Y 2020 Earnings Call

Company Participants

- Francois de Varenne, Chief Executive Officer - Global Investments
- Frieder Knupling, Chief Risk Officer
- Ian Kelly, Chief Financial Officer
- Jean-Paul Conoscente, Chief Executive Officer - Global P&C
- Laurent Rousseau, Deputy Chief Executive Officer
- Olivier Armengaud, Investor Relations
- Paolo De Martin, Chief Executive Officer

Other Participants

- Andrew Ritchie, Analyst
- Emmanuel, Analyst
- James Shuck, Analyst
- Kamran Hossain, Analyst
- Michael Hayes, Analyst
- Paris Hadjiantonis, Analyst
- Thomas Fossard, Analyst
- Unidentified Participant
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to the SCOR Group Full Year 2020 Results Conference Call. Today's call is being recorded. There will be an opportunity to ask questions after the presentation. (Operator Instructions).

At this time, I would like to hand the call over to Mr. Olivier Armengaud. Please go ahead sir.

Olivier Armengaud {BIO 20892984 <GO>}

Good afternoon and welcome to SCOR Full Year 2020 Results Call. My name is Olivier Armengaud, Senior Manager in Investor Relations team, and I'm joined on the call today by Denis Kessler, Chairman and CEO of SCOR, and the entire executive committee. May I please ask you to consider the disclaimer on page 2 of the presentation, which indicates that the financial results for 2020 has been audited and that the final Group's solvency results are to be filed with the supervisory authorities by May 2021, and this may differ from the estimates expressed or implied within this report. I would also ask you to note the statements in respect of COVID-19 which indicates that the potential impacts of the COVID-19 crisis cannot be accurately assessed at this stage given the uncertainty related to the magnitude and duration of the pandemic and the possible effect of future governmental actions and/or legal developments.

Before starting our Q&A session, I would like to hand over to Ian Kelly, CFO of SCOR.

Ian Kelly {BIO 19976646 <GO>}

Thank you, Olivier, and welcome to the call everybody. Let's go to slide 4 of the presentation. The reinsurance industry in general and SCOR, in particular, have not been spared by the dramatic consequences of COVID-19, which started to wreak havoc upon world over a year ago. This pandemic has impacted societies and economies on a global basis as never before. Pandemic risk is obviously well known to reinsurers, infectious diseases figure prominently in the risk maps SCOR draws up each year.

The study and modeling of risk was an integral part of our risk management when COVID-19 struck. With hindsight, we underestimated the truly global reach of such a phenomenon as well as the critical impact of the various unmodelable decisions taken by governments to contain the spread of the virus, which ultimately had a major impact on the reinsurance industry's exposure to this crisis.

The measures taken to contain COVID-19, particularly lockdowns have affected all areas of economic and social life. This has become a multi-faceted crisis, health-related, social, economic, financial, and even geopolitical. It has therefore impacted reinsurers in terms of both assets and liabilities on both the Life and the P&C sides.

The Group has successfully passed this real-life stress test by absorbing this major shock. SCOR ended 2020 profitably with a net income of EUR234 million and solvently. SCOR's solvency ratio at the end of 2020 which takes into account the projected future COVID-19 claims remains very strong, standing at 220%. This is at the upper end of the Group's optimal solvency range.

Furthermore, the Group maintains a very strong level of liquidity standing at almost EUR2 billion and the four major rating agencies have affirmed the Group's financial rating at a level of AA minus. If we look at the three business engines in more detail, on the P&C side, the growth was maintained despite contraction in some lines of business such as marine or aviation due to the slowdown of the wider economy. The technical profitability is strong with a normalized combined ratio in line with Quantum Leap assumptions. In addition, we had a strong start to this year with excellent renewals delivered in favorable market conditions. On the Life side, the growth was driven by continuous strategic expansion in Asian markets and we delivered robust technical results to absorb the ongoing impact of the active phase of COVID-19.

Finally, on the Investment side we maintained our prudent portfolio positioning and delivered a strong return on invested assets despite the low yield environment. The COVID-19 pandemic has been like an enormous tax on the industry and on the SCOR Group. Of course, this has impacted our financials, but the underlying business model remains sound. The Groups fundamentals are very strong as demonstrated firstly by the excellent results we would have recorded in the absence of COVID-19 which cost the Group EUR640 million before tax in 2020 and secondly, by the level of solvency achieved at the end of December.

Let's move to slide 5, throughout 2020 SCOR's teams were fully mobilized to continue to actively implement our strategic plan, Quantum Leap, focused on the two-fold targets of profitability and solvency and accelerating our use of new technologies while continuing our actions in terms of sustainable development and social responsibility.

SCOR accelerates its technical -- technological transformation to improve its performance and create long-term value. SCOR delivered several ambitious digital projects in 2020, notably with the integration of CyberCube's risk model on the P&C side to boost our cyber exposure management capabilities. The development of hELIOS on the Life side, providing an accurate knowledge of risks stemming from our in-force portfolio and the deployment of more than 60 automated robotic processes into the organization.

The deployment of the IFRS 17 and IFRS 9 programs is also on track. SCOR is actively preparing for the implementation of these new accounting frameworks with a go live on January 1, 2022 for IFRS 9 and January 1, 2023 for IFRS 17.

