Y 2018 Earnings Call

Company Participants

- Denis Jean-Marie Kessler, Chairman & CEO
- FranÃ§ois de Varenne, CEO of SCOR Global Investments
- Frieder KnÃ¼pling, Group Chief Risk Officer
- Ian Kelly, Head of IR
- Mark Kociancic, Group CFO
- Paolo De Martin, CEO of SCOR Global Life
- Victor Yves Peignet, CEO of SCOR Global P&C

Other Participants

- Andrew James Ritchie, Partner, Insurance
- Frank Kopfinger, Research Analyst
- Jonathan Peter Phillip Urwin, Director and Equity Research Insurance Analyst
- Kamran Hossain, Analyst
- Sami Taipalus, Research Analyst
- Thomas Fossard, Co
- Vinit Malhotra, Banca di credito finanziario S.p.A., Research Division

Presentation

Operator

Good day, ladies and gentlemen. Welcome to the SCOR Group 2018 Annual Results Conference Call. Today's conference is being recorded. (Operator Instructions)

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

Ian Kelly {BIO 19976646 <GO>}

Good morning, everybody. Welcome to the SCOR Group 2018 Full Year Results Call.

Before we start, can I please ask you to consider the disclaimer on Page two of the presentation, which indicates that the financial results for the full year 2018 included in this presentation have been audited and that the group solvency final results have to be filed with the supervisory authorities by June 2019 and that these may differ from the estimates expressed or implied within this report.

With that, we can commence the call. I give the floor to Mr. Denis Kessler, CEO and Chairman of the SCOR Group. He's joined on this call by the entire Comex.

Denis?

Denis Jean-Marie Kessler {BIO 1498477 <GO>}

Thank you, Ian. And good morning, everyone.

In a year which has been marked by intrepid forces, including both unfortunate political developments and large natural catastrophes, SCOR once again demonstrates its ability to weather shocks and to continue to create further value for its shareholders. The group has profitably expanded and deepened its franchise in 2018: achieving a normalized return on equity in line with the Vision in Action target, a robust solvency position at the end of the year, a part of the optimal range.

The most significant political risk that struck the risk -- or the group, sorry, last year, was the fiscal reform in the United States which was introduced in the very last days of 2017 and includes a provision taxes for insurance premiums (due to) affiliated foreign subsidiaries. SCOR restructured its operations in 2018, mitigating part of this fiscal reform and hence maintain its competitiveness going forward. (Meanwhile), Brexit has been an additional complication last year. As the practicalities of the United Kingdom's exit from the European Union's are not yet full known, we have prepared for a hard Brexit. We have therefore created a new Paris-based P&C insurance company to ensure the continuity of the services offered for the clients in the European Union. SCOR Europe SE was approved by the French supervisory authority, the ACPR, in November 2018; and is now fully operational. Our reinsurance industry now dedicates much of its attention, therefore its energy and resources, to dealing with these kinds of issue pertaining to the refragmentation of the world, i.e. the ongoing sharpening of political, international and social tension. Of course, nimbleness (allows it) to find appropriate solutions when faced with (these types of problems).

As far as acts of God are concerned, Mother Nature has also been quite agitated in 2018. (We stood the stretch of) hurricanes in the U.S., Michael and Florence; 2 powerful typhoons in Japan, Jebi and Trami; 2 wildfires in California; and other smaller event across various areas and regions. Managing such risks and covering these kinds of events is our raison d'etre, as we say in French. It's our mission. We are there to help citizens and societies face these risks. We are here to alleviate the negative impact of these risks when they occur. And at SCOR, we are proud that during this second consecutive year of elevated natural catastrophe activities we have once again accomplished a mission.

Meanwhile, SCOR's global footprint, Tier 1 stages and good market approach have allowed the group to continuously expand and deepen its franchise. In this regard, I am pleased to report that, in 2018, for the first time in its history, SCOR crossed the EUR 15 billion mark in terms of gross written premium. As a result of the group's strong underlining (sic) (underlying) fundamentals, SCOR is pursuing its attractive shareholder remuneration policy. A regular cash dividend of EUR 1.75 per share will be proposed at the next annual general meeting, which will be held on April 26, 2019. In addition, we have successfully completed a EUR 200 million share buyback program, fully in line with a commitment made to our shareholders in July 2017 in terms of capital structure optimization.

The merger of the 3 SE legal entities is well on track. Subject to regulatory approval, we expect it to be completed by early 2019, providing a solvency benefit of up to EUR 200 million.

Let's go to Page 4. I'm proud to say that, in a year once again marked by exceptional events, SCOR delivered a solid set of results, with net income of EUR 322 million for 2018, translating into a return on equity of 5.5%. Furthermore, gross underlying profitability is excellent. Normalized from the exceptional events of 2018, the return on equity would stand at 9.4% and hence exceed the Vision in Action profitability target of 800 basis

(technical difficulty)

in the upper part of the optimal range of 185%, 220% defined in the Vision in Action plan. And these is results after accounting for dividend and share buyback.

Thanks again to its nimbleness, agility and robust capital shield, SCOR successfully absorbed shocks, safeguarding the group from severe losses. SCOR delivered strong and managed endogenous growth in 2018, with premiums up 7.1% at constant exchange rates compared to 2017. The growth was balanced between both of the group's business engines, mainly driven by a development in Asia Pacific on the Life side and in the U.S. on the P&C side as further demonstrated by SCOR Global P&C's strong January '19 renewals.

The achieved normalized technical profitability demonstrated that the group's underlying technical fundamentals remained very strong. On the P&C side, the 2018 P&C combined ratio remains below 100% despite the numerous natural catastrophes that took place last year. Normalized combined ratio stands at 94.7%, below the 95% to 96% Vision in Action assumption, bearing witness to the quality of SCOR Global P&C's book. SCOR Global Life records a robust Life technical margin of 7% in 2018. Finally, SCOR Global Investments delivered an elevated return on invested assets of 2.8% in 2018 largely driven by a continuing increase in the income yield.

