# S1 2020 Earnings Call

## Company Participants

- Denis Kessler, Chairman of the Board of Directors & Chief Executive Officer
- Francois de Varenne, Chief Executive Officer of SCOR Global Investments & SCOR Investment Partners
- Frieder Knupling, Group Chief Risk Officer
- Ian Kelly, Head of Investor Relations
- Jean-Paul Conoscente, Chief Executive Officer of SCOR Global P&C
- Mark Kociancic, Chief Financial Officer
- Paolo De Martin, Chief Executive Officer of SCOR Global Life

## Other Participants

- Andrew Ritchie, Analyst
- Kamran Hossain, Analyst
- Paris Hadjiantonis, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst



## Presentation

### Operator

Good afternoon, ladies and gentlemen, and welcome to the SCOR Group First Half 2020 Results Conference Call. Today's call is being recorded. There will be an opportunity to ask a question after the presentation. In order to give all participants a chance to ask questions, we kindly ask you to limit the number of your questions to two.

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

### Ian Kelly {BIO 19976646 <GO>}

Good afternoon everybody, and welcome to the SCOR Group 2020 First Half Results Call. I trust everybody is keeping well. I'm joined on the call today by Denis Kessler, Chairman and CEO of the SCOR Group, and all of the Executive Committee members. Can I please ask you to consider the disclaimer on Page 2 of the presentation, which indicates that the financial results for the first half 2020 included in the presentation have been subject to the completion of a limited review by SCOR's independent auditors. I would also like to ask you to note the statement in respect of COVID-19, which indicates that the potential impact 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 effects of future governmental actions and/or legal developments.

With this, I would like to give the floor to Denis Kessler, Chairman and CEO of the SCOR Group. Over to you, Denis.



## Denis Kessler {BIO 1498477 <GO>}

Thank you very much. Ian, and welcome everybody. If we move to Slide 4. I think SCOR is demonstrating its capacity to absorb the impact of the CVOID-19 crisis both operationally and financially. As we entered the pandemic a few months ago and as we told you in the first quarter of the year, SCOR has been quite proactive in taking immediate actions to help stop the spread of the pandemic. We have been one of the first reinsurance groups around the world to say that we had entered a pandemic phase and to warn everyone about its consequence. We had adopted early and strict prevention measures proactively protect the health of our employees and we've been quite active in regularly sharing our knowledge and expertise on the pandemic. I think we are the first reinsurance company to decide a full confinement around world before any kind of public decision in this respect so it's for me, certainly a proof of capacity to understand what's going on.

Thanks to the extraordinary resilience of our operational capability, we have been able to continuously serve our clients during the crisis. And as we have progressed through the active phase of the pandemic, as you can see on the slide, we have applied moderate expertise to conduct a thorough several assessment of exposures to the health, economic, and financial impact of the COVID-19 pandemic. And the industry, as you know, was one of the first if not the first to say it was an historical shock that will have a long and very strong impact on the insurance and reinsurance industry, but also to all the industries that will definitely last longer than expected at the time. On the life side, we have developed a proprietary what we call SEIR model, which is a compartmental and epidemiologic model to support the COVID-19 scenario assessment and this model is extremely useful to estimate exposures.



It's proprietary, it has been homemade, it's really operating, and it helped us a lot in understanding the consequence of the COVID-19 crisis on life exposures around the world especially in the US. On the P&C side, we have developed a model that considers the effect of government and Central Bank measures and links them to the impact on GDP to estimate the Group credit and surety exposures, certainly what's true in what we have seen around the last two or three months. Government decisions are absolutely key to understand the spread of the pandemic. When you confine or you enforce the decisions you have decided to enforce, when you lift the decisions, and when you reinforce the decisions again, it's a key parameter to understand how the disease is going to spread and how severe it's going to be and this is true country by country. And that's what we have been able today to better assess than a few months ago.

So, there are three key points I would like to make about how SCOR as a Tier 1 reinsurer comes through this pandemic. The first key point to note is that reinsurance is not impacted in the same way as most of the businesses. I mean economy (inaudible) and look at all the other industries and try to understand how the pandemic is going impact those industries. And as you have seen and certainly you will see in the future, many industries have experienced a sharp decline in sales and cash inflows due to the lockdown and confinement measures that contracted supply and demand on a global scale. The news flow is strictly coming from the industry not insurance and reinsurance industry, but from commercial and general industries by the platform is in fact that the pandemic is contracting the sales activity, creating issues all around the value-added chains. So, this is not the case for us.

The topline is stable, it's even slightly up compared to last year. A 1% increase of the worldwide premium holds the entire Group at constant exchange rates and we continue to collect premiums from our clients and by the way, they pay those premiums and we're able to book them. As you know, the premium income for some lines of business such as marine, engineering, and airlines isn't based on economic activity, number of passengers and so on and so on. But overall, the extraordinary resilience of the Group is demonstrated by both the P&C and Life business units continuing to expand in the current crisis. The sales go on. Second key point to emphasize is that the P&C market is clearly hardening around the world. As a reinsurance business, it is a well-recognized part. Today's claims are in most cases tomorrow's premiums. As a Tier 1 reinsurer with a AA- credit rating which has been recently confirmed by Moody's, Standard & Poor's, and Fitch; SCOR is in a very strong position to benefit from this improving market environment.

The third key point as a testimony to SCOR's shock absorbing capacity is that the Group showed its equity, which accounts for the total estimated cost of the COVID-19 pandemic booked in Q2, a slightly increase since December 31, 2019, end of last year. The net book value as a Group stands above EUR34 per share. On the asset side, the unrealized gains on SCOR's investment portfolio have grown up since the beginning of the year mostly in the fixed income buckets. Where we are impacted as a reinsurer is on the liability side, that is why we're here for and so let's take a look at that and move to Slide 5. Let's look at each business unit separately. SCOR's global P&C exposure comes mainly from credit, surety, and political risk on the one side and from property business interruption on the other. The actual CVOID-19 related claims received are limited standing at a total of EUR74 million.

