Q3 2018 Earnings Call

Company Participants

- Denis Kessler, Chairman & Chief Executive Officer
- François de Varenne, Chief Executive Officer-SCOR Global Investments
- Ian Kelly, Head-Investor Relations
- Mark Kociancic, Chief Financial Officer
- Paolo de Martin, Chief Executive Officer, SCOR Global Life
- Victor Peignet, Chief Executive Officer-SCOR Global P&C

Other Participants

- Frank Kopfinger, Analyst
- James A. Shuck, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Thomas Fossard, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group Q3 2018 Results 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 numbers of your questions to two.

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 and welcome to the SCOR Group 2018 third quarter results call. May I please ask you to consider the disclaimer on page 2 of the presentation, which indicates that the financial results for the third quarter 2018 included in the presentation are unaudited.

With this, I would like to give the floor to Denny Kessler, CEO and Chairman of the SCOR Group, who is joined on this call by the entire COMEX.

Denis Kessler {BIO 1498477 <GO>}

Thank you, Ian and good morning, everyone. The first nine months of 2018 fully demonstrates the relevance of SCOR strategy and the resilience of the business model.

When you look at the results we presented this morning, we delivered, one, sustained premium growth that the groups targeted geographical areas and business lines. Two, excellent technical results in both Life and P&C, and in both Treaty and Specialty. Three, continuing improvement in the income yield. Four, a stable cost ratio that bears witness to the efficiency of the Group's operations. Five, excellent operating cash flow. Six, a high solvency ratio marginally above the optimal range.

SCOR's global footprint, Tier 1 status and go-to-market approach allows the Group to continuously expand and deepen its franchise globally. At present, co-operating 38 offices worldwide and covers risk in 160 countries, serving more than 4,000 clients. We expect to cross the €15 billion mark of gross written premiums in 2018, mainly driven by a development in the U.S. on the P&C side and in Asia Pacific on the Life side. This translates into a 10% annual growth rate since 2009 at current exchange rates.

Let's move to the next slide. SCOR recorded a very solid performance in the first nine months of 2018. First, the Group delivered strong continuous growth. Gross written premium stand at more than €11.3 billion in Q3 2018 year-to-date, up 7.4% at constant exchange rates compared to the same period last year. Strong growth is driven by an expanded and deepened franchise of the Group's two business engines. Life and P&C business is 9.2% and 5% respectively at constant exchange rates, which is the right metric.

Second, the Group delivered a strong set of technical results, the P&C net combined ratio of 93.6%, robust Life technical margin of 7% and a return on invested assets of 2.5%, driven by a continuing increase in the investment income yield. It is worth highlighting that despite the high level of natural catastrophic events across the various regions in the third quarter, the P&C combined ratio year-to-date is tracking better than a strategic plan assumption.

Last but not least, the Group solvency ratio stands at 222% at the end of the third quarter, slightly above the optimal range of the solvency scale, driven by robust capital generation. Putting the impact to the U.S. tax reform, gross net income for the first nine months of 2018 would stand at €405 million, corresponding to a return on equity of 8.9%, higher than the profitability target set out in the Vision in Action plan.

Given the high frequency of natural catastrophic events in the third quarter, this performance bears witness to the relevance of SCOR's strategy and its resilient value creation capability. The Group is in very good shape and we are well on track to meet the targets of Vision in Action.

Finally, SCOR continues to execute its €200 million share buyback program as planned. Half of the program has been executed and completion remains on track for July 2019. In the meantime, we're pursuing the optimization of our legal entities, the merger of the 3 SEs will be completed as planned in the first quarter of 2019.

Let's go to slide 5. SCOR is uniquely positioned to accelerate its franchise expansion and pursue its strong value creation. All three engines are powering ahead. SCOR Global P&C strengthened its position in the U.S. where we continue to enjoy a steady expansion with the ability to regain a market position that is commensurate with the global position and Tier 1 status. At the moment, we're around number 10 in the U.S. versus being number 5 globally. Besides SCOR's Tier 1 status and prime rating are major assets to capture profitable growth opportunities in a more favorable P&C market environment.

Asia-Pac, SCOR Global Life records exceptional growth, close to 30%, 3-0, per annum, successfully delivering on Vision in Action and leveraging the quality of the franchise to outgrow the market.

Finally, SCOR Global Investment expects to strongly improve its financial contributions to the Group's bottom line from a higher recurring yield. Thanks to the positioning of our invested assets portfolio, which remains highly liquid, the expected rise in interest rates would be very positive for SCOR.