Basically, all 3 of the group's engines are delivering. Even so, we have not managed to achieve the group's global profitability target of 800 bps above the risk-free rate due to the exceptional weight of natural catastrophes and the cost of the U.S. tax reform. The group is certainly profitable. And its underlying technical fundamentals are very strong.

Let's move on to Slide 5. These 3 graphs illustrates how SCOR continued to deliver a combination of diversified growth, solid recurring profitability and strong solvency in 2018. SCOR's growth potential, long-term value-creation capability and shock-absorbing capacity are confirmed year after year.

Moving on to the next slide, if we look at the total shareholders' return, which is the sum of the share price appreciation and the dividend paid to shareholders. SCOR stands out from its peer group. Despite various shocks, SCOR total shareholder return averaged 49.1% since the launch of Vision in Action plan in September 2016.

Let's move on to Slide 7. SCOR is pursuing its strong shareholder remuneration policy. A cash dividend of EUR 1.75 per share will be proposed at the next general assembly on April 26. We continue to optimize our capital management, thanks to a proven and consistent process: first, by ensuring the group solvency is in its optimal range; second, by allocating capital to support accretive, value-creating growth in the future; third, by defining the amount of a sustainable dividend accordingly; and finally, if appropriate, by accessing any excess capital leftover for shareholder repatriation or future use.

In 2018, the completion of the share buyback program led to a 66% increase in the capital returned to shareholders compared to 2017. Looking forward, SCOR's ambition is intact. And we have every confidence in the group's ability to continue its solvent and profitable growth and pursue its strong value creation in the years ahead. SCOR is uniquely positioned to significantly benefit from the positive long-term trends that the reinsurance industry offers. And meanwhile, the group is on the move and actively preparing for the future; constantly improve the tools, processes and our model. We are supporting the only credible blockchain initiative in the insurance sector and partnering with numerous insurtechs to see what innovations are going to emerge and save the insurance and reinsurance world from woe.

The group has tremendous potential for continued profitable growth and long-term value creation as a global Tier 1 reinsurer. SCOR is an independent company and master of its own destiny. We're actively preparing our next 3-year strategy plan, which will be presented in September. This would be an opportunity for SCOR to confirm its objectives; and to set out the ways and means chosen to achieve these, leveraging the Tier 1 stages, the global and deep franchise, the prime rating and expertise-driven human capital.

Let me now hand over to Mark for the balance sheet details. Mark, the floor is yours.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis. And good morning, everyone.

So let's begin on Slide 8. I will walk you through the financial highlights of the year.

In 2018, SCOR underwrote EUR 15.2 billion of gross written premiums, representing a 7.1% increase over 2017 at constant exchange rates or 3.2% at current exchange rates. This top line growth was driven by the strong contribution of both business engines. SCOR Global P&C grew at 6.7%. And SCOR Global Life by 7.3%, both at constant exchange rates. In spite of heavy nat cat experienced in 2018, P&C returned to profit, with the net combined ratio for the year at 99.4%, including a 12.6% nat cat ratio. On a normalized basis, the P&C combined ratio stands at 94.7%. And that's better than the Vision in Action assumption. Life technical margin is strong at 7%, also in line with the Vision in Action assumption.

Finally, SCOR Global Investments delivered a return on invested assets of 2.8% supported by an equity gain; and by the increase in recurring yield, which was 2.4% for the year and 2.6% in the Fourth Quarter.

Overall, SCOR's net income for 2018 stands at EUR 322 million. This is a 12.6% increase compared to 2017. And this translates into a return on equity of 5.5%. The return on equity would stand at 9.4% when normalized for the high nat cat volatility and the U.S. tax reform impact of EUR 68 million in 2018. This is well in line with our Vision in Action profitability target of 800 basis points above the 5-year risk-free rates.

SCOR's solvency position remains very strong at 215% at the end of 2018, in the upper part of the optimal range of our solvency scale.

Let's move to Page 10. SCOR generated very strong operating cash flows of EUR 891 million. Both divisions contributed strongly to the operating cash flows. SCOR Global Life provides strong cash flow, partially offset in the Fourth Quarter by the one-off impact of payments relating to the U.S. tax reform, with 2017 benefiting from elevated technical business cash flow from 2 financial solution transactions. SCOR Global P&C also provides robust cash flow in line with expectation. Overall, the total liquidity of the group is strong and stood at EUR 1.2 billion at December 31, in line with our asset allocation assumption.

Let me now hand it over to Frieder, who will give you more details on the solvency and capital generation of the group.

Frieder KnÃ¼pling

Thank you, Mark. Slide 11 shows the development of the group solvency position during 2018. There were 2 main drivers of change with SCOR's solvency. The operating impact of plus 18percentage points was very strong and resulted from significant capital generation by our business engines in 2018, combined with a very modest SCR growth given a favorable risk-return profile and improved diversification of the business expected in 2019. This more than offset the combined effect of the share buyback program which has been executed in 2018 and the planned dividend. Other movements of the solvency position were minor, including the effect of the U.S. tax reform.

In total, the solvency ratio increased to 215% and stands at the upper end of the optimal range, in line with our Vision in Action objective.

Slide 12 provides more details on the composition of the operating impact, that means the Solvency II own funds generated by the business during the year, with 2 main drivers: value of new reinsurance business written during the year of EUR 450 million and the expected contribution by the in-force business of EUR 442 million. Aggregate variances compared to the expected results were relatively small (if possible). Overall, the business engines created almost EUR 800 million of Solvency II own funds, demonstrating SCOR's value generation capacity.

