Q4 2014 Sales and Revenue Call - Renewals

Company Participants

- Benjamin Gentsch
- Bertrand Bougon
- Unverified Participant
- Victor Peignet

Other Participants

- Andrew J. Ritchie
- Daniel Bischof
- Frank Kopfinger
- In-Yong Hwang
- Kamran Hossain
- Marcus P. Rivaldi
- Thomas Fossard
- Thomas Jacquet
- William F. Hardcastle
- William Hawkins

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good morning, everyone, and thank you for joining the SCOR Global P&C Renewal Call, where we are pleased to present the outcome of our January 2015 renewals. I'm joined on this call by Victor Peignet, CEO of SCOR Global P&C; and Benjamin Gentsch, Deputy CEO of SCOR Global P&C, and leader of our specialty lines.

So, presentation today focuses on our global property and casualty business and their January 2015 renewals. I would like to remind you that our full year 2014 account will be published on the March 5, and we'd be pleased to answer any question on full year results during that event.

Before we start with the presentation, please consider our disclaimer on page two. It's very important to mention that all figures in this presentation are unaudited and on underwriting year basis, unless otherwise specified.

With this, I would like to give the floor to Victor Peignet, CEO of SCOR Global P&C.

FINAL

Bloomberg Transcript

Victor Peignet {BIO 6287211 <GO>}

Good morning. As an introduction and as a conclusion, by the way, I would say that we're all satisfied with the outcome of the January renewals given the pressure there is currently on reinsurers, on brokers, and also on insurers whilst to a lesser extent.

I'm not going to go through the presentation slide by slide. It follows the format that you are all used to by now. And also, you will find in there a very detailed information market-by-market and line of business by line of business in terms of both evolutions of prices and evolutions of volumes as we anticipate them. Benjamin and I will rather provide you with the clarifications and the additional information you may need during the Q&A session that is just following my speech.

In summary, the fact is that at the January 1, 2015 renewals, we managed to maintain the overall expected technical profitability quasi stable compared to January 2014, while we delivered a gross written premium growth of 2.4% at constant exchange rates. This was achieved, thanks to the deployment of action plans in terms of underwriting and portfolio management that was well-prepared and that did well anticipate what the situation was going to be in each market of segment and individually with most of the clients.

It was achieved also thanks to the discipline of the entire organization. It's continuously improving set of tools to steer its business in real time and its capabilities to deal with these clients and their brokers, capitalizing on the new story of consistency and continuity. As the markets continue to soften, disciplines, tools, and franchise are becoming even more key differentiating factors.

In the increasingly competitive market environment we are in, we believe that the key performance indicators of these renewals for us do demonstrate the strengths of our position and our ability to manage the portfolio. The pricing decrease is contained at minus 0.7% across the entire renewed portfolio, which has benefited from primary insurance price increases being mainly composed of proportional reinsurance for 74% of it.

The deterioration in the gross underwriting ratio is limited to just 0.2 percentage points. This shows that the teams have successfully achieved the targets that they were given and that they have managed to slowdown the deterioration in expected profitability versus last year despite the market downward trends.

Moreover, we did manage to successfully resist the broader loosening of the terms and condition, and particularly of certain contract clauses. This was achieved thanks to a technical and consistent underwriting approach that has notably enabled us to contain the extension of our clauses, and to maintain even event aggregation conditions within acceptable limits for non-proportional contracts.

The outward retrocession Terms & Conditions are further improved versus last year and provide us with broader and more efficient protections. The improved retrocession conditions combined with the marginal deterioration of the expected profitability of the

2015 vintage versus 2014 at the January 1 enable us to confirm that our net combined ratio assumption of 94% stands for the second year of optimal dynamics.

The 2.4% premium growth recorded for the January 2015 renewals can be broken down into a 0.9% growth on the P&C Treaty, of which, well, minus 4% in EMEA which is mainly due to active portfolio management actions in this area to maintain the profitability of the underwritten business, plus 10% in Asia-Pac where we managed to strengthen our position in most market, not only China, but also South Korea and Malaysia for instance, and plus 4% in Americas, notably thanks to the U.S. client-focus initiative bearing fruit.

This 0.9% growth in P&C Treaty is complemented by a 6.5% growth in Specialty Lines. This growth in Specialty Lines is spread across most lines of business except engineering, where there was a fierce competition on the international markets and where we sometimes have to reduce our share to preserve our profitability. Thanks to good renewals with global insurers with favorable signings, the U.S. Cat book managed to grow by 3%.