Let's move on to slide 6. SCOR continues its progress towards sustainability and strictly adheres to the best practice corporate governance rules. In 2020, SCOR actively integrated ESG considerations across all its operations. On the environmental side, SCOR published its inaugural Climate Report based on the TCFD recommendations and joined the Net-Zero Asset Owner Alliance. On the Social side, upon the proposal from management, the Board of Directors has decided to set a target of 20% of women at the Executive Committee in 2021 and 30% by the end of 2025 that's from 10% today.

The Board has also decided to set an additional target of 27% women amongst the most senior partners by the end of 2025, from 19% today. Finally, on the Governance side, as part of the succession plan announced in December 2020 and upon the nomination committee's recommendation, The Board of Directors has decided to separate the roles of Chairman and CEO. This separation will come into effect following the General Meeting in the spring of 2022.

I'm now moving to slide 7. The COVID-19 pandemic is still ongoing and continues to present significant uncertainties for 2021. On the Life side, there are uncertainties around mortality development with the appearance of virus variants, the level of respective containment measures and the rollout of vaccinations particularly in the US. There are also uncertainties around the impacts of prolonged lockdown measures on P&C claims.

Finally, there are some macro-uncertainties around the continued central banks emergency measures to support economies and the timing to end whatever it takes policies. Inflationary pressures, even transitory, may create a new dynamic for the reflation trade in the market. Even though uncertainty remains, SCOR estimates COVID-19 claims to be manageable. As I've said at the outset, SCOR has passed this stress test and absorbed the impact of the pandemic.

Let's go to slide 8. With the Group's very strong capital position and in line with our capital management process and dividend policy, an attractive cash dividend of EUR1.8 per share for the fiscal year 2020 will be proposed at the Annual General Meeting. Moving on to slide 9, we have many reasons to be optimistic about the industry's prospects. We believe that COVID-19 is helping to create the conditions for stronger reinsurance growth along with a positive pricing dynamic. COVID-19 is driving a general increase in risk aversion, which in turn is driving higher demand for risk coverage throughout the world.

On the P&C side, COVID-19 reinforces the general market hardening observed across all lines, and all regions with the low yield environment an additional catalyst. SCOR took full advantage of these favorable conditions and full advantage of the depth of its franchise to produce an excellent outcome in the January 2021 renewals. COVID-19 is also creating the conditions for a transformation of Life reinsurance based not only on higher awareness of the importance of Life & Health coverage, but also upon the acceleration of its use of new technologies from underwriting to claims management.

Let's go to slide 10. SCOR is well placed in this beneficial reinsurance industry environment and will continue to scale its global platform and expertise to seize profitable market opportunities, leveraging its strong Tier 1 credentials. We expect that these positive trends will translate into a P&C combined ratio trending towards 95% and below. A Life Technical margin anticipated to return to the Quantum Leap assumption range of 7.2% to 7.4% by Q4 2021 and a return on invested assets of 2.4% to 2.9% on average across Quantum Leap.

Let's now just take one minute to go through the detailed financials for the year. I'm on slide 12 of the presentation. The Group delivered solid financial results with a net income for the year of EUR234 million despite the impact of COVID-19 pandemic, which before tax amounted to EUR284 million on the P&C side, and EUR314 million on the Life side.

In addition, we also had to face a series of natural catastrophes and the continued pressure of the very low yield environment. In this context, SCOR wrote close to EUR16.4 billion of gross written premiums during the year. That's a 1.8% increase at constant exchange rates over 2019. SCOR Global P&C grew at 2.4% at constant FX, excluding the negative impact of COVID-19 on gross written premiums, growth would stand at 5.6% at constant FX in line with Quantum Leap assumptions. At SCOR Global Life, the growth stood at 1.4% at constant FX. The volume increase was driven by continued strategic franchise developments in the Asian markets and achieved, despite COVID related delays, in completing some large transactions. Excluding market exits targeted on the Quantum Leap, the growth would have stood at 3.9% of constant FX. In spite of the COVID-19 pandemic, SCOR delivered robust underlying technical profitability in 2020. SCOR Global P&C had a net combined ratio just above 100% that includes an impact of

4.7 percentage points related to COVID-19 and a natural catastrophe ratio of 6.8%, slightly below the budget of 7%.

Overall, the normalized net combined ratio for natural catastrophe and COVID-19 related claims stood at 95.7%, absolutely in line with the Quantum Leap assumptions. SCOR Global Life maintains a robust performance in 2020, while absorbing the shock of COVID-19 demonstrating the resilience of its business model. The Life Technical margin stands at 5.8% in 2020. The COVID-19 impact of 3.7 percentage points of technical margin is largely limited to the US market and was offset by an active portfolio management and a strong reserving position and with a positive impact from reduced flu claims in the US.

Overall, COVID-19 claims for 2020 have been in line with expectations. Going forward, the COVID-19 claims are projected to remain at elevated levels in the first half of 2021, reducing by the end of the third quarter. Including COVID-19 projected claims, the technical margin for 2021 is projected at around 5% and the technical margin is anticipated, as I said, to return to the Quantum Leap assumptions range by Q4 of this year.

In spite of the very low yield environment, SCOR Global Investments delivered a strong return on invested assets of 2.8%, thanks to its prudent portfolio positioning. Realized gains stood at EUR197 million over the year mainly coming from the fixed income and real estate portfolios.