Moving on to Page 13. SCOR's risk profile continues to be dominated by insurance underwriting risk, in line with our stated risk appetite. In comparison, the contribution of market and credit risk to the total capital requirements is smaller. The Life and P&C underwriting risks continued to be very well balanced. The level of diversification at this level of aggregation has further improved to 50%, which is clear indicator of the strengths of SCOR's business model. These build on the continuous maximization of diversification, which in turn is the basis for optimizing the group's capital efficiency and profitability.

SCOR's solvency is resilient to financial market movements, with all of the sensitivities shown on Page 14 leading to a solvency position at the upper end or above the optimal range. As a reminder: SCOR does not use any long-term guarantee or transitional measures. And its solvency position is not sensitive to the level of the ultimate forward rate.

With this, I'd like to hand over to Victor for his comments on the development of the P&C portfolio.

Victor Yves Peignet {BIO 6287211 <GO>}

Thank you, Frieder. And good morning.

2018 was another year marked by natural catastrophes, although not as badly as 2017. 2018 and 2012 are the second costliest nat cat years on record with insured losses of around USD 80 billion. Costliest years are 2017, 2011 and 2005, with inflation-adjusted insured losses ranging from USD 130 billion to USD 140 billion. Therefore, 2018 appears to have continued a 6; to 7-year nat cat cycle that started back in 2004. It's worth noting that this cycle has been dominated by 3 peak periods of two years, 2004 and '05, 2011 and '12 and 2017 and '18, each recording insured nat cat losses of more than USD 200 billion, with 2017, '18 being the highest at around USD 230 billion.

2018, beyond the 6 losses that received wide media coverage, 2 hurricanes in the U.S., 2 typhoons in Japan and 2 wildfires in California, the market has been impacted by a large number of smaller but still significant events all over the world. This unusual loss profile with a high frequency of medium; to high-severity losses, has always been monitored by SCOR's enterprise risk management system and stands well within our risk appetite as an earnings event. Because of the number of medium; to high-severity losses sustained in 2018 and because of the size of each loss for our payers, the 2018 scenario mostly triggers recoveries from our proportional retrocession -- explains the gap between 2017 and 2018 in terms of percentages of recovery down from 50% to 30% in rounded figures. Despite this loss activity and thanks to the quality of our underwriting and to the management of our portfolio, we have produced a positive net technical result for 2018. Our net combined ratio stands at 99.4%.

2018 is also marked by a high number of very large man-made losses in refining, aluminum, mining, large construction projects and cyber. Their impact on us has been contained, thanks to the selectivity and the controlled line sizes of our per-risk underwriting. Our net combined ratio normalized of nat cat and reserve release stands at

94.7% -- it is very satisfying to see that this technical performance is accompanied by continued growth at a steady rate of 6% to 7% per year.

Second consecutive year of intense nat cat and man-made losses following more than a decade of continuous risk-adjusted price predictions in the industry explains the beginning of a market reaction that became increasingly visible in the run-up of the 1/1 renewals. This long-awaited movement is currently restricted to loss-making business and appears too limited for now. But it is encouraging for the spring and summer 2019 renewal.

On this note, I'll hand over to Paolo for his comments on the Life division.

Paolo De Martin {BIO 15930577 <GO>}

Thank you, Victor.

SCOR Global Life records another successful year in 2018 both in terms of growth and profitability. For the total year, we've been able to record gross written premiums of EUR 9.1 billion, achieving effectively the Vision in Action assumption one year ahead of the plan at constant exchange rates. This represent a strong increase year-over-year at constant exchange rates of 7.3%, or 3.6% at current exchange rates. The strong growth was mainly driven by the expansion of the franchise in Asia Pacific, with the Protection business in the region growing at over 34% compared to 2017. Asia Pacific now represent a material share of the Life division both on premiums and results. Growth has also been supported by new financial solution deals, reflecting strong demand across U.S. and Asia Pacific market; as well as by development of the Longevity business in the U.K. The overall premium growth is in line with the Vision in Action assumption of 5% to 6% over the cycle.

On the profitability side, we see a strong increase in the net technical results, standing at EUR 589 million, up 7.9% at constant exchange rate. The technical margin at 7% is in line with the Vision in Action assumption. The performance of the in-force portfolio is in line with expectations. And the new business underwritten continues to exceed the group ROE target.

Life division continues to be a key contributor to the value creation of the group.

I will hand over to FranÃ§ois for details on our investment portfolio.

FranÃ§ois de Varenne

Thank you, Paolo.

Moving on to Slide 17. SCOR's total investments portfolio reaches EUR 27.2 billion at the end of December 2018, with an invested asset portfolio of EUR 19.1 billion compared to EUR 19 billion at the end of June. The positioning of the investment portfolio is in line with the Vision in Action target asset allocation. Liquidity is stable at 5% of the invested assets, in line with the target level defined for the strategic plan. The share of corporate bonds in the invested asset portfolio is stable since Q2 2018 at 49%, close to the maximum of 50% defined for the plan. And the duration of the fixed income portfolio is at 4.3 years, slightly below the levels shown three months ago.

Our fixed income portfolio remains of very high quality with an average rating of A+ and highly liquid. Indeed, at the end of December, the expected financial cash flows from the fixed income portfolio over the next two years stand at EUR 5.4 billion, providing strong financial flexibility and allowing SCOR to see (the range and strength of) opportunities.

SCOR Global Investments delivered an elevated 2.8% return on invested assets for the full year 2018, which is supported by a continuing increase in the income yield, 2% in 2016, 2.10% in 2017 and now 2.4% during 2018. During the last quarter, our income yield reached 2.6%, highlighting the relevance of the portfolio rebalancing implemented since the launch of Vision in Action. This quarter, financial contribution was boosted by a large capital gain of EUR 87 million realized on the sale of an equity co-investment.