As we do not see reasons for the current competitive market environment to improve in the short term, we are prepared and ready to continue to optimize our growth within the constraints of the group only two targets which are its solvency and its profitability.

For 2015, we, thus, expect to achieve a gross premium income of around €5.3 billion based on the exchange rates as at December 31, 2014. We will find the sources of profitable growth in the Optimal Dynamics business initiatives along with an approach that remain centered on the needs of our clients across all their business lines and markets worldwide.

We will notably continue developing in four directions; first, to grow selectively as part of the U.S. client focused initiative; second, to expand our activity in the Lloyd's market, thanks to the further development of the Channel 2015 syndicate; third, to strengthen our presence in the most promising emerging markets. We did record a growth of 10% on P&C treaties in Asia in January 1, and this is thanks to a strong local presence in this market and to a long-term client relationship based on more than 40 years of stability and continuity, also based on heightened cooperations with insurers by transferring knowhow and products in order for them to further develop in their markets with us. And four, to develop and expand our business with large industrial groups by our SCOR business solution, notably with the captives of these groups.

Having briefly summarized this – the outcome of this renewal, I now propose that we move on to the Q&A session, reminding you that our next communication will be the full-year results on the March 5. Thank you.

Unverified Participant

I suggest we start the Q&A session. May I remind you to remain with only two question please to enable everybody to have a question.

Q&A

Operator

Ladies and gentlemen, we will move on to the question-and-answer session. We will now take our first question from Will Hardcastle. Please go ahead.

Q - William F. Hardcastle {BIO 16346311 <GO>}

Good morning, guys. Could you give us an idea of whether – was there any particular area where you felt it was particularly competitive and you just chose to walk away from the business and you squeezed out, if there was one? And the second one is you mentioned the impact of the low interest rates. Could you give us an idea of where the new money yield is and the level of decline that has happened quarter-on-quarter? Thanks.

A - Victor Peignet {BIO 6287211 <GO>}

On your first question, there's no general trends, so you would have to look at market-by-market. We have mentioned in the presentation certain areas, certainly motor and non-proportional in France and in UK. If you look to the portfolio management slide on – in the presentation that represents what has been done in EMEA for instance, well, you will see that certain markets have been subject to extensive portfolio management like the Northern European markets, for instance, where we lost 16% of our premium.

So I think the situation is very diverse, and I think that only companies having systems that can allow them to have a real-time appreciation of what is the profitability of a given line of business in a market or a given client worldwide, well, basically aggregating all the contracts that the company can sign with the client.

Only those companies having those systems and the teams that you get to run those systems, I think the ones are really navigating with the eyes open and that is our case. That's exactly what we have been constructing over the past, well, five years to seven years now. So but I think you find that really in the presentation walking through the different sides and, in particular, this EMEA, you see that the situation on – is very different from one area to another.

Q - William F. Hardcastle {BIO 16346311 <GO>}

Okay. Great.

A - Victor Peignet {BIO 6287211 <GO>}

And your second question, I don't – I didn't really understand what you meant.

Q - William F. Hardcastle {BIO 16346311 <GO>}

Sorry. What's the – obviously, you've talked about in the presentation the impact of the – on the return on allocated capital driven by the low interest rates environment and I was just really wondering what your reinvestment yields are at present.

A - Victor Peignet {BIO 6287211 <GO>}

No, actually that doesn't really apply because we price at risk-free rate. But the risk-free rate as considered will be reduced which has an impact on the return on capital.

Q - William F. Hardcastle {BIO 16346311 <GO>}

Sure. And are you able to give us what that reinvestment rate is at the present?

A - Victor Peignet {BIO 6287211 <GO>}

No, no. I'm not talking of reinvestment rate. I'm talking of risk-free rate. What – when we price a piece of business, the interest rate we use is the interest rate of government bonds of the country where the contract is really operating over the duration of that particular contract. We, of course, cap that in areas and countries where interest rate are too high but if you look at countries like France interest rate, now well nearly at zero.

Q - William F. Hardcastle {BIO 16346311 <GO>}

Yeah. Sure. I absolutely appreciate that, Victor. Maybe it was just – it was more of a question, I guess, on the investment side.

A - Victor Peignet {BIO 6287211 <GO>}

Well, if I take Eurozone for contract with 10-year duration, you would have an interest rate risk free of about 1%.

Q - William F. Hardcastle {BIO 16346311 <GO>}

Sure. Okay. Thanks.

A - Victor Peignet {BIO 6287211 <GO>}

If you would take U.S., it would be for 10 years 2.6%, but those are risk free rates, not reinvestment rates at all.

