into 2028? And what have been the drivers if any change? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

(00:30:58) retro. Basically, the same panel plus one or two new entrants with whom we had been talking for the last two or three years. And, well, they decided to come onboard this year. So I would say the same panel, the same structure. Of course, variation in the amount being purchased in order, as I was saying, to keep the portfolio profile. But a bit of optimization here and there, in particular on our MGA business, specific retro. But no massive change, a very good response from the partners on our retrocession. Our retrocession renewal completed by the end of November, which was very comfortable for our underwriters on the (00:31:44) side to be absolutely having the certainty on the retro, well, early during the renewal season was very good. And we did appreciate the attitude of our retrocession (00:31:57). And that came to the table very quickly after Monte Carlo. And we were able, with the brokers and the partners, to conclude the renewal season very, very quickly at an increased cost which we contained. It's, well, single digit somewhere, what, between 5 and 10 (00:32:19), which I think was very correct, correct attitude from our side to accept the increase and for all the partners to ask for that increase.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you, Victor.

Operator

Ladies and gentlemen, this does conclude today's question-and-answer session. At this time, I would like to hand the call back to our speakers for any additional or closing remarks. Thank you.

A - Ian Kelly {BIO 19976646 <GO>}

Thank you very much, everybody. Just a reminder that we're available to answer any additional questions if you would like to get in touch with the team. And that our next call will be on the 22nd of February for the 2017 full-year group results. So thank you very much and enjoy the rest of your day.

Operator

This does conclude today's call. Thank you for your participation. You may now disconnect.

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