Our reinvestment yield stands at 2.9% at the end of December 2018, still significantly above our current income yield. Under current market condition, we expect a continuing increase in our income yield for 2019, which should increase for the third consecutive year at around 2.5%, strengthening the invested assets financial contribution quality. The annualized return on invested assets will be comprised between 2.7% and 3% for the full year 2019.

With this, I will hand it over to Ian for the conclusion of this presentation.

Ian Kelly {BIO 19976646 <GO>}

Thank you, FranÃ§ois.

On Page 18, you will find the next schedule of events, starting on April 26 with Q1 2019 results and Annual General Meeting, as well as the conferences which we are planning to attend across the first half of 2019...

With this, we start the Q&A.

(technical difficulty)

Questions And Answers

Operator

(Operator Instructions) We will now take our first question from Kamran Hossain from RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

Kamran Hossain from RBC. A couple of questions. First one is looking at the -- I guess, the Solvency II earnings during the year. New business contribution is particularly strong and at EUR 450 million definitely above what you'd flagged in late September, the EUR 300 million level. In that EUR 450 million for this year, are there any particular one-offs? Or is that a reasonable number to assume going forward? I mean, if you do have the number for last year, the corresponding number, that would be really helpful. And the second question, just on capital, would it be possible to get an update on the AAA surplus and whether actually the merger of the SEs will do anything there at all?

A - Denis Jean-Marie Kessler {BIO 1498477 <GO>}

Frieder?

A - Frieder KnÃ¼pling

So the new business level which was included in this economic valuation slide which you were referring to was flagged as being a conservative level. So it's not surprising that what we've actually created in 2018 is above that. New business value, I mean, you -- as you know, this is more volatile than other metrics. It depends on deals which materialize and profitability on the market and so on. But having said this, the amount which we generate in 2018, I mean there is no one specific one-off deal in it which drove this in a particular way. So I think it's a reasonable starting point of what you should expect in the future, with ups and downs, as I mentioned. And we haven't disclosed the number for the previous year. But the level was approximately in the same order of magnitude. So -- and there's nothing unusual about new business value in 2018.

Operator

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

A - Denis Jean-Marie Kessler {BIO 1498477 <GO>}

Just I think there was a second question from...

A - Mark Kociancic {BIO 17852409 <GO>}

So on the second question. The question had to do with the S&P capital level. So we are still significantly above the AAA threshold for S&P capital. Not too much has changed for us on that exactly.

Q - Jonathan Peter Phillip Urwin {BIO 6126952 <GO>}

Jonny Urwin here. Should I go now?

A - Ian Kelly {BIO 19976646 <GO>}

Yes, go ahead, Jonny.

Q - Jonathan Peter Phillip Urwin {BIO 6126952 <GO>}

Now so just to follow up on that (12 50) cap gen number then. So I mean it's a really good number. And even adjusted for the experience variances, we're at like 16 points or so. So I mean is the message today that that's broadly sustainable. Obviously, there'll be pluses or minuses in any given year. Then secondly, what sort of level of losses would be needed in 2019 to turn the P&C market? It feels like we're closer to the tipping point than we have been in recent years.

A - Frieder KnÃ¼pling

On your first question, I think the one somewhat more favorable impact on operating in 2018 was the fact that the SCR has grown only by a very small amount. That's driven by improved risk-return expectations for the business in 2019. We've placed our retrocession program on the P&C side early and at favorable conditions. We've seen good renewals. And given the much wider spreads at the end of 2018, we also expect a bit more investment income on a market value basis. So of course as the business grows, we can't expect our capital to remain flat forever. But having said this, we will -- improving the risk-return profile and improving diversification of our business and keeping the growth of capital requirements under control and managing this is at the core of what we are doing. So that's something which in the future we'll also pay a lot of attention to. With this exception, I don't think there is anything unusual about the operating impact. And in particular, as I said, the own funds value creation was -- and yes, not unusual and in line with what we have generated in the past.

Q - Jonathan Peter Phillip Urwin {BIO 6126952 <GO>}

And could you give us a normalized expectation just for where you think that cap gen would run? Even if it's just a range, that would be great.

A - Frieder KnÃ¼pling

Yes, I don't think we can give that guidance. We all need, I think, a bit of a longer track record of those numbers. They are volatile. I mentioned new business as something which is very dependent on market conditions and which moves up and down. And we have also seen this on an MCV basis. But then the contribution from the in-force business is a bit more mechanical. There's mostly unwinding of discount and release of cost of capital and investment income on an expected basis. So you should see less volatility in that regard. And the other variances, I mean, they -- over a longer term period, they should average out to 0. But again claims variances, assumption changes and so on will lead to pluses and minuses over time. So you'd need a somewhat longer time series to really make robust projections on this. But now with this in mind, I think you can take the numbers as a good starting point for forming expectations.

A - Denis Jean-Marie Kessler {BIO 1498477 <GO>}

Victor, on the P&C market dynamics?

A - Victor Yves Peignet {BIO 6287211 <GO>}

Well you need to look at it from 3 perspectives: the P&C market insurance, reinsurance and retrocession. But my feeling is that we've got the losses already in the books. I mean we've got the nat cat losses, for sure, with the last two years. And don't forget that the 1/1 renewals were mostly European renewals; and Japan and U.S. are coming in April, June, July. So I think we should see a reaction of the market as from April to the -- in particular to the contracts that have been affected by losses. As far as the man-made, I think we had our fair amount of losses as well. And the market has reacted to react in insurance and in retrocession. So you look at commercial and industrial lines. It's quite obvious. And I cited the industry sectors that have been heavily affected by losses, starting with energy and refining in particular, mining. And you've seen the losses recently in the press. You've seen the large project, in particular hydroelectric. Cyber has been in there as well. So there are a certain number of industrial sectors that have been heavily affected. And those have started to react already. And we see that in business solution in particular. And we benefit from it. And last, I would say the casualty in the U.S., where certain segments have been identified. And you can see the reserves strengthening in a number of them, commercial auto and D&O, med mal and related to hospitals in particular. So there are a number of segments in the market where you see that the reaction is already there. As I said, it's not sufficient, the -- but we expect it to amplify as we pursue the next 2 renewal seasons in 2019.