All of the three engines have additional room to contribute positively to improving the return on equity with a continued focus on value creation.

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

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denny, and good morning, everyone. So, let's begin with slide 6, and I'll walk you through the financial highlights of the third-quarter results. SCOR underwrote €11.3 billion of gross written premiums in the third quarter of 2018, representing a 7.4% increase over Q3 2017 at constant exchange rates or 1.9% at current exchange rates.

This top-line growth was generated by the strong contribution of both business engines. SCOR Global P&C grew by 5%, and SCOR Global Life by 9.2%, both at constant exchange rates. P&C net combined ratio for the first nine months of the year stands at 93.6%, including a 7% nat cat ratio due to heavy nat cat activity during the third quarter. The Life technical margin reached 7.0%, also in line with the Vision in Action assumption. Finally, SCOR Global Investments delivered a strong return on invested assets of 2.5%, driven by a recurring yield of 2.3% in the third quarter 2018 year-to-date.

Overall, SCOR's net income for Q3 was €80 million due to the elevated nat cat ratio of 16.5% within the quarter. Year-to-date, net income stands at €342 million with an ROE of 7.6%. Excluding the impact of the U.S. tax reform charge booked in the second quarter, the net income would stand at €405 million, and this translates into a normalized return on equity of 8.9%, well in line with our Vision in Action profitability target of 800 basis points above the five-year risk-free rates.

SCOR's solvency position remains very strong at 222% at the end of Q3, marginally above the optimal range of our solvency scale and at 219%, if we were to take into account the execution of the remaining part of our share buyback program.

Now, moving on to slide 8, SCOR generated very strong cash flows of €811 million. SCOR Global Life benefits from strong cash flow, in particular, due to positive impacts from financial solution deals in the United States, while SCOR Global P&C also provides robust cash flow. Overall, the total liquidity of the Group is strong and stood at €1.2 billion at the end of September 30th, in line with our asset allocation assumptions.

Let me now hand over to Victor, who will give you more details on the P&C results.

Victor Peignet {BIO 6287211 <GO>}

Thank you, Mark, and good morning. As an introductory remark, I'd like to say that the market we have been in for the last seven years is now leading to the emergence of increasingly differentiated technical performances between insurers and reinsurers. It is, therefore, becoming increasingly relevant to assess each company's technical performance on its own merit without putting all of us in the same basket and without systematically trying to find common ground, trends and fortunes that may not actually exist.

For us, whilst Q2 was characterized by abnormally high activity in terms of man-made losses, Q3 has seen, first, a return to normal for man-made loss activity which is reflected by the technical performance of business solution; and second, significantly higher than average net cat loss activity.

Q3 2018 events, Jebi, Florence, Mangkhut and Trami are assessed based on the latest claims information available. Considering the nature and the magnitude of these recent events, you will appreciate that at this point in time, there is a significant real uncertainty in these estimates.

Again, for us, all in all, the performance on a year-to-date basis continues to be excellent with a net combined ratio of 93.6% and a growth of 5% at constant exchange rates. This growth continues to be fueled mainly by Treaty reinsurance in the U.S., but also, to a lesser extent, by Treaty reinsurance in Asia and business solution, thanks to our leading positions on major projects mainly related to infrastructure.

You'll have noticed that we've processed €60 million of reserve release in this quarter corresponding to 1.5 percentage points of net combined ratio on a year-to-date basis. We are currently conducting our annual analysis of where our book reserve stands versus the best estimate and we believe that net of these releases our margin above best estimate at the end of this year will be at a similar level to the end of last year. These reserve releases are generated in long tail lines, namely facultative casualty (00:12:11), inherent defects insurance, and French and UK professional liability, with a good spread over a number of underwriting years.

You will also have noticed that on a normalized basis the net combined ratio stands at 94.1% on a year-to-date basis, which confirms what we've been indicating about the net combined ratio range, at which we operate across the entire portfolio. At this point, it is worth mentioning that the normalized net combined ratios of 94.1% on a year-to-date basis and 92.1% for Q3 both benefit from around €30 million of positive development in Q3, in the same long tail lines that generated the reserve releases.

Just like the reserve releases, the positive developments are spread over a number of underwriting years, which illustrates our disciplined underwriting and our prudent reserving. This means that our aim to maintain our net combined ratio at around 95% is realistic. It's also realistic because we expect two ongoing movements that we're currently observing to balance each other out. On one hand, we may have to slightly adjust our nat cat budget when planning for 2019 and the following years.