A - Benjamin Gentsch {BIO 5633839 <GO>}

Yes, Will, and to come back to reinvestment rate, you will have the answer during the full year call on January 5 – or March.

Q - William F. Hardcastle {BIO 16346311 <GO>}

Okay. Okay.

Operator

Thank you. We'll now take our next question from Daniel Bischof from Helvea. Please go ahead.

Q - Daniel Bischof {BIO 17407166 <GO>}

Yes, good morning. Two questions from my side. The first is on commission. 70% of your business is proportional. Could you comment on changes you observe when it comes to commission and whether you expect the 23% guidance under the Optimal Dynamics to be maintained? And then the second one on M&A, given what you're seeing in the marketplace, with the consolidation going on, how necessary is additional scale for you and how is your appetite for large scale deals at this point in time?

A - Victor Peignet {BIO 6287211 <GO>}

I think, the evolution on commission is twofold. I think what we have observed is, first, is shift from sliding scale to fixed commission that has been across most of the lines of business. And secondly, I mean, the increasing commission, the principle we apply, well, of course, we are in a competitive environment, but principle we apply with our clients is that if working together with them, they manage to reduce their loss ratios. Well, then, in that case, there is a kind of a sharing of the benefit between us and them and that correspond to an increase of the commission level.

So, I think the evolution of the commission level that we see is a feature of, first, the competition, secondly also, the mix of business with our development in Lloyd's and in insurance as Lloyd's is, is for us, insurance. So, we are trending, and this is what we have observed over the past three quarters' results. We are trending towards 24% commission - between 23% and 24%, and moving towards 24%.

Q - Daniel Bischof {BIO 17407166 <GO>}

And on M&A?

A - Victor Peignet {BIO 6287211 <GO>}

Regarding the scale, I think today, well, we have all the excess to business we need or we want, so I think there is absolutely no restriction whatsoever. The response from clients is positive to the way we approach business and with the way we've been dealing with them. So, I would think that, as we are today, we have the capabilities to operate, and basically, to address, well, most of the deals that are available in the market.

Q - Daniel Bischof {BIO 17407166 <GO>}

Thank you very much.

Operator

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

Q - William Hawkins {BIO 17918548 <GO>}

Hello. First of all, Victor, one of SCOR's strategies has been to grow by taking a greater leadership role of the treaties you're involved in. Could you try and give us a quantitative indication of how that's developed this renewal season? So maybe, for example, the percentage of treaties that you've led on this year relative to last year, or any other way of thinking about that?

And then, secondly, could you again just come back to the ROE comment, the 1 percentage point? And just elaborate and clarify what you were exactly telling us there, because I'm not sure that what you're telling us is kind of comparable with the Optimal Dynamics ROE targets, certainly at the very least with regards to timing. So, do you think you took down the ROE in this slide, could you just translate that into how we're seeing that in the Optimal Dynamics program? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think on the leadership, we are roughly leading one-third of the premium volume we underwrite, this is increasing marginally. So we were around 32%, we are around 34%. So I think it's pretty – slightly increasing but overall quite stable in percentage of the premium. And your second question was?

Q - William Hawkins {BIO 17918548 <GO>}

Well, I'm just interested in, if you could expand slightly on what you've said about the ROE because you've talked about the expected return on allocated capital being 1 percentage point lower. But I'm not sure that's exactly the same basis as you define the ROE target under Optimal Dynamics. So I just wonder if you could confirm that and maybe provide a bridge between what you're saying in this presentation and the actual Optimal Dynamics target.

A - Victor Peignet {BIO 6287211 <GO>}

Yeah. Actually, we operate – the governance of the company is to allocate capital to the two divisions, P&C and Life. And basically, well, we start, of course, with the 1,000-basis-point above risk-free rate. Then according to well, the capital allocation that is driven by the internal model, we define target return on allocated capital for the two divisions and based on those targets apply to the capital that is being used by each of the two while you can rebuild the overall profitability of the group and return on equity of the group. So what we are saying here is that basically at the January 1 this year, the return on allocated capital to the division has diminished by 1% basically.

We used to underwrite at a target return on allocated capital that was a bit higher than what the group was asking us to produce and I would say that with this 1% decrease, we are now underwriting well basically just at the target rate we need to operate for the group to produce what it needs to produce. So we don't – we have lost the buffer we had before.

Q - William Hawkins {BIO 17918548 <GO>}

That's very clear. Thank you.