Impairments remain limited, demonstrating the portfolio's resilience. Based on the current portfolio positioning and under the current market environment, SCOR Global Investments is expected to deliver a return on invested assets in the range of 1.8% to 2.3% for 2021. Overall the Group net income for 2020 of EUR234 million translates into a return on equity of 3.8%. Normalized for the impact of COVID-19 and natural catastrophes, the return on equity would have student at around 10.6%, above our Quantum Leap profitability target of 800 bps above the five-year risk-free rates. If we briefly move to slide 14, we can see the solvency position of the group is very strong, as we noted earlier, at 220% at the year-end. This is at the upper end of the optimal range of our solvency scale and already takes into account the proposed dividend and the projected future COVID-19 claims.

Finally, on slide 16, we can see that the Group has generated strong operating cash flows of just under EUR1 billion during the year and the liquidity of the group is very strong, standing at EUR2 billion. So overall, we are very happy with the results, the Group is in a strong position.

And with that I will hand back to Olivier for the Q&A session. Thank you.

Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much Ian. On page 22, you will find the forthcoming schedule event. With that, we can move to the Q&A session. Please limit yourself to two questions each. Thank you.

Questions And Answers

Operator

Thank you sir. (Operator Instructions). Our first question from Kamran Hossain with RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay. Afternoon, so two questions on Life. First on the Life technical margin guidance for 2021, I'm just looking at the number, I'm just trying to square the 5% guidance that you've given for the year, which is lower than Q4 standalone, which was a bad quarter. How should we think about that? Is it or you're implying that both Q1, which we know it looks bad but also Q2 be very severe in the coming months. I mean, it suggests that would be as severe as Q2 '20 which was clearly another that very bad quarter. So just getting a little bit more color and understanding around that.

And then the second question on Life is, to what extent have Life claims still being coming in below your expectations. You talked about this in Q3, them coming in about a third lower than you had expected. And if this is the case, when will this be recognized or seen in the IFRS numbers? Thank you.

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

Yeah, this is Paolo. Kamran, thank you for the questions. Just -- let me just quickly go through the second question quickly as this is just more straightforward, just to give you a quick breakdown of the COVID bookings at Q4, I think that would answer the questions. At Q4 for the US, we booked EUR283 million for the US portfolio, that was a EUR50 million increase to where we were at Q3 year-to-date at EUR233 million, and if you look through the breakdown of that, we had about EUR105 million booked in relation to COVID death in Q4, like some adjustments for the flu there was reduced over the winter, but then we had the EUR42 million release of the COVID-19 provision booked earlier in the year to reflect the relatively lighter claim experience that we've seen at the beginning of the pandemic. So that amount has already been released into Q4.

Going back to your first question, I think first of all, as we look at 2021, we see a strong underlying performance of the business and ex-COVID we see the business performing at/or slightly above our Quantum Leap assumption of 7.2% to 7.4%. And as you -- as we communicated throughout the last few years, we're constantly working globally with our clients and retro partners on treaties that are not performing as expected to optimize structures and as part of our global in-force management, we are regularly reviewing the portfolio and take actions where appropriate. Now, during 2020, some of these actions have resulted in kind of like larger than average P&L impacts, which contributed to the higher technical margin ex-COVID. In 2021, we will continue our strategy of optimizing globally our in-force portfolio, but we, at this point, we feel we're going to be back more at normal levels in a sense and I will also have to mention that going into 2021, we have a lot of moving parts. So, the assumptions of around 5% is what we feel comfortable at this point, but this is kind of all as we move through the year.

Q - Kamran Hossain {BIO 17666412 <GO>}

Well thanks, Paolo.

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

Did that address your question Kamran?

Q - Kamran Hossain {BIO 17666412 <GO>}

Yeah. Also like (inaudible) once probably asked when we see what your experience is like in the coming quarters (inaudible).

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

Yeah.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Next question please.

Operator

Our next question comes from Vikram Gandhi with Societe General. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, good afternoon, it's Vikram from Societe General. Just a couple of questions from my side. Firstly, going back to Life and Health, I see the Group is assuming about 280,000 excess deaths in the US, however, the corresponding claims figure projected in the solvency to ratio is missing. So can you please help us with that number and related to that the reduction in guidance for Life Technical margin to 5%, I wonder how should we think about the underlying reserve margin of (inaudible) that can absorb the COVID-19 shock, so any comments there would be really helpful.

The second question was really simple one on the tax rate. I see it's coming in still quite a bit higher. So when is it that we should expect a run rate close to the 23% or thereabouts that the Group has guided to in the past? Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Paolo and Denis.

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

Yeah, on the solvency 2 numbers that you see on the projections on the presentation that includes the full load of the 280,000 impact. So our solvency 2 numbers now reflect full ultimate expectations of COVID. In terms of the 5% in the margin. I think we, as you well know, our overall reserves continue to have a very significant margin of prudence. I think at the time of our US acquisition in '11 and '13, we did a resetting of the actuarial assumption. So building an adequate level of prudence in our reserves across our US book and this allows us to withstand a certain amount of deviation. So that's something that we continue to evaluate and we will continue to evaluate as we go through 2021.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Paolo. Ian, on the tax rate?