That being said, our nat cat net ratio stands at 7% on a year-to-date basis at the end of Q3, which even with Michael (00:13:36) already factored in for Q4 does not call our 6% budget into question in a big way. On the other hand, we are seeing the positive effects of the pricing improvement that we have obtained across the board in recent years, gradually materializing in the technical performance, full improvement of the net attritional ratio. This in mind, we are entering the renewal season in a very sound situation which allows us to carry on with the same underwriting policies and to continue to offer the business consistency and continuity that are so essential in our relationships with our clients.

I will now hand over to Paolo for the presentation of the Life division results.

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor. SCOR Global Life (00:14:20) delivers a very strong performance in the Q3 2018 both in terms of growth and profitability. In the first nine months of 2018, we recorded gross written premiums of €6.7 billion representing an increase of 9.2% at constant exchange rate or 3.7% at current exchange rate. This strong growth is driven by the expansion of our protection franchise business in Asia-Pacific which has grown at 29% per annum since 2016, in particular in China, South Korea, Japan. Asia-Pacific is now representing a material share of the Life division both on premiums and results.

Growth in Life, as you know, is also being supported by new financial solution deals which reflect the strength of the teams that we've built in this line of business. Going forward, we expect the full-year 2018 gross written premium to normalize down in line with the Vision in Action assumptions or potentially slightly above.

On the profitability side, we see a strong increase in the net technical results standing at €462 million, up 8.5% at constant exchange rate. The technical margin is solid at 7% for the first nine months, in line with the Vision in Action assumption. Performance of the in-force portfolio is in line with expectations and the new business underwritten continues to exceed the group ROE target.

I'll now hand over to François for details on our investment strategy.

François de Varenne

Thank you, Paolo. Moving on to slide 11, SCOR's total investment portfolio reaches €27.6 billion at the end of September with an invested asset portfolio of €19.4 billion compared to €19 billion at the end of June, mainly driven by strong cash flows. 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 bond in the invested asset portfolio is stable compared to the previous quarter at 49%, close to the maximum of 50% designed for the plan. And the duration of the fixed income portfolio is at 4.5 years compared to 4.6 years at the end of June. Our fixed income portfolio remains a very high quality with an average rating of A+ and highly liquid. Indeed, at the end of September, expected financial cash flows from the fixed income portfolio over the next 24 months stand at €5.5 billion, allowing SCOR to benefit from increasing our investment rate. SCOR has no exposure to Italian government bonds.

SCOR Global Investments deliver a 2.5% return on invested assets for the first (00:17:05) nine months of the year, which is supported by a continuing increase in income yield, 2% in 2016; 2.1% in 2017; and now 2.3% during the first nine months of 2018. During the last quarter, our income yield reaches 2.5%, highlighting the relevance of the portfolio rebalancing implemented since the launch of the strategic plan. We benefit from an improved investment yield at 3% at the end of September. Under current market condition, we expect the annualized return on invested assets to be in the upper part of the Vision in Action 2.5% to 3.2% range both for full year 2018 and over the entire strategic plan. This level could be achieved, thanks to the disposal of a significant equity co-investment that might be completed by the end of the year.

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

Ian Kelly {BIO 19976646 <GO>}

Thank you very much, François. On page 12, you will find the forthcoming events scheduled for February next year including the P&C January 2019 renewals call and the SCOR Group 2018 full-year results presentation. You can see the upcoming conferences, which we are planning to attend during the remainder of this year.

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

Q&A

Operator

We will now take our first question from Kamran Hossain of RBC. Please go ahead, sir.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Morning, everyone. Thanks for taking my question. So, firstly, on the – I guess on the Q3 cat losses, were any of them surprising and do you have an indication of what the return period for the losses during the quarter were because (00:19:26) interested in that.

And then I guess following on from that, any thoughts on pricing going into January given the losses you've had plenty of them this quarter as the year-to-date is still making a very decent margin, so any updated thoughts on that since Monte Carlo? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

On the return period, no, we have not completed our studies on that. Well, it's obvious that you need to go – except last year, you need to go back to 2011, 2012, see the same sort of ratios in our portfolios. So it's certainly every quarter. Regarding the pricing, well, I think, first, I insist on that, the situation of each and every company is very specific, and I think what we are enjoying at the moment is not the same situation for everyone.