Operator

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

Q - Thomas Jacquet {BIO 4110153 <GO>}

Hi. Good morning, guys. Two questions on my side, the first one is on the Credit & Surety line, I think that your peers commented on a sharper decline because they lost a lot of business on the big accounts due to higher retention. You had a very good growth. Maybe can you elaborate a bit on where you've been growing?

And the second is – question is when I look at the traffic slides, it looks like the weakening cycle is more like a disappearance of the pockets of extra profitability rather than a sharp deterioration across the board? Is it going to continue, or do you fear that most of the lines priced adequately will become non-attractive at all in the next renewals? Thank you. Hello? Hello?

A - Victor Peignet {BIO 6287211 <GO>}

Yeah, yeah. I was just trying to find the traffic lights. I have found them now. Well, regarding Credit & Surety, I mean, it's no different from U.S. Cat. I mean, we are not all equal in front of the signings by the client. So, I think, there is no magic here. I think, we had excellent signings from clients, and, I mean, our growth with global insurers, as our growth with the prime credit and surety companies is coming from the fact that, yes. I mean, we have had favorable signings.

Q - Thomas Jacquet {BIO 4110153 <GO>}

Okay.

A - Victor Peignet {BIO 6287211 <GO>}

On the traffic light, well, I think basically, we are in a softening market, and if you look at the treaty P&C traffic lights, while very attractive, is gradually disappearing, and you've got the concentration in the attractive and adequate. I mean, that's quite normal. I don't see myself the market trend changing dramatically in the rest of the year, this year.

So, I think, yes, you will have further concentration, probably. The only encouraging signs is probably that the over-placement on certain contracts as it reduced considerably if you compare the over-placement this year to the over-placement last year. Well, the over-placed is certainly much reduced this year compared to last year. It means that there is more pick and choose operated by the reinsurers in the market which I think is an encouraging sign, but adjust the sign, it doesn't stop the downward trend from the moment, it can slow it down a bit, so I see the situation continuing and I see us continuing to very, very seriously manage the portfolio.

And again, I insist on the fact that while once you've got that culture in the operation, once you've got the tools to do it, well, I think you can manage and I think we can manage by delivering that sort of renewal. We are proving that even in this market by managing the portfolio intensively, you continue to protect your expected profitability and that's – well, that's not the most exciting job for the underwriters but that job they are excellent at. And as long as the market continues to be in that current situation, they are all mobilized to continue to operate this way.

Q - Thomas Jacquet {BIO 4110153 <GO>}

Okay. Thank you very much.

Operator

Thank you. We'll now take our next question from Marcus Rivaldi from Morgan Stanley. Please go ahead.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Good morning, everybody. Two questions from me. First of all, on again coming at Optimal Dynamics, the growth plans that you've embedded within that and that you confirmed at the last Investor Day, do you still think it's reasonable to be targeting a $6.2 billion book for 2016 on the global P&C business? And then secondly, just looking at what you're talking about versus price action, versus the impact on your gross underwriting ratio.

You're saying this year 0.7% price declines, but only 0.2% decrease in or worsening in the underwriting ratio, whereas last year you have lower price decline at 8.2% but a much higher impact on the gross underwriting ratio, I think 0.9%. I'm just trying to tell you that it seems as though last year maybe, in a better market, you were less able to offset decreases (23:51) structuring around the underwriting ratio. But if you could just explain that, that will be great. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, what I can say about the assumptions of growth is the one we have now for this year. I mean, we anticipate this year to close at €5.3 billion, I mean, 2015, €5.3 billion. This is based on interest rate at December 31, 2014. If the euro-dollar exchange rate moves, then the projection will have to be readjusted. But as we are today, with that set of exchange rates, well, we anticipate in 2015 at about €5.3 billion. So, there, of course, I mean, the assumption of the €6.2 billion in 2016, well, becomes questionable.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Okay.

A - Victor Peignet {BIO 6287211 <GO>}

That's the situation and these assumptions are really adjusted as the market evolves. And for the moment, we do not have positive evolution in the market. And again, profitability is for us the main driver, and if we have to sacrifice growth to maintain the profit, we will do.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Okay.

A - Victor Peignet {BIO 6287211 <GO>}

Regarding the last year compared to this year, I think, the situation is – well, should be interpreted this way. Last year, we had this target of combined ratio which is the driver for us. We knew we had a bit of leeway and, well, as everything is a matter of compromise. There was a compromise between how much we had to deliver and how much we would take as risk and contracts.

Well, when we moved on during this year, and you saw the first, second and the third quarter, we were looking at our combined ratio. We still want to maintain it at 94%, and we see that the leeway we have is reducing.