Operator

We will now take our next question from Sami Taipalus from Goldman Sachs.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yes. First one is on -- again on the capital generation actually. Is it possible to just break down the new business contribution a bit between P&C and Life just so we get a feel of it? That would be quite helpful. And also just on the assumption changes there. You've got a positive net number. But if I've understood correctly, this number also includes nat cat losses. So I think maybe worth minus EUR 350 million or something for the year. So what's -- can you just give us a bit more detail on what the positive moving parts are there? Then my second question is on the reserve release. I think you've released about EUR 100 million of reserves this year. Do you think that the reserve surplus is stable year-on-year?

A - Frieder KnÃ¼pling

So both Life and P&C have contributed (particularly) to the new business. Contribution, we haven't split it out at this point in time. And we'll first see what the developing market factors and appetite of (readers) of this is going forward. So we'll develop our disclosure in the future also. But at this point we are not providing a detailed split. On the inflow -- sorry. On the variances, yes, you're right. The excess nat cat claims have gone into that. But we've had positive variances and developments from other parts of the P&C and Life portfolio. So this has more than offset the P&C nat cat claims. But they are in there.

Q - Sami Taipalus {BIO 17452234 <GO>}

Is it possible to be a -- just a little bit more specific on what those positive variances are?

A - Frieder KnÃ¼pling

They're really spread out across the portfolio. So from other parts of the P&C portfolio and the Life business. So as I said, it's spread out across the whole rest of the book.

A - Denis Jean-Marie Kessler {BIO 1498477 <GO>}

So on reserve release...

A - Victor Yves Peignet {BIO 6287211 <GO>}

Yes. First of all, I think this is totally consistent with what we've done all over the years when we had -- we have been hit by large natural catastrophe. And if we'll refer back to 2011 or 2012, you would find exactly then the same magnitude of reserve release. They are totally consistent. And secondly, I think EUR 100 million needs to be put in perspective of an amount of net reserves, outstanding losses and IBNR of EUR 11.5 billion for the division. So I think not only we have positive development on recurring basis because we have kept the same prudent reserving. But this amount of release, while it is quite marginal compared to (total), we believe -- and Frieder is probably (thinking) on that. We believe that we are comfortably at this state after those...

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. But did the level of surplus change over the year? Or was it stable or...

A - Victor Yves Peignet {BIO 6287211 <GO>}

I think it is -- it has been -- and we have been enabled this year to replenish the level of surplus. So we are basically in the same order of magnitude as we were at the end of last year.

Operator

Our next question comes from Andrew Ritchie from Autonomous.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

It's Andrew Ritchie here. I have 2 questions. First of all, for FranÃ§ois, could you just give us a view on how you're thinking about credit risk right now? There's obviously been some spread widening in Q4. It's come back a bit in Q1 and slightly more uncertainty on the credit environment. Maybe just talk about your new money deployment in Life and your current view on taking additional credit risk. And second question, can you just clarify on the retro program, which I understand protected you a bit less given the nature of the 2018 losses? Was there any change in the structure of the retro program when you renewed it? I think you renewed it late in the year. But before any sort of retro changes. But maybe just remind us on the structure, the broad structure and any significant changes.

A - FranÃ§ois de Varenne

So on your first question, on the credit risk. So that's something we monitor carefully, being 49% of the portfolio exposed to corporate bond. We don't think we are at the end of the credit cycle today. But if -- let's say, (if cycles standout) like this, credit cycle is very long. We have a specific focus today on the migration risks within our portfolio, i.e. we monitor carefully the BBB bucket of corporate bonds portfolio to minimize the risk of migration of -- to issuer in the high-yield universe. So that's why we keep single A buyers in our corporate bond portfolio today. We purchase bonds. We purchase shorter-duration BBB bonds to enhance the runoff capacities to these. And we decrease idiosyncratic exposure when bond

(technical difficulty)

FranÃ§ois. On the retro program, Victor, the...

A - Victor Yves Peignet {BIO 6287211 <GO>}

Yes. On the retro one, there was no change of structure in the retro program. I mean this is just, as I commented, a question of the loss activity we had this year. We can see that that's kind of an in-between scenario between benign and severe. And we have a pretty unusual feature which is 4 blocks of losses: 1 Japanese block, 1 on U.S. wind, 1 U.S. fire and 1 rest of the world. And each block is in between EUR 150 million to EUR 200 million for our shares, net of our proportional retrocession, which mean that with this in-between scenario we are relatively high in terms of net combined ratio points. But we are not high enough to activate our aggregate and our driven retrocession. So basically, as I commented, what we get this year is, well, mostly proportional retrocession that is being activated. So -- but this scenario, we knew about it. We've modeled it year after year. But this is a scenario that we consider as totally manageable. And we prove it. Our combined ratio is below 100%. It's pretty unusual to have a loss activity that is so evenly, well, spread over 5 different blocks of event.

A - Denis Jean-Marie Kessler {BIO 1498477 <GO>}

Maybe you could give us the contribution of (retro) in -- that we've seen in (inaudible) at the bottom of (names) (inaudible) it was the same program...