In addition, well, the number of lines of business that are in deficit on a worldwide basis has reached a level that is difficult to imagine that we can tolerate that on a longer basis. So I think the pricing improvement, in my opinion, will have to continue. They will have to continue on a very focused basis line by line and market by market and, more importantly, client by client. I think there are currently (00:20:52) conferences going on, and there are a lot of remarks that are made by different actors in there which, in my opinion, describe pretty well the situation whereby, I mean, more and more with the pricing reinsurers, the leading markets, while discussions are becoming bilateral between the client and the reinsurers on a global basis, well, the entire business worldwide or in the region where they operate.

So I think, as I said, we are entering the renewal season in a pretty good position. We know where we are. We are – as you say, we are good at the moment, but we know what it takes to be good at the moment, and we believe that in a number of areas and the latest areas to be highlighted is certainly the large corporate business in the downstream area, petrochemical refining, where the number of losses this year has piled up to a very, very high level. So those lines of business or those industry sectors will have to be – continue to be rectified and corrected.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks for the color, Victor.

Operator

We will now take our next question from James Shuck of Citi. Please go ahead.

Q - James A. Shuck {BIO 3680082 <GO>}

Good morning. Two questions for me, please. Firstly, just in terms of the U.S. growth on the P&C side that you're targeting, I think you're kind of deemphasizing workers' comp, but really looking to grow in general liability. I'm just interested to hear a bit more about some of the claims inflation patterns that we're seeing there, largely driven by whether it's wage inflation or whether it's due to other kind of liability and kind of (00:22:46) kind of issues. But are you still confident that you can still grow? Is this the right time to be growing in that particular line of business?

Second question, could you update on where you are in terms of S&P surplus capital versus kind of a AA level? They've recently made some changes to their modules, particularly around mortality and around ALM requirements. So just interested to hear what your surplus is over that level and how that has evolved over the year, please? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, our growth in the U.S. is a growth on the portfolio of about 250 clients with which we have established relationship. So it's not a growth across the board. Again, it's a very focused growth, deepening the relationships and increasing the alliance with selected clients. So we are very comfortable with the way we grow and the market segmentation that we've done. We continue to have, well, basically a no-go on workers' compensation. We do some of it within package of regional companies, but it's a very, very limited amount of workers' comp that we have.

Regarding inflation. I think we carry like other insurers. I'm sure, we carry very thorough studies on an annual basis regarding the different parameters and the loss portfolios. So we have seen inflation. We have repeatedly said last year and the year before that the price increases are barely covering this inflation and that we are not at the moment in a situation where the price increases are restoring margin above the loss expectation, which is why we've grown much less than what we expected to grow. And we've passed on certain large contracts that have been offered to the market because we thought that basically the terms and conditions were not reflecting the situation of the market.

But what is encouraging is that the primary insurers in the U.S. are totally cognizant of the situation and they are themselves with or without the pressure of reinsurers, sometimes without, unfortunately, they are themselves, well, going on with corrections of the market. So I think the problems are known and they are being dealt with, probably not at the depth and the speed we would like to see, but it's encouraging.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks. Mark, on the solvency position of the group.

A - Mark Kociancic {BIO 17852409 <GO>}

So, for the S&P capital position, we've had pluses and minuses as you point out from changes in the S&P model, but we still remain firmly above – well above the AAA threshold in order to maintain our AA- rating. So it's quite secure, not something that I am particularly concerned about as we do our operating plan.

Q - James A. Shuck {BIO 3680082 <GO>}

Would you actually be able to quantify that number? I mean most of your peers do actually kind of give some kind of guidance about where you are in that. Because it's interesting to think about that buffer relative to your Solvency II ratio. So is it more of a limiting factor to you and ideally if you could quantify, that'd be great, please?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah, it's an estimate obviously, but it's our estimate, not S&P's. It's several hundred million above the AAA threshold.

Q - James A. Shuck {BIO 3680082 <GO>}

Okay. Thank you very much.

Operator

We will now take our next question from Jonny Urwin of UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning. Thanks. Just two for me. So, just firstly, just to clarify the message that you you're giving on the P&C combined ratio for next year. So, is my interpretation correct that the stronger attritional performance we're seeing today might be offset a bit next year by a higher cap budget? And then just to clarify again, you mentioned that the 92.1% normalized for Q3 was boosted by some positive reserve development or is that actually a normalized number? I didn't catch that, sorry.