When we went into Monte Carlo, and after Monte Carlo, we gave strict instruction to the underwriters that what was allowed last year, what was possible last year was not possible this year, and we have strengthened the guidelines, and we've told them that, well, basically, this year, we would not be able to tolerate the deterioration that we were able to tolerate last year and we did tolerate. And this is the reason why in the market that is probably a bit more difficult than last year. Well, the teams reacted and managed the renewals in such a way that yes, I mean, the deterioration is lower than last year.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

I mean, just coming back to that, could you give us maybe some color around what was different this year actually at the cold phase (26:45) in terms of structuring of transactions that would allow you to have – be in ultimate – a relatively better position this year in a tougher market than last year?

A - Victor Peignet {BIO 6287211 <GO>}

Well, it's just a question of the business mix that you renew, what you renew, what you don't renew and what you eliminate. And it is portfolio management is that. You will negotiate with clients, the business mix between the different contracts, and at the end of the day, well, you are talking of a weighted average of what you renew. So, if you renew more of the good business, if you eliminate more of the business that is underperforming, well, then you have a weighted average that is slightly improving. That is what we are doing.

And this year, we did not hesitate. Last year, we maintained certain relationships. I can take a practical example. Last year, we were in discussion with a very large client and very tough renewals. But at the end of the day, we thought we could afford to give it a try for one more year, and we maintained the relationships at profitability that we were, ourselves, were not expecting to be great, but we did a try. We thought we could afford.

Well, this year, the same situation with the same client repeated. We walked away. It means that we've been stricter this year in applying the rules as compared to last year because we think we – overall, the portfolio doesn't give us as much leeway as it was giving us last year.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Okay. Thank you very much.

A - Victor Peignet {BIO 6287211 <GO>}

A question of margins to maneuver.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Yeah. Okay. Thanks.

Operator

Thank you. We'll now take our next question from Andrew Ritchie from Autonomous. Please go ahead.

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

Hello. Hi there. Two questions. Victor, could you just clarify again on the proportional business? What you're saying is that any changes in commission you feel are offset either because they're sliding scale, therefore loss-dependent, or you're not feeling that they actually would dilute the economic price change that you're showing for proportional business, which is essentially flat. I guess it's hard for us to relate pressure – upwards pressure on commissions to an indication that the economics of proportional business are essentially flat. Maybe just clarify what you mean there.

Secondly, on retro, I think the implication of what you're saying is whatever growth deterioration you feel is offset by better retro terms, again, as it was last year. Is that what you're saying and maybe just a bit more flavor if there's any significant changes to your retro program? Thanks.

A - Victor Peignet {BIO 6287211 <GO>}

Well, let's start with the retro program. The retro program, the changes are by restructuring the aggregate coverage, increasing the number of aggregate coverage and having the aggregate coverage structured in such a way that the response to what I would call a non-peak natural catastrophe, whether they are tornadoes, hail, floods, well anything, but wind and quake basically, the response of these aggregate is being improved, so the potential efficiency of the retrocession is higher this year than it used to be last year at the price which is overall in reduction.

So it's much more working with the business models and structuring the retro in a more efficient way. It means that at the cost which is a bit lower, we combine a larger efficiency and at the end of the day, the net cost which is how much it cost you, minus the recoveries, the net costs should be lower this year than it was last year.

And regarding the commission, well, the profitability of the business is assessed on combined ratio or underwriting ratio, which is loss ratio plus commission ratio. What I was saying is that in a number of cases, if you work with the client and the client improved business mix by managing its own portfolio, well, basically, the loss ratio will reduce. If the loss ratio reduces, well, there is a trade-off between the reinsurer and the insurer on the commission level. And you then increase the commission, which means that basically, part of the loss ratio reduction is not transferred to the reinsurer, which is normal, in a way, asset trading and is kept by the ceding company.

But it means that you can have – I'm not saying all the increase of commission are operating this way, but you can have increases of commission that at the end of the day make your business more profitable than it was previously, if the loss ratio of the ceding company is improving, well, significantly, which happens with portfolio management. It's not always the case, but it can happen.

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

Okay. And presumably the...

A - Victor Peignet {BIO 6287211 <GO>}

Especially in emerging markets, where portfolio management and all the work we are doing with our clients to improve the underwriting can pay off in a much bigger way than it does in markets that are already very developed and quite saturated.

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

Okay. And presumably, the seven point Cat loads shouldn't change for this underwriting year, not calendar year, the underwriting year you just renewed with the change in retro. It's simply a cost benefit. The overall net retention is similar.