A - Ian Kelly {BIO 19976646 <GO>}

Yeah, just to -- before I go on to the tax, Vikram, just to add to Paolo's response, the COVID-19 solvency ratio -- the solvency ratio includes the COVID-19 impact going forward and the 280,000 deaths. Just to help, think about how this has moved, just so that it's a bit clearer. In the solvency II walk, on slide 14, you can see that the eligible own fund impact of COVID-19 is around EUR615 million and so that includes -- that's a pre-tax figure. So, that's about EUR800 million on a pre-tax basis. Sorry, that's it's -- now that's split between Life and P&C and if we take out the known impacts as at the end of 2020, so the EUR314 million on Life and the EUR284 million on P&C, you're left with around EUR200 million impact in 2021. So that's where the figure comes from and it's largely on the Life side, there are some impacts on P&C, but just to help you think about it, on the 280,000 deaths, we did disclose the sensitivities there for each 10,000 deaths, it's about a EUR7.5 million impact. So that, sort of, broadly gets you thinking around the EUR200 million number and if you take the 5% technical margin guidance for 2021, that brings you back to round about EUR200 million impact, if you work through the numbers. So that's how to think about and reconcile the 2021 impact on the Life side. As I said, there are a few ups and downs, there is something in the solvency 2 side on the P&C side as well but it's largely that Life number, okay.

Q - Vikram Gandhi {BIO 18019785 <GO>}

That's very helpful.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. Then on to the tax on figure. Yeah, it is slightly elevated for the year. Really this is a bit of a mechanical impact that stems from the fact that the net income is lower, yet we do have some frictional beat and that is a cost in the year and relatively with lower income that has a larger impact. The underlying geographic rate mix is in our Quantum Leap range within the assumption and we continue to look at ways to optimize that beat frictional cost and we have some work ongoing upon them.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, thank you very much.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you Vikram. Next question please.

Operator

Our next question comes from Andrew Ritchie from Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. A quick one. First of all, on the solvency II walk capital generation, I think the assumptions or zero assumptions/experience variance ex-COVID of zero for the full year, they were positive at the half year. So, these implied second half negative assumption change in solvency II ex-COVID what was that. Second question, I'm sorry to get back on this, I'm just concerned on the tech thing, the change of confidence/tone in the underlying Life business because essentially the guidance now is it just a straight pass through of the COVID losses as per the sensitivities you've told us before. So nothing at all from in-force management, the implication being you exhausted that -- those options in 2020 to defend the profitability. I'm just -- I'm just puzzled as to why there is a sudden change on that or is it just excessive conservatism? Thanks.

A - Olivier Armengaud {BIO 20892984 <GO>}

Frieder, on the first question.

A - Frieder Knupling {BIO 17247809 <GO>}

Yeah, hello everyone. So, at the half year, we had overall variances of 73. Now, we have 10 for the full year, so a slight negative variance in the second half of the year. That's the result of regular assumption reviews which we do on an annual basis which leads to strengthening in some areas and then release of prudence and other areas plus claims and persistency variances. So, there is not a single driver for this, but overall the impact is small and with an overall variance close to zero, we feel that our models are well calibrated.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you Frieder. Paolo on the second question?

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

Yeah, Andrew, the updated assumption that we have on the technical margin for 2021 is driven entirely by the worsening of the pandemic versus the projections we had in September last year. So back at the IR Day, we gave you an assumption for 2021 for Life Technical margin of between 6.5% and 7%. This was based on the epidemiological view at that point where we were projecting around 70,000 US COVID-19 reported deaths for the US for 2021. Now the pandemic has developed worse than anyone projected at that point and we are currently projecting 280,000, that's 210,000 deaths higher than we were projecting in September. So, as Ian said before in terms of how to look through the impact, we are reiterating the much reduced impact of the pandemic is I think in our reinsured population compared to the general population with an indication of EUR7 million to EUR8 million additional claim cost for an additional 10,000 deaths in the general population.

So, using the mid range of -- the mid of this range and using our 2020 earned premiums as a reference, we have an impact of around 90 basis points of the technical margin for each 100,000 additional deaths. So, the updated assumption is driven by the worsening of the pandemic and nothing else, the underlying or less pretty much unaltered compared to the guidance that we had back in September. And as I said, some of the actions we took in 2020 had larger than average P&L impact, we cannot only always forecast precisely the impact of our in-force management programs and the 5% is what we feel comfortable right now with what we have in the pipeline that might change and improve over 2021.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, thanks.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Andrew. Next question please.

Operator

And our next question comes Emmanuel (inaudible) from Morgan Stanley. Please go ahead.

Q - Emmanuel {BIO 16323493 <GO>}

Hello. Hi, thanks for taking my question. So, I have a first question on the dividend, you announced the proposed dividend of EUR1.0 per share today. So, if you could please give us an update of where the regulator is on this matter. And then another one, again on the Life business, the technical margin excluding COVID-19 it would be 9.5%. So is this purely driven by a number of one-offs, such as lower flu impact due to more people staying at home and so on, or perhaps there is more -- there is some positive component that should be considered as a recurring element. I'm just trying to understand whether there may be some tailwind or change for you to deliver at the top end of the target range for example, if you can please give a little bit more color on this.

A - Olivier Armengaud {BIO 20892984 <GO>}

Ian, maybe on dividend?