A - Victor Yves Peignet {BIO 6287211 <GO>}

Yes, yes. In 2017, we had 2 major losses, the 2 -- the first 2 of the HIM series. So we had 2 big losses and we had others. The 2 big activated the nonproportional. And the sum of the total was enough to activate our aggregate policy. So we had nonproportional recovery on top of proportional. It meant that we had 50% recovery in all, basically made of 30% proportional, 20% nonprop, this year. But we are missing the 20% nonprop because we don't reach the -- per event an aggregate total by which our nonproportional retrocession would be triggered. This (inaudible).

Q - Andrew James Ritchie {BIO 18731996 <GO>}

I guess just the -- I guess the positive being you didn't -- because you didn't burn a large part of your retro in 2018. Then that would have enhanced your ability to renew it on decent terms.

A - Victor Yves Peignet {BIO 6287211 <GO>}

Well I think you can see the glass half empty or half full. It's quite obvious to me that, if '19 is a normal year, we are going to come for renewal of our retrocession and in a favorable situation whereby, I mean, we would not have activity in our nonprop in '18. If '19 is a reasonable year, well, then yes, we could expect to be able to renew our retrocession with a lot of continuity, as always, plus a very good track record in comparison to the rest, yes, definitely.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

It's Vinit from Mediobanca. Ian, shall I go on?

A - Ian Kelly {BIO 19976646 <GO>}

Yes, go ahead, Vinit.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Sorry. Sorry. Okay. So trying to stick to 2 questions and a few numbers things here. Just starting with the attritional sort of in the Fourth Quarter, Victor, are you able to point out -- you mentioned large losses in refining, infrastructure, mining. How much of this is coming from SBS? Are you able to give us some guidance on that? Just -- and if that is very material again, then is there any plans on managing that risk? So that's the first question. The second question is just on the investment line in the Fourth Quarter. I think the fair value line item has registered one of the strongest quarterly loss moves, that EUR 24 million, that I have seen in many years. Is there some special item there? And if I could just squeeze in, on the investment margin -- sorry, investment return outlook: It's a bit subdued compared to previous year's number. Is that because the -- you're deemphasizing realized gains, please? So that's my 2 question.

A - Denis Jean-Marie Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Yves Peignet {BIO 6287211 <GO>}

Yes. Vinit, actually, just to be quite clear, my point was to say that the market has been hit by series of large man-made in different sectors. And the sectors I mentioned are refining in the energy side, aluminium; mining; large construction project, hydroelectric in particular; and cyber. If I look at where we've been affected, we've been essentially affected ourselves in refining. We have 3 large losses in onshore energy. And we have 1 large property loss. And we have not been affected massively on aluminium. We've not been massively affected on mining. We've escaped the problem of large construction project, in particular the hydroelectric dams. And we've escaped the large cyber. So what I meant is that, if I look at the market position and our position, the fact that we've been selective, the fact also that I -- as a principle of underwriting for years and years and years, SBS has always given priority to balance of the portfolio by avoiding to have peaks in share acceptances. But we've been able to absorb to a very large extent the few large losses that you had during the year, hence the excellent normalized that we are able to pull out despite the fact that the year is heavy man-made loss activity here. I don't think we have to change anything in our underwriting. We just have to continue it. And we have to benefit of the strengthening of the market and probably the rectifications of certain clauses that have deviated over the years. That is going to happen and is already happening. We see that in different sectors that have been loss affected.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. And the EUR 130 million, Victor, you mentioned on Page 15, is that -- that's an yearly figure. But are you able to point out a quarterly Fourth Quarter figure? Or yes. Or it's not very relevant.

A - Victor Yves Peignet {BIO 6287211 <GO>}

The EUR 130 million is the total amount of nat cat losses in excess of EUR 3 million each that we have sustained during the entire year. The larger ones in this industrial -- EUR 130 million is Frederick, the European storm, which stands at -- where it's about EUR 30 million, I believe.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, okay.

A - Victor Yves Peignet {BIO 6287211 <GO>}

EUR 26 million, exactly. So you've got this one at EUR 26 million. And then you've got a lot of them which are probably corresponding to a higher activity of severe converge -- convective storms that we have seen everywhere in the world. I mean tornado, flash floods, hailstorms as the one we had in Sydney just before the end of the year.

A - FranÃ§ois de Varenne

So Vinit, on your first question, on the fair value impact in Q4. So that stood at we have a hit of minus EUR 24 million in Q4 in fair value. 2018 return on invested assets was indeed slightly impacted by (indiscernible market term) that happened in Q4 and especially (due) negative mark-to-market developments within our convertible bond portfolio which is accounted under fair value through P&L and also lower-than-expected capital gain on the disposal of the large equity co-investment. Normalized for this volatility in Q4, our return on invested assets will have been 3% for the full year 2018. So comfortably in the upper part of the 2.5% range of Vision in Action. For your second question, the outlook for 2019: As long as the full Vision in Action plan is concerned, I confirm that the average return on invested assets over the entire strategic plan will be in the upper part of the 2.5% to 3.2% range. And it should be close to 3%. And please note also that, since the beginning of Vision in Action, the quality of the financial contribution has significantly improved, with an income yield of 2% in 2016 and expected at 2.5% next year. So with the guidance for next year of 2.7%, 3% -- up to 3%, I include a capital gain. If you look at unrealized gain in our portfolio, at the end of 2018, we still have a significant buffer of gain, especially coming from the real estate portfolio and capital gains from this bucket in 2019 and (inaudible).