And then secondly, have your preparations for the 1st of January renewals been disrupted at all by the recent Covéa approach? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

I think you read the message quite clearly. I think what we are saying in a nutshell is that we have been traveling at 94.5%, 95% combined ratio – net combined ratio, and we believe that next year considering the nat cat activity and also the penetration of nat cat business in certain areas of the world, the increased frequency of midsized severity, we will probably – while it all depends also on our (00:27:36) program, we will renew, but I think basically it will renew as is. So we will be driven to probably slightly increase our cat budget, which will be compensated by the continued improvement of attritional, thanks to the pricing corrections that we have already basically benefited from and will continue from, benefit from. So overall, I think the 95%, well, as I said, is for us a very realistic traveling sort of run rate for our combined ratio at the moment.

Regarding the 94.1% year-to-date and the 92.1%, those are two normalized combined ratio. But well, they both benefit from positive development. Positive development has got nothing to do with the margin above best estimate. Now, just positive development that we see as the years develop. And some of those positive development have been taken in the accounts of Q3. So if you – and I am talking about €30 million of positive developments, so if you reintegrate those positive developments in the normalized, well, your normalized would be again between the 94.5% and the 95%. So I think all of this to me is showing that there's a lot of consistency in our figures and a lot of stability in our net combined ratio.

Regarding Covéa, I think this has got absolutely no bearing whatsoever on the renewals. It's business as usual for us and for our teams. Everyone is from the clients' side and from our side, we are busy discussing about next year, and Covéa doesn't at all come up in the conversations.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you, very clear.

Operator

We will now take our next question from Thomas Fossard of HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning. Two question on my side on the (00:29:40) P&C. First one would be regarding to HIMM losses, just to better understand if you've seen any change to your early estimate made last year, how that has trended so far and, actually, if you could mention also how the – maybe the buffer you had at the start of the year may have changed positively or negatively?

And the second question would be on the gross written premium growth on the P&C resale. So, year-to-date and constant FX basis, you're plus – you're at plus 5%. But I kept in mind from the September Investor Day and looking again, this morning at slide 123 of the Investor Day that you were more guiding towards something which was around 7% to 8% on a full-year basis. So, I mean, should we expect a pretty significant pickup in Q4 based on the nine months' results? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Well, on HIMM, first of all, we've paid about 50% of what we have booked in in the reserves. Secondly, well, for the moment, we see indications that are positive, in the sense that we still have a buffer, or a cushion of 10% to 15% between our reserve booked and the sum of all the information that are providing to us by the clients and the insurers. So, this discussion, we've kept it. We've decided to stay prudent and for the moment, we've not touched it.

There will be a point in time where we will take a view on that, but for the moment, we leave it as it is, and we are pretty confident that more and more, as time goes that, yes, there will be positive out of discussion. But for the moment we've kept it and it is very stable. So, we are pretty satisfied with what we did in the very first place. I think our reserving has been very solid, continues to be, and we'll see in the quarters to come whether we take a view or not on this, or when we take a view on this question.

Regarding the premium, we are at plus 5%. Well, difficult to say how much will the end of Q4 will be. But I would think that, well, what we what we gave as an indication but probably still stands may be a bit softer than that, maybe 6% rather than 7% or 8%.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you.

Operator

We'll now take our next question from Frank Kopfinger of Deutsche Bank. Please go ahead.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good morning everybody. I have also two questions. My first question is for François on the expected realized gains. You said that these disposals might be completed, so is there any risk that this could be postponed probably also due to the weak equity markets? But any color on this would be also helpful.

And then, secondly for Victor on hurricane Michael, as you mentioned, do have already any view on the magnitude of potential losses here?

A - François de Varenne

On the first question, on the expected realized gain, so again, this is a core investment within the equity portfolio. I have strong confidence that the sponsor will execute the transaction before the end of the year.

A - Denis Kessler {BIO 1498477 <GO>}

No, no Victor on Michael. No, it's Victor on Michael.

A - Victor Peignet {BIO 6287211 <GO>}

Yes. Well, it's difficult, it's more a feeling that I'm going to give than really is something that is based on the information. I would think myself that Michael has got a potential, even though we are not on cat specialist in Florida. But Michael has got the potential to be maybe slightly higher than Florence. But I think our take on Florence at the moment is probably a bit conservative. Florence seems to be trending downward. So, I can't give you a figure at the moment, but the feeling is, well, maybe slightly higher but - than Florence, but Florence maybe a bit too high at the moment in our reserves.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Perfect. Thank you.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. So, Vinit here from Mediobanca. Two P&C questions, please, for me. First is on the – so, Victor, this traveling run rate of 95%, of going forward as well. Would it not benefit a bit from the price increases achieved, or would you say that some of those price increases might be expected to go into the reserve buffers? That's the first question. So for next year, I mean.