A - Ian Kelly {BIO 19976646 <GO>}

Yeah, sure. So, thanks Emmanuel [ph] and as I said earlier, we're very happy with the position the Group is in, we're in good shape and we are happy with the dividend. We have the capital for this, we have the liquidity for this and that's been the basis of the discussions with the regulator also and beyond that, in fact, as with all companies, they requested information in respect to certain stress scenario were they to occur and even under the most extreme stresses, that they were asking about we stand within the optimal solvency range. So we're in a very, very strong place there and we're perfectly comfortable and happy. So that's the position with the regulator.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you Ian. Paolo on the Life technical margin?

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

Yeah, I think we're back to a similar point that I just made answering Andrew's question. If you take our performance, we had the overall underlying performance. We're very comfortable with where that is. We feel the underlying fundamentals of the business are very strong and are leading us to comfortably achieve the Quantum Leap assumptions that we laid out and on the other side, we're constantly working with our clients and retro partners on treaties that are not performing as expected to optimize structures and as part of our global work on in-force management, we are regularly reviewing the portfolio and take actions where appropriate. So during 2020, consistent with prior quarters, we took steps to increase premium rates on certain underperforming US contracts and these actions are similar to what we have done in the past. The P&L impact and solvency ratio impact for each action depend on the contract terms, the mixture of business covered in each contract, the claim experience in the contracts and other factors. And some of the actions taken in 2020 had larger than average P&L impacts, which contributed to the higher technical margin ex-COVID. In 2020, we will continue our strategy on optimizing our in-force portfolio globally. And at this point again we will be having the pipeline that's where we get to the 5% -- the 5% technical margin assumption that can evolve over time and as we go through the quarters in 2021, we'll keep you updated.

Q - Emmanuel {BIO 16323493 <GO>}

Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you Emmanuel [ph]. Next question please.

Operator

Our next question comes from Paris Hadjiantonis from Exane BNP Paribas. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes, hi everyone from my side as well. I hope you're doing well. First question on the diversification benefit for Solvency II. This has gone up both year-on-year and since the half-year stage. So, I was wondering if you can explain basically the main drivers of why the diversification benefit is up to about 53% now. The second question is on the management expense ratio. It is down meaningfully, year-on-year and I assume this is partly down to COVID. Now going forward, should we expect this to go back up to about 7% or are some of those expense savings going to be permanent? Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Frieder on the diversification?

A - Frieder Knupling {BIO 17247809 <GO>}

Yeah. Thank you. The diversification benefit tends to be higher -- the higher the better balanced the underlying main risks and in particular the more or less independent risk categories. So our capital requirements are mainly driven by Life and P&C underwriting risks and then to a lesser extent by market and credit risks. What happened in the second half of 2020 was that -- first of all we've grown our P&C business more quickly, in particular, at the 1/1 renewals and the SCR reflects the upcoming 12 months, including the 1/1 renewals and expected further renewals later in 2021. So the P&C risk contribution has gone up little bit and the balance between Life and P&C is now almost perfect. And then secondly, market risks have increased a little bit in line with the de-risking of our investment portfolio and also financial market movements, so the balance of our underlying risk profile has further improved and this has led to a further improvement in the diversification benefit as you rightly mentioned.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you Frieder. Jean-Paul on the expense ratio?

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Yes, hello. Regarding management expenses, as you've seen the (inaudible) being lower than our Quantum Leap assumption that's the result of several factors. One of them obviously lower travel expenses in the COVID context and also another one is lower variable compensation. As you know, we have a compensation policy that is designed to ensure alignment with shareholders. And so the lower RE has resulted in lower variable compensation. So, going forward, we believe that the assumption that we have set as part of Quantum Leap still corresponds to the right level we want to continue to invest in the business. Ian mentioned some of the developments that we've made in technology. So, we think that's the right ballpark. However, of course, there are certain items that we will continue to benefit, we are going to draw the lessons of what we've experienced in terms of operations and for instance, we don't anticipate to revert to travel levels as we saw before COVID-19. So, here there would be an element of permanent savings going forward.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you and next question please.

Operator

Our next question comes from James Shuck from Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi, thank you. Good afternoon and good morning everybody. So my first question, I just want to clarify what you said about investment return. I think you said 1.8 to 2.3 in 2021, I presume the comparison is the 2.8 in 2020 and I just want to square that with the Quantum Leap guidance which is 2.4 to 2.9. I think you feel there's plenty of questions on the investment yield recently and to lower that number by so much just for one year ahead seems somewhat strange but perhaps I might have misunderstood something on that. And secondly, just in terms of the SCR, I think you partly answered the question with the diversification benefit, but there is no increase in SCR and despite the very strong growth that you're showing at the renewals and I look at your solvency position that you are at the top end of that range. So it still seems a very odd decision to me not to revisit the 2019 dividend. I appreciate, is this game over, if you like, but perhaps you could just flush out a little bit the decision not to revisit that dividend. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Francois, on the investment returns.

A - Francois de Varenne {BIO 7447858 <GO>}

So, on the investment returns, so you're right. So the assumption of (inaudible) is return on invested assets between 2.4 and 2.9 over the strategic plan and we maintain this assumption today. For 2021, my expectation is a return on invested assets between 1.8% and 2.3% and as you said, this has to be compared to the 2.8 delivered in 2020.

Having said this, I must recognize that this range has been computed with in a prudent way with forward rates at the end of December 2020 and what we are seeing today and what we are playing through the fixed income portfolio and that's why you saw significant capital gain that we took at the end of December last year, we do believe today that there is a higher probability for US interest rate to rise a little bit with the next few months in, given inflationary pressure and even transitory that could create a new dynamic for refresh and trade in the market.