Operator

(Operator Instructions) We will now take our next question from Thomas Fossard from HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Two question on my side. First one will be for Victor. And that will be, I guess, my last question for Victor. Just wanted to come back on the California and wildfires. So you had in '17 EUR 105 million of incurred losses, 2018 EUR 143 million. I mean, any change in the underwriting or in terms of risk exposure for '19? Because at this stage, it's difficult to see why there will be no rerun again of this type of losses in '19. So did that figure any change in the way you were approaching the business there? That will be the first question. And the second question, which is I guess a more strategic one: Looking at the way the group is deploying the capital at the present time, Life versus nonlife, you're still significantly overweight, also balanced but overweight Life business. And actually the growth in Life is -- keeps going up. And how do you feel about this slide -- a higher exposure to Life at a time where maybe the PC market is starting to show some signs of stabilization? So any current thinking about how to maybe rebalance the group? Or is it time to rebalance the group now towards P&C in order to capture maybe the next five years leg?

A - Denis Jean-Marie Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Yves Peignet {BIO 6287211 <GO>}

Well we've done a lot of studies on wildfire on California, as you may imagine. We already changed our pricing after the 2017 and -- but we don't have any model at the moment that is really operational. But we have started to, well, work on deterministic scenarios last year, which has led us to revise our pricing upwards and has caused us to have to leave certain contracts at the end of last year. Well this year, well, we are doing additional work to try to come out with recalibration of our models. And we have launched a project to come up with our own model by the end of this year. What has got to be understood is, the wildfire of this year, as we can see them at the moment with what we have -- and we've done extensive reviews of PCS figures. And we have a discussion with a model provider, one of the few model that exist for wildfires in California. But we believe that you are talking on the camp wildfire of this year of return period well above 50 year, somewhere between 50 and 100 year, which is much, much higher than the return period of what we had last year. This fire is a much, much higher size. So if you look at the distribution of the hit for us between the two of them, the camp is really sticking out as the one that has impacted us the most. So I think we are doing studies on that. We hope to improve again our underwriting. I don't think we have anything wrong in our underwriting. I think the size of this loss was -- just was massive. It remains that, well, we have to recalibrate our model. And we have to make sure that, wherever we underwrite contract with exposures, we are getting those exposure calibrated, assessed and priced for. And that's what we are doing not only in California but in other areas, Canada in particular.

A - Denis Jean-Marie Kessler {BIO 1498477 <GO>}

FranÃ§ois is not going to invest any more in the company's (publishing letter). Mark, about the balance (part with) Life?

A - Mark Kociancic {BIO 17852409 <GO>}

Yes. So for the second question. We do have a 40-60 split in premium in terms of P&C and Life. But when you look at the required capital. And this is on Slide 13 of the deck you received, you can see that the required capital is fairly balanced between the two. And nonetheless, when the group does its annual planning and more importantly our next 3-year strategic plan, this is something where we assess the -- all lines of the business on a geographic basis for the best contribution to the value creation and the strategic franchise development of the group. So that's something you'll probably hear a bit more of in September, on our IR day. But again the split in the capital requirement really isn't that different.

Q - Thomas Fossard {BIO 1941215 <GO>}

Mark, I fully understand that. But I mean also conscious in terms of maybe what looks to be a stabilization of a 5, six years soft market environment. And keeping in mind that last time you grew externally with -- on the P&C side with Converium was also, I will say, back to times where markets on the P&C side were a bit more, I will say, stronger than it has been over the 5 -- the past five years. I mean, did that triggers any strategic thinking, I mean? And conscious of the timing in the cycle currently.

A - Mark Kociancic {BIO 17852409 <GO>}

Well we're always prepared to allocate additional capital to areas of our business geographically, in lines that are going to produce more. That's a clear point. It's something we were prepared to do. In the First Quarter of 2017, it didn't really materialize. But there's no issue with that. Just more broadly speaking, I would say, outside of U.S. mortality there's really very limited limitations on where we would want to grow. And that includes investment risk, Life risk and P&C risk.

Operator

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

I have 2 questions. My first question is on the EUR 200 million one-off. Given that we are halfway through Q1, any thoughts you can already share by now of what you are going to do with the EUR 200 million? Then secondly, on the tax rate for 2019: In 2018, the tax rate, even if I adjust for the U.S. tax effect, had been pretty high. So any view on where tax rates should go in 2019?

A - Denis Jean-Marie Kessler {BIO 1498477 <GO>}

Mark, on those questions?

A - Mark Kociancic {BIO 17852409 <GO>}

Yes. So the tax rate was elevated in 2018 at 34% -- approximately 34%. And that was heavily influenced by the U.S. tax reform charge of EUR 68 million which we saw as a onetime event. If you normalize it for the U.S. tax reform charge, you're slightly above 21% in the group for the effective tax rate. So that's in the range of the 22% to 24% ETR that we would expect through normal volatility. There could be a little bit of friction in 2019 with respect to the U.S. base erosion and anti-avoidance tax, as we still are waiting for potentially guidance from U.S. Treasury on how the BEAT will be calculated. But I wouldn't expect that to be very significant. So I think our original guidance of 22% to 24% holds; and probably a little bit more pressure on the downside -- or a lower tax rate, I should say, given the favorable change in rates that have happened in the U.S. And that assumes a normal distribution of geographic profitability. On the first point, the 3 SE merger benefits: So the merger is well on track. We're very happy with where we are right now. And we expect it to be formally completed on March 31, with retroactive date to Jan 1. And we expect the benefit to be upwards of -- close to EUR 200 million. But we have not made any decisions on what to do with this risk margin benefit that we'll get under Solvency II. That's probably something that we will approach in the strategic plan, which will be unveiled in September during our Investors Day presentation.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Just some non-numbers topics, please, yes -- so Vinit from Mediobanca again. Sorry. So Denis, there was a media article I read a few days ago that SCOR wants to be a consolidator -- or views itself as a consolidator. Are you able to comment on what kind of lines you would be thinking about where you feel that you would like to grow? So that's the first question. Second question, just quickly, just on this normalized ROE. It's now three years in a row, it's literally most of this plan, where it's above the target substantially. So -- or maybe at least 100 bps. Which bit is in your view the surprise versus the target 800-plus higher risk rating, if anything?