A - Victor Peignet {BIO 6287211 <GO>}

I think the cost ratio of the natural catastrophe is reflecting this net cost I was talking about. So I would say we don't want to change the seven points, but we are more comfortable than last year with the seven points.

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

Okay. Great. Thanks very much.

Operator

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

Q - Thomas Fossard {BIO 1941215 <GO>}

Hey. Yes. Good morning, Victor. I've got two or three questions. The first one is on the target of €5.3 billion premium for the full year 2015. Can you remind us what would be the USD premium exposed component of this €5.3 billion roughly speaking?

Second question would be on terms and conditions. I understand reading your press release that you've already did as much as you could on the loosening on terms and conditions. But at the end of the day, in reality, what really have you accepted in terms of extension of hour clauses and aggregation? Also, you may have resisted from a policy point of view, how your exposure has increased potentially as far as extension hours are concerned?

And the last question will be on the Aviation business in specialty lines. Seems to be that you're reporting a nice growth, 12% growth where we see the trends have been a bit really mixed and rather disappointing compared to initial expectations. So, a bit more granularity will be helpful. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Morning, Thomas. On the dollar – I would say dollar-pound, the dollar is about one-third, the pound, 10% to 15%. So, overall, if you mix dollar and pound, you are having about half of the total, as a rule of thumb, then you've got some currencies more or less connected, but that is the situation.

Regarding Aviation, maybe Benjamin, you want to take this one?

A - Benjamin Gentsch {BIO 5633839 <GO>}

Yes, please. On Aviation, as you know, Thomas, most of the Aviation portfolio that has been renewed consists of the two large participations that we have in LRA and Global Aerospace. LRA specifically is changing that portfolio with our strong impact, our strong guidance that we are giving them. Aviation business is, of course, in the media, mostly talked about in respect of airlines. But the airlines business makes up a relatively small part of the overall portfolio of LRA and Global Aerospace. In the non-airlines rates, especially general aviation, products liability, airport liability, we see the rates holding much better than airline rates, and therefore, we are, overall, quite satisfied with the business.

It's, of course, on the airlines rates, disappointing because the short increased trend that we saw towards the end of the third quarter, beginning of the fourth quarter last year has come to a stop. So, airline definitely is disappointing, but the rest of the business we see still as adequately priced. And what you see here is the growth of 12% by and large reflects the business plan that those two underwriting agencies do have, LRA and Global Aerospace.

A - Victor Peignet {BIO 6287211 <GO>}

Well, regarding the terms and condition, well, can give you a few figures that illustrate. This year, for instance, we have a system within SCOR by which the accounts are being referred, if they do not comply with the underwriting guidelines. This year, the number of referrals has increased by 50%. So, about 25% of the total premium was submitted for referral.

So it means that, yes, there was certainly more negotiation. And if we look at the way the referrals were treated. Last year, for instance, about 80% of the referrals were accepted as they were presented. This year, this percentage went down to about 60%. So it means that on 40% of the referrals, while basically the underwriting management team together with the underwriters, well, renegotiated the conditions that were submitted in order to bring them into something that was acceptable.

So I think this underwriting management activity is proving that yes that it was much more controlled and much more subjects of discussion. Regarding the hour clause, well, I think all around the hour clause is house clause and loss occurrence definition, aggregation of events will be extremely strict on the aggregation of events. There must be a commonality of causation and two events that are totally uncorrelated, well, cannot be aggregated, otherwise we cannot price.

So we've been very strict on that. We have nothing against aggregating tsunami and quake, tsunami following quake. We can aggregate flood following wind. We can even go a bit further than that and consider strikes, riots, civil commotion as following a particular natural catastrophe. But beyond that, well, there are limits well beyond which we would not go. And we did walk away from a few contracts, but not many actually, where I mean we could not negotiate around those aggregation clause.

The extension of the hour clause is much more a question of pricing and data available. I think this was dealt with on a case-by-case basis, trying to negotiate within the price the impact of an extension of our clause. Not without difficulties in certain cases due to lack of information, but every time subject to a negotiation. So we have done whatever we could to alleviate the impact on the profitability due to those concessions. So we want to continue to on two or three others so that I will preempt your next question.

Multi-year capacity has not been really a feature of those renewals. And if you look to our portfolio today, if I look at how much of our P&L maximum loss exposure is on multi-year, you are below 15% in the peak variance. So it is not - it has not been a major feature of renewal and it is not a major feature of our portfolio today.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. And just to come back to the previous question on the seven points of combined ratio for Nat Cat. Obviously the fact that there is a slight deterioration in the terms and condition regarding the extension of hour clauses is not creating any specific threat to, I would say, or risk to the seven points of Cat budget basically.