So, we believe that there could be upside in our range as given today, given what we see in the market today and again compared to today, and the beginning of the year, the 10-year US rate has increased by almost satisfy 35 to 45 basis point already. (Multiple Speakers) significant liquidity in the portfolio to capture this upside.

Q - James Shuck {BIO 3680082 <GO>}

In terms of the Quantum Leap target which you're saying you're sticking to that forward 2.4 to 3.9 is that basically...

A - Francois de Varenne {BIO 7447858 <GO>}

That's the strategic plan. Yes.

Q - James Shuck {BIO 3680082 <GO>}

Yeah, but you're essentially assuming that the forward rates will improve?

A - Francois de Varenne {BIO 7447858 <GO>}

Yeah, which is not embedded in the guidance I gave you, the 1.8% to 2.3%.

Q - James Shuck {BIO 3680082 <GO>}

Yeah. Yeah. Okay, thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you Francois. On the second question, Frieder.

A - Frieder Knupling {BIO 17247809 <GO>}

Yeah, thank you. Maybe on the SCR development during the year, the one point which is noteworthy is the slight reduction in the SCR in the operating impacts by EUR36 million that is driven by the fact that despite the strong growth in the portfolio as you rightly pointed out, the SCR benefits from the improved profitability, in particular the hardening market on the P&C side, this is both reflected in the SCR movement in this step. So, the fact that we have now renewed business in a much harder market and improved -- expect these conditions to remain in place for the remainder of 2021 is keeping the SCR growth quite muted despite the strong growth of the underlying volume. So, this is a specific effect, which we are witnessing as we are moving from a softer into a much harder markets, that's particular movement. I think the other movements are probably more in line with what you would have expected. On the dividend question, maybe hand over to Ian.

A - Ian Kelly {BIO 19976646 <GO>}

Yeah, sure, thanks Frieder. Look, on the dividend, the 2019 dividend we talked about that before, that's gone, that was at the strong recommendation of the regulator. So, we've moved on from that. I think what's key is our capital management policy remains consistent and that's important with capital management and the policy is unchanged, we look at our solvency and that's very strong. We look at capital for accretive growth. We know that there is -- we're in a very positive environment with the P&C hardening market and then we look at our regular dividend. So that's how we've approached the dividend this year. The underlying earnings are good, we've got strong fundamentals and as a result, that's how we approached things and the Board have decided obviously last year, that was gone and we decided this year on this basis. So that's where we stand.

Q - James Shuck {BIO 3680082 <GO>}

Okay, thank you very much.

A - Olivier Armengaud {BIO 20892984 <GO>}

Next question please.

Operator

Our next question comes from Vinit Malhotra of Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. Thank you very much. Many of my questions have been addressed. Thank you for that. Just if I can ask still on just the solvency situation and capital management, which Ian which you just alluded to. So, if you could just guide a bit what should be kind of the organic operating capital generation, because obviously it's been 18% to 20% even 30% in 2019. But just a guide on where -- what is that number likely to be to think of future solvency projection and then in the same vein, if I can ask what if we also consider that you are at the top end of the solvency now, at the optimal range and then this could only add as another year to progress, and then you'll have the solvency II review as well. So there's going to be a fair bit of capital excess maybe over the optimal range. If you could just comment on your thoughts around how you intend to use that additional -- and you mentioned P&C growth picture. Any more color would be very helpful.

And second question was more on P&C growth, which I understand the target for '21 are being reiterated, but just the fourth quarter was a bit less encouraging on that because you saw 1% odd growth versus 6.5% fixed FX in 3Q, but just, is it one-off, is it just something to note that would be very helpful. And if I could just clarify a little big with investment, the re-investment yield 1.2% despite already in fourth quarter pickup in US (inaudible) probably going to the corporates expense, but is this is likely to improve already by now or will that also help beating the 2.3% you just mentioned. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Vinit. First question for Frieder, the operating capital generation.

A - Frieder Knupling {BIO 17247809 <GO>}

So, Vinit. We need generated about EUR800 million to EUR1 billion of operating capital over the past three years per year. The SCR growth was relatively low and what I just mentioned, helped to keep the SCR growth relatively minor and we had similar effects in previous years, also the improvement in diversification. So, I'd say the SCR growth on a recurring basis would be expected to be positive as we are growing the business. Maybe not growing as fast as the business volume itself as long as we manage to capture profitable growth opportunities and manage diversification. But it should at least grow somewhat. Operating capital, I think is in a good spot. We've been able to generate a bit more in previous years and that's going to be a function in the future already of our new business generation capabilities so far. Our VNB growth is in line with Quantum Leap, and now we are seeing good growth prospects in particular on the P&C side than claims variances, of course where it will also play a role. So yeah, I hope that gives you a bit of an idea of where this might be trending. Maybe Ian, if you want to pick up on the link to capital management.

A - Ian Kelly {BIO 19976646 <GO>}

Yes, sure, thanks Frieder. I'll just go back to what I said before in respect of the unchanged policy, we start with the solvency of the Group and we run -- that's how we run the Group, it's run on the Group internal model and we consider out of that where we stand, how much capital we have for accretive growth and how we balance that with the expectations of shareholders in terms of return, with the regular dividend. So, yeah I don't think we are in a position in terms of excess capital return, I wouldn't expect share buybacks at this stage because we see very positive opportunities in the market, in particular on the P&C side as we discussed and you've seen the strength of the 1/1 renewals.