Second question is, I just noticed that the ceding premiums seem to have gone up quite a bit in the third quarter on the P&C re side. Is there something we should note? Is it – because it doesn't just look like another cat bond or there seems to be some more thing there, if it's just an accounting thing, please could you clarify? Thank you very much.

A - Denis Kessler {BIO 1498477 <GO>}

Well, we have repeatedly said for the first two quarters that we had expanded our requisition in particular our proportional requisition which has got the effect on the ceded premium, on the earned net premium as well as on the expense ratio. So, there's no secret about that. We have expanded the perimeter of our proportional requisition and we have been very open about that.

Regarding the 95%, well, as I said, I mean, we are looking at our cat budget and we think that our cat budget may have to be slightly increased. If we increase the cat budget, well, we believe also that our attrition will continue to improve, thanks to the translation of pricing improvements into the P&L. So – and for the moment, well, our indication is that, we should have those two phenomenon balancing out. Hence, the stability around 95%.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Very clear. Thank you very much.

Operator

We will now take our next question from Michael Haid. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good morning. Two questions also. You mentioned that every company – every reinsurance company is different. And when I look at the SCOR combined ratio, I noticed you have a low attritional ratio in the third quarter. And also, I noticed that you have a low commission ratio, 23.4% only. Is that also driven because of your retro program, or what is the reason for that? I'm not so sure about that.

And the other thing is, you mentioned the €30 million positive development and, obviously, the reserve releases of €60 million. Can I just add up these two figures to arrive at the normalized combined ratio for the third quarter? How sustainable is positive development of €30 million? I think it's just third quarter event, right?

A - Denis Kessler {BIO 1498477 <GO>}

Positive development is outside of the normalized. Clearly, the normalized is reserved release and nat cat budget. So, I mean, the positive development I mentioned, because you have seen that our normalized is slightly lower than our normalized of the previous quarters, but there is a quarter reason for that. So, I think our normalized on the run rates continues to be between 94% and 95%, but you've got a bit of positive development this quarter, positive development of the best estimate itself and not of the margin over best estimate. So, that's why we provided that information, so that while we are clear on the fact that on our view, our normalized is 94.5% to 95%, not 94% to 94.5%. I know that Vinit is trying to drive us downwards by all means but I prefer to be clear of where we are.

Q - Michael Haid {BIO 1971310 <GO>}

But should we expect the positive development not in each and every quarter or...

A - Denis Kessler {BIO 1498477 <GO>}

We have a positive development every quarter, but what I'm saying is that this quarter, we have decided to take a view on certain positive development, and we are having positive development this quarter that has evolved the, say, average sort of a positive development we have on each and every quarter.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. Perfect.

A - Denis Kessler {BIO 1498477 <GO>}

With all the hike. That's all. But that explains why our normalized is a bit lower.

Q - Michael Haid {BIO 1971310 <GO>}

And the lower commission ratio?

A - Denis Kessler {BIO 1498477 <GO>}

The commission ratio, yeah, you're right. I mean you found the reason. We cede more proportional, but the proportional is higher commission, so you cede something which is acquired at a higher commission. Oh, yeah, the – mathematically, the effect is you lower a bit your commission level, yes.

Q - Michael Haid {BIO 1971310 <GO>}

And is the lower commission ratio then kind of sustainably lower commission ratio for the next quarters?

A - Denis Kessler {BIO 1498477 <GO>}

I think at 25%, you have a good proxy of the commission ratio going forward.

Q - Michael Haid {BIO 1971310 <GO>}

Perfect. Thank you very much.

A - Denis Kessler {BIO 1498477 <GO>}

You have it in one of the footnotes by the way.

Operator

It appears there are no further questions at this time. Mr. Kelly, I'd like to turn the conference back over to you for any additional or closing remarks.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. Thank you very much for attending this conference call, but please do not hesitate to call us, should you require any further information. And a short reminder for the sell-side analysts, we will hold our usual roundtable discussion at our offices this evening starting at 6:00 PM European Time. Thanks a lot, and have a nice day.

Operator

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