A - Victor Peignet {BIO 6287211 <GO>}

No. I don't think so and I'm more appreciative of the way we restructured our aggregate coverage. So I think the restructuration of our aggregate coverage is having a more positive impact than the slightly negative that may be associated with the hour clause.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you.

Operator

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

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning. Two questions. First one, just on the 94% combined ratio assumption for this year. On that assumption, does it assume that the expense ratio comes down to 6.5%, down from the kind of slightly above that that you reported at the Q3 results? And the second question, just on the retrocession program, can you just give us a flavor of where the new capacity is coming from - or whether actually it's just coming from your existing sources? Thanks.

A - Victor Peignet {BIO 6287211 <GO>}

Okay. On the combined ratio, you may recall that over the previous quarter of this year, we commented on the fact that there was seasonality and that the cost ratio would be landing in the 6.5% sort of area. So, well, bear with us until a month from now and you judge by the fact. But the structure of the combined ratio, as we have presented it, that backs the 94% is, in my opinion, is very solid.

The second, on the retrocession, well, I would say that for us, we do not - we have not really changed our providers of capacity. I mean, we are having panels that have been very stable, especially on the traditional side, but even on the alternative capacities and the collateralized reinsurance. We've not - well, we didn't need really new entrants in the program. So, we have very few changes in the panels.

Q - Kamran Hossain {BIO 17666412 <GO>}

Just to come back on the retrocession, how long do you think that retrocession pricing can continue to decline? Because obviously it seems to be - well, not follow - it's neither following or leading the reinsurance side, but how long do you think that will continue?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I have no crystal balls, so I don't know. What I can tell you is we ourselves are extremely careful. And it is not just a question of price. It's a question of long term. I mean our retrocession is used to, well, protect our capital. It also provide us the peak capacities that we use to supply capacity to our clients. So, for us, longevity is extremely important.

So, we are not, by all means, looking for price reductions. We are looking for better structures, better understanding between ourselves and our retrocessionaires, and above all, longevity of the partnership. So, I think if you are not shopping around, I would think probably that I don't see a lot more reduction. If you are shopping around, well, there is an abundant new capacity available, so this is less predictable.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks very much.

Operator

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

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

Good morning. This is In-Yong from Goldman Sachs. So, two questions for me. So, you had quite a lot of benefit from increasing primary rates in the proportional side, and your non-proportional pricing was down 3.5%. And I was just wondering how the pricing would have developed if the primary rates haven't benefited so much and just what the latest trend you're seeing on the primary rate side and whether those increases you see at UBS (45:30) sustainable?

And second question then, it would be great to get an update on what you're seeing on your global clients initiative. You gave some business lines that still benefit from it, like Property Cat in Asia and U.S. Cat, but just – it would be good to get a top-down view of what you see on a group-wide basis. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, on the client-focused initiatives, we are addressing three types of clients, basically the global insurers on which we communicated in about two years ago now. Well, on global insurers, the position is that we are continuing to grow and we grow because we spread our wings into their programs and they are allowing us to do so, in particular when – if and when they restructure it.

So, I think the global insurer is continuing very positively. It – well, what does it mean? it means certainly more Cat business, but more specialty lines as well.

The second type of client is basically the focus clients in the U.S., most of them being E&S companies. Here as well, I think we were primarily property and a few specialty with them. Again, we are broadening the offer and the response is quite positive.

The handicap for us is on the long tail line of business at the moment with the interest rate, the risk-free rate we are using in the U.S. Well, we have difficulties to be competitive price-wise and it has a bit slown down the development of the initiative on the long tail.

But overall, I think it is also positive and it is reflected by the time that our premium in the U.S. increases. And the third type of clients where we have initiatives are emerging market clients for whom, as I said, we are engaged into know-how transfer and adaptation of products that are not new to us, but are new to them in their markets.

I think overall, all our clients are appreciating the fact that we are trying to help them to put new products in the market and to grow their business. And I think that's one of the role of the reinsurer. That's always been, but it's more, even more going forward to be kind of supportive to the development of insurance and to the marketing of new products in end markets.

Operator

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

Good morning, everybody. I have two questions. My first question is on your canceled business, the $146 million that you show within the treaty business. Could you dig a little bit into the drivers behind this, so which lines were most affected or be it the geographies or also type of business?

And the second question is on your U.S. Cat business, which you grow by 3%. And this implies that you even more than compensated the weaker prices in this segment. Also could you elaborate a little bit on what were the drivers there and also whether you're still satisfied with the price level there?