A - Denis Jean-Marie Kessler {BIO 1498477 <GO>}

Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

I want to make sure I understand your last question, Vinit. You were asking which business was a surprise versus the...

Q - Vinit Malhotra {BIO 16184491 <GO>}

All drivers. So yes. I mean we've seen 10.1, 9.4. And even the previous year was 9.5. So we are consistently above target, which is good news. I'm just wondering. Where is this, in your view, the good news, coming from? It's just a very -- I mean, if there's nothing that is striking, that will be fine. I'm just curious to see if something is standing out here.

A - Mark Kociancic {BIO 17852409 <GO>}

Yes. We have enjoyed -- for example, in 2017, we enjoyed a very nice return on invested assets. It was probably stronger, certainly at the upper end of our guidance or -- guidance to the market. P&C remains very resilient, though. Take a look at the combined ratio. That's better than the assumptions we put in Vision in Action. We had a 95% -- 96% combined ratio. And we are outperforming that through the first -- or through the three years of the plan thus far. Then Life continues to be quite stable for us. So it's been quite a strong performance across the board for us, I would say, in all 3 areas.

A - Denis Jean-Marie Kessler {BIO 1498477 <GO>}

On the first question, Vinit. We look at -- and always say, if you want to understand what we do today and what we are going to do tomorrow, the best is to look at what we did in the past because one of the certainly characteristic of the group is to be highly consistent on return. So we made acquisitions, I suppose, the last 10 years, 11 years, even before, Revios in Life and then Converium. Then we made Generali U.S. and made Transamerica reinsurance portfolio and some other small acquisitions. So the group has been able to make acquisitions over the last 11 years. The rule is the following: That the policy for acquisition for exogenous growth, we check if the acquisition is in line with the targets of the plan that we pursue at the time. So if the acquisition accelerates the plan, fine. If the acquisition make us deviate from the plan, no. It's very simple. And since it's in plan with profitability and solvency targets, we really check that the acquisition is fully in line with what we said we will do when we launch a plan. So -- and may I say that, looking backwards, I think those acquisitions have been successful and indeed accelerated the development of the group without deviating the tracks that we've decided to follow. So that's the philosophy and the practice we have been doing. So when I said in an interview, by the way, the only interview I gave for France, that I'd rather be a consolidator than a prey, it means that it's true that it's core values, the fact that we are independent company. We are a Tier 1 reinsurer. The fact that there is a freedom, that we are responsible and accountable for everything we do, the fact that we decided on a track and a plan is -- it's of little value for our client. It's a lot of value for the franchise. Our clients know that we are the deciders of last resort. Our clients know that, when we sign a treaty, when we sign a contract, we're going to deliver. We're going to stick to a price, whatever the outcome of the contract. So it's absolutely fundamental, if we want to remain a Tier 1 reinsurer, to assure that we are the deciders of last resort. For that, of course, we are valued and support of our shareholders. So we look at the opportunities. It's the whole fiduciary duty of any CEO and any executive committees in the world to look at potential developments; and that's what we do, make reviews. And we try to go further only and only if those reviews lead towards the conclusions that I just said, absolutely in line with the objectives of the group. So nothing new.

Now a last point: We have been able throughout the last 11 years to combine quite nicely exogenous growth and endogenous growth. When we make an acquisition, it's not at the -- most of the time, at the expense of the endogenous growth. So we have been able to grow with our own resources and, in the meantime, make acquisitions and integrate those acquisitions in a quite an optimal way. It's most seamless. So I think this is a recipe. And we are going to continue to do this recipe in the years to come. So we are really on track. The next plan, we'll give you the new objectives we want to set and as well the means to reach those objectives. But there will be certain continuity in the acquisition policy that we've stated quite a few years ago then we've respected for the last more than 10 years. Because it was really in 2005.

Operator

There are no further questions in the queue. I would now like to turn the call back to Ian for any additional or closing remarks.

A - Denis Jean-Marie Kessler {BIO 1498477 <GO>}

Maybe before Ian ends the call. We are -- we feel good -- and right. So it looks like an advertising campaign. We feel good. But -- we feel good. I think we check everything in this company with the board yesterday and even with committees to strategy, audit, risk. FranÃ§ois, (I'm sorry). And we look at the fundamentals of the group. And I really believe and with a conviction that the group is in good shape. I mean we grow. And we demonstrate that -- year after year, in a quite homogeneous way, part of the world where we want to experience, that we are profitable and with a good technical profitability. We absorb volatility. And finally, we maintain a high level of solvency. So that's the fundamentals of the group. So in a world which is more uncertain and more demanding than before notably due to the U.S. tax reform or the Brexit case or whatever, the IFRS 17. I mean all those developments that are taking place. And again, we prepare and we anticipate.

This is the last meeting where Victor Peignet will take part. He's decided to apply for retirement after years and years and years of an incredible contribution to the group, traveling about 4, 5 times around the world per year, absorbing an incredible number of fires and issues in France. And it's pretty much emotional, which is around the table, to see Victor leaving. But I want to just to pay tribute for -- to Victor for everything he has worked for the group, which is absolutely exceptional (incommensurable).

And we wish you the best, Victor. Thank you for your contribution.

A - Ian Kelly {BIO 19976646 <GO>}

Thank you. Thank you, Denis.

So thank you very much, everybody, for attending this conference call. And please don't hesitate to call us should you require any further information. Just to remind you: We do have our analyst roundtable call at 5 p.m. GMT, 6 p.m. Europe in our local offices. So hopefully, we'll see you later on.

Thanks a lot. And have a nice day.

Operator

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