A - Olivier Armengaud {BIO 20892984 <GO>}

Okay, thank you Ian and Frieder. Jean-Paul may be on the P&C gross question?

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Yes. Thank you, Olivier. On the, on the premium side, in Q4, as you said, the growth was more muted than prior quarters. It's been mainly a driver of the underwriting year 2020, we're in Q4, the contribution from prior underwriting years was smaller than in prior quarters and we've had growth -- strong growth in Specialty Insurance, but the P&C reinsurance was really the one that was more muted this quarter. We expect in Q1, the contribution of underwriting year 2020 to start shortly and to be back on the growth path in 2021.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Jean-Paul. Francois on the investment rate.

A - Francois de Varenne {BIO 7447858 <GO>}

So on the reinvestment rate. So that's for the reinvestment rate and I remind the definition of the reinvestment rate that's the market yield of the portfolio in the last day of the quarter, given asset allocation. So, 1.2 reflects market condition, the last day of December given asset allocation. So, in practice, it means that it doesn't take into account the increase of interest rate that we saw since the beginning of the year, and I'm convinced that will continue a little bit. Just to give you a sense of the sensitivity of this high reinvestment rate, it was 1.4 at the end of Q3, 1.2 at the end of Q4.

And that's mostly explained by the credit spread tightening during the last quarter and not by the interest rate. So you see that we have (inaudible) to improve this, thanks to the increase of interest rate. And keep in mind that 49% of our portfolio is denominated in US dollar, so that's where we have the bulk of our investment portfolio.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you Francois. Next question please.

Operator

And our next question comes from Will (inaudible) with UBS. Please go ahead.

Q - Unidentified Participant

Hey, afternoon guys. Just on that investment return discussion I'm not sure if I may have missed it, did you provide what the reinvestment rate would be as of now in light of the pick up or not. And I guess in that respect, would you be willing to be picking up some more longer-dated bonds given what we're seeing on the pickup in significant as you extend the duration and think about the solvency perspective would that narrow any mismatch that you have. So actually helping or any color on thinking on that would help.

And then on P&C, I think this is one of the first twenty questions, but the wording is pretty -- it's trending towards 95% and below. I guess just trying to get a bit more clarification thinking about further -- if we're thinking about 2021 in totality, or is that really thinking about by Q4, you'll be expecting to be below, leaving the full year a bit more opaque and thinking what is the COVID assumption implied in there, it sounds like there is a COVID assumption from the solvency discussion.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you Will. Francois on investment strategy.

A - Francois de Varenne {BIO 7447858 <GO>}

On the investment strategy, so as I mentioned, we are playing a little bit the inflation trade on the market. So we are still maintaining relatively short duration of the fixed income portfolio and as you see a significant amount of liquidity, nine points of liquidity in the portfolio at the end of the year and that's where we are today. The day we will start to redeploy this cash within the fixed income portfolio, again that's mostly in dollar and we will target 10-year maturities on corporate bonds mostly investment grade and excluding sectors affected by the COVID-19 pandemic. So, remaining prudent our entry point on the market could be US treasury rate between 1.5% and 1.7% and we are 1.35 today.

A - Frieder Knupling {BIO 17247809 <GO>}

And maybe just to add to this on the ALM question you asked our mismatch currently is quite -- duration mismatch is quite small and it's mainly driven by the outsized risk margin on the solvency II basis and we've got a clear position that this is exaggerated and should be reduced and fortunately (inaudible) now also recommending the same that the risk margin should be reduced.

So we are not worried about the remaining mismatch we have, the sensitivity of our solvency position to interest rate movements is mainly driven by the interest rate sensitivity of our capital requirements. The SCR in the denominator of the solvency ratio, that is something which is a nature of our business and mainly driven by the long-term lines of business and particularly long term mortality business and then to a lesser extent P&C long tail lines.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you Frieder. Jean-Paul on the P&C combined ratio.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Yes, Olivier, thank you. So, first on the COVID question, let me clarify that the increase in the IFRS accounts for COVID are mainly due to the earning patterns of the premium of the underlying lines of business. So, the increase is not reflected necessarily on the same increase in ultimate Today, at the end of Q4, the difference between our ultimate view that's included in the solvency II calculation and the IFRS number is roughly EUR20 million. So we would expect those EUR20 millions to continue to earn through 2021 and on those figures are our ultimate view of COVID, so there is no assumption of further claims based on the information we have today. In terms of the combined ratio overall, we see an improvement of technical possibility of a business in 2020 and 2021 and these will earn over the coming quarters. Our approach is always to have a prudent reserving policy, tend to recognize bad news right away and wait for good news to be confirmed. So, regarding your question as to when we start seeing the normalized combined ratio being below 95, it's difficult to say, but I'd say over the second half of 2021 and 2022 is the expectation.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you Jean-Paul. Next question please.

Operator

Our next question comes from Thomas Fossard with HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon. Just one question left on my side and would be for Paolo. Paolo, if you could comment on what kind of top line growth you're expecting for 2021? Thank you.