A - Victor Peignet {BIO 6287211 <GO>}

Well, the $146 million cancellation on slide number 13, I think that was the subject of your first question. Well, I think this is primarily European, Middle East and Africa, but, say, Europe and Middle East type of business that we have had to reduce in order to protect the profitability. We certainly had problems with motor non-proportional in France and in UK.

We had also some issues with other contracts in Scandinavia, in Netherlands and in the Arabic Gulf area. So, a mix of market, but concentrated geographically in Europe and Middle East. What was your second point?

Q - Frank Kopfinger {BIO 16342277 <GO>}

On the growth in US Cat business because it obviously implies that you've more than concentrated to (50:26).

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think on the U.S. business, again, we re-underwrite the portfolio. I think there has been a good intake of large, large clients, I mean, whether they are large national insurers or global insurers, at the detriment of regional business where we had to arbitrate in front of very, very competitive terms and conditions, not only price, but also terms and conditions referring to Tom Fossard question on hour clause and aggregation. So, I think the portfolio has shifted towards larger clients, and again, I mean, benefiting from favorable signing due to the fact that we look at those clients globally and across all their geographies and all their lines of business.

I think one thing coming back to the questions that I didn't answer from one of your colleagues, I think what is very encouraging to me in the proportional area is that basically, if I look between loss ratio and commission, I think that the loss ratio and it is shown in our portfolio where the attritional loss ratio continues to go down, the loss ratio are going down. I think the quality of the business that we have in the book is improving and of course we pay more commission. But I much prefer a situation like this where I can drive down my attritional ratio which means that the quality of the business is good, is improving, and then I pay a bit more commission. If the market terms tomorrow, well the negotiation is on the commission which is a B2B negotiation between me and the client, but the business of the client itself is good business.

I think this is a very positive position to have a business where your attritional loss ratio goes down and if you have to pay a bit more commission because of competition, well, at the end of the day, well, this is a bit secondary to me. I mean, of course, it needs to remain within your profitability or requirements. But I think the split between the two, as I see it moving in our portfolio, I do like it and I think that it shows that the teams are doing the right job with the clients.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thanks.

Operator

Thank you. We'll now take a follow-up question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Just wanted to come back on the commission side. Earlier in your comments, Victor, you mentioned that the shift was from sliding scale to fixed scale. Is that a positive trend for you or I mean would you prefer to stay on sliding scale as obviously this is providing more stability on the overall profitability of the treaty?

And the second question will be regarding Germany in Treaty P&C, maybe I'm wrong, but last year, I believe, but maybe this was two years ago, you reported very strong growth, very good progress in gaining market share on the German market. This year, it's more flattish or a minus 2%. What obviously seems to be that the German market has been okay on the cat side, I mean, motor, on motor proportional. So, could you give us a bit more about potential additional competition you've been facing on the German market this year around? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, in Germany, I think that while we have added pretty stable sort of renewal, question mark is more on the industrial risk at the moment and the profitability of the industrial business, on the treaties of the German market.

So, I would not say that there is anything particular to notice in Germany and I think that it has been quite stable. I think we are talking of the market where relationships have been established and we used to have increases of something like 8%, but we go down to about 4% and now stable. I think it's very much in continuity.

What was the question? The sliding scale. Well, the sliding scale is a feature of uncertainty, basically. So, once you have, well, a certain situation in a market or in a line of business where either post-losses, post-crisis or because you are having a certain element of uncertainly on where the loss ratio is going to be, well, you introduce sliding scale. There is nothing good or bad, or we cannot say that sliding scale is better than fixed. Well, it all depends how you size the sliding scale anyway.

So, I think both solutions are totally acceptable. Of course, I mean, if a client is delivering steady profits and has positive trends in the portfolio, for them there is a logic in trying to remove the sliding scale and working towards fixed commission. And that's what we observed in a number of areas.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. And just a final point on that. Is this a noticeable trend you've seen both on the property and casualty proportional?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think it is certain – it is more seen on certain specialty lines than really – I don't think that was a feature of casualty ever, anyway. While certainly in property and Credit & Surety, was certainly an area where sliding scales had been introduced after the crisis and are being removed.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you.

Operator

Thank you. As there is no further questions in the queue, this will conclude today's question-and-answer session. I would now like to turn the call back over to Bertrand Bougon for any additional comments.

A - Bertrand Bougon {BIO 18934799 <GO>}

Thank you. I will conclude this call by inviting you to join the next event, the disclosure of our full-year 2014 account on March 5. Thank you, and have a nice day.