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

Yeah, we are expecting overall premiums to be just slightly up but not much with respect to relatively flat 2021 to where we are in 2020 given the disruptions at some of our clients side, we believe that will be a good assumption right now.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. And if I may regarding offsetting parameters to higher mortality in the US, so the way we have to understand it is I guess that you're still relatively cautious on positive coming from the in-force management as you said before. Regarding the flu season being very, very small, I mean insignificant so far, in the past I think that you said that it was taking almost two quarters to recognize the effect of benign flu season. So, more likely to be a positive on your H2 number than H1. So, could you say if also the 5% technical margin is not expecting any positives from flu season this year again. Thank you.

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

We did recognize some flu season upside in Q4 as a reduction of our -- the reserves that we carry for that and we have that included in the 5%, it is not a large amount, it is roughly about $20 million into Q1 and Q2.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Paolo. Next question please.

Operator

Our next question comes from Michael Hayes [ph] with Commerce[ph] Bank.. Please go ahead.

Q - Michael Hayes {BIO 15069818 <GO>}

Thank you very much. Good afternoon. Two questions on Global P&C on the combined ratio you normalized the combined ratio for Nat Cat and you normalize it for COVID-19 but not for a large man-made losses, to my understanding that you had a number of elevated man-made losses in your book last year, one of which, for instance, was Beirut. So I wonder how you look at this a large man-made losses, would you say that the large man-made loss experience in 2020 was above expectations or above your budget and by how much should we -- maybe adjust the normalized combined ratio if you're going to address that.

Second question also on Global P&C, the commission ratio in Quantum Leap you defined a target commission ratio of 24.5% to 25.5% now in both in 2020 and in 2019, you were at 24% clearly better, is this figure also a figure which we should expect going forward.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Laurent...

A - Laurent Rousseau {BIO 19524847 <GO>}

Sure. So on the man-made and the large man-made. So you're right, we do not have a normalization factor for man-made and refused to do so. Nonetheless, of course we monitor it very precisely. We have a number of times communicated on an experience on our large man-made which is actually pretty close to the Nat Cat load of 7%. This is based on a pretty long time period and in this respect, 2020 was actually not different from the average from the experience that we have.

It is actually slightly better than 2019, which was marginally higher than 2020 for the large man-made, maybe one small difference for 2020 you mentioned Beirut. There was another large claim in Japan. Those man-made were actually more for our treaty business in for our single risk business. Our single risk business witnessed an increasing number of smaller claims, but for the very large ones like the one you've mentioned actually they were more on our treaty side, but fundamentally there is no change in pattern or surprise from our man-made load in 2020.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Thank you, this is Jean-Paul. Maybe I'll pick up the commission ratio question the -- you're right in that the assumption is 24.5% to 25.5%, I think the better than expected results we have in 2020, is due to the management actions we're taking in underwriting year 2020 and we expect this to also be reflected in 2021as we continue to put pressure on the reinsurance terms and conditions for proportional and try as well to grow a non-proportional part of the book. So, we would expect the numbers we have in 2020 to be probably more reflect than what we expect in 2021, slightly below the original Quantum Leap target.

Q - Michael Hayes {BIO 15069818 <GO>}

Thank you very much.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Jean-Paul. Next question please.

Operator

And our next question comes from become Vikram Gandhi with Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello, hi. Thank you. Just a couple of quick follow-ups. One is for Jean-Paul. Just a clarification, in answer to one of the questions, you mentioned about the ultimate claims cost on P&C business, am I right to understand that the difference is EUR20 million versus what is booked at year-end '20, is that what you said or have I misunderstood it.

And the second question is on the IOPA review of Solvency II and the figure that was flagged at the Investors Day last year was about 20 percentage point uplift in solvency II ratio. So any updates around that considering what you're seeing at the moment?

A - Olivier Armengaud {BIO 20892984 <GO>}

Jean-Paul on the last question.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Yeah. Thank you. So on COVID, you're right, So, the ultimate for (inaudible) business where the premium of the business has not earned through yet, that's mainly Credit and Surety, casualty and longer-term business. The ultimate -- the difference between what was booked in Q4 and the ultimate is roughly EUR20 million. So that will continue to earn through -- throughout 2021. On the property BI side where we've posted is really what we expect. So that's fully (inaudible).

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Jean-Paul. Frieder on the Solvency II.

A - Frieder Knupling {BIO 17247809 <GO>}

Yes. So what we published in September was an estimate of the impacts of the proposed to proposed reform of the risk margin methodology on our solvency position. What IOPA has eventually proposed in December is completely in line with what we had expected at the time. The estimate which we had made was as of Q2, 2020. So, as of that date that estimate is correct and we wouldn't change it. As of year-end 2020, US interest rates have gone up a little bit in Q4, so the risk margin has mechanically reduced, so that the consequential impact of the proposed reform of the risk margin would be a little lower one or two percentage points less, but the order of magnitude would be the same and this would be by far the biggest impact of IOPA proposal, there are some other suggestions which have a minor impact, but the risk margin proposals are by far the most important ones for us.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, very helpful. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Frieder.

Operator

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

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much for attending this conference call. The Investor Relations team remains available to pick up any further questions you might have. So please don't hesitate to give us a call. With this, I wish you a good afternoon. Thank you.

Operator

This does concludes today's call. Thank you for your participation, ladies and gentlemen, you may now disconnect.