The Group has estimated the ultimate cost of this pandemic at EUR248 million for P&C net of retrocession and reinstatement premium and before tax. It is this estimated amount, which is mostly composed of IBNR, allowing for the future receipts of claims notified that has been fully booked in the Q2 accounts. This represents a 8.2 percentage points impact on the year-to-date combined ratio. If we move now on the Life side. The actual COVID-19 related claims received as at June 30, 2020 are limited standing at a total of EUR63 million. SCOR has estimated its exposure to the pandemic at June 30, 2020. The Group estimates the impact of the COVID-19 pandemic on its protection grew at EUR194 million net of retrocession and before tax. It is this estimated amount, I repeat EUR194 million, which allows estimate of debts incurred, but not reported that has been fully booked in the Q2 accounts.

What this means is that based on data currently available, on information received from SEDAR to-date, and the reserves that was used; the total estimated cost for the COVID-

19 pandemic booked in Q2 2020, which was EUR456 million net of retrocession, net of reinstatement premiums, and before tax. As such, COVID-19 pandemic is a fully manageable earnings event for the Group. I said it already a few weeks ago, it's an earnings event, it's not a capital event. Let's now move to Slide 6 and look at the Company's position. Solvency position of the Group on June 30, 2020 is strong at 205%, well within the optimal solvency range of 185% to 220% as defined in the last Quantum Leap strategic plan. The majority of the fall in this ratio compared to year-end 2019 has in fact nothing at all to do with the performance of the business of reinsurance. It is mainly down to macroeconomic impacts, principally the reduction of interest rates and in particular the US dollar interest rates.

These market movements account for approximately two-third of the change in the solvency ratio. The two-third allocated or imputed to macro financial and macroeconomic developments. Only one-third that you can attribute to SCOR specific development. The full estimated COVID-19 impact including claims expected to be incurred in the future accounts for 13 points of solvency. This is more than offset by the strong operating performance of the Group and so was a minor effect across H1 2020. Capital management as shown on the slide accounts for 6 percentage points of movement. It reflects the intended call in Q4 of the CHF125 million debt and it also accounts for the normal six month accrual of dividend for the 2020 fiscal year. Let's move to Slide 7. In the face of the COVID-19 pandemic, SCOR once again demonstrates both its capacity to absorb major shocks and the resilience of its business model.

SCOR has strong potential for sustained long-term value creation in an attractive industry. (inaudible) benefits from long-term growth drivers due on the first hand to the expanding risk universe as we can sequence permanent growth of the industries raw material. And on the other side, there's a progressive bridging of the protection gap in both emerging markets and more industrialized countries. Furthermore, we do expect that as a direct result of the pandemic, there will be an increase in risk aversion linked to (inaudible) driving higher demand for risk covers globally on both the Life side and the P&C side. In the P&C market, we see COVID-19 acting as an additional catalyst for the really hardening market. The firming up of the market has accelerated since the April renewals across many segments with broad improvements in terms of conditions and significant price increases including the claims free programs.

Further, the awareness of the upward trend of claims cost has increased in the market. These conditions are perfect for SCOR to benefit from its Q1 figures. The Group can see market opportunities through leveraging its global franchise, marketwide expertise, and Tier 1 rating; and through gaining operational leverage from its scalable global underwriting platform. With this positive outlook I would like to underline and to stress.

I will now hand over to Mark to take you through the H1 financials, Mark, the floor is yours.

## **Mark Kociancic** {BIO 17852409 <GO>}

Thank you, Denis, and good afternoon everyone. So, let's go to Slide 9. During the first half of 2020, SCOR successfully absorbed the impact of COVID-19 combining this with resilient growth and strong solvency. SCOR wrote EUR8.2 billion euros of gross written premium during the first half representing a 1% increase over H1 2019 at constant exchange rates or 2.3% at current exchange rates. The ability of the reinsurance sector and SCOR to maintain its topline is a real source of strength for the Group demonstrating the resilience of the business model in the current environment. After absorbing the COVID-19 impacts, the Group remains profitable and net income stands at EUR26 million, which translates into a return of just under 1%. The solvency position of the Group is strong and stands at 205% at the end of the half year, in the upper part of the optimal range of our solvency scale of 185% to 220%.

The reduction compared to the 31st of December 2019 is largely driven by market movements, as Denis explained, and the 5 points reduction since the Q1 results release can be largely explained by accounting for the planned call of the CHF125 million Swiss debt in the fourth quarter later this year. And this also includes the normal six months accrual for the dividend for fiscal year 2020. Let's look at the business unit indicators in more detail. SCOR Global P&C grew strongly at 0.9% at constant exchange rates or 2.1% at current exchange rates. The combined ratio stands at 102.3% for the first half incorporating the impact of COVID-19 at 8.2 percentage points. The business unit benefits from slightly reduced nat cat activity with a cat ratio at 5.1% for the first half of the year and an underlying combined ratio at 96% in line with the Quantum Leap assumption.

SCOR Global Life continues to successfully expand its franchise and delivered a positive set of results for the first half of 2020. SCOR Global Life gross written premiums also proved resilient to the current circumstances and were up 1% at constant exchange rates and up 2.5% at current exchange rates. The Life technical margin is at 5.4% reflecting a cost of 4.6%, COVID impact and benefits from portfolio management actions, and a strong reserving position. SCOR Global Investments pursues a prudent asset management strategy and enjoyed a strong return on invested assets of 2.6% in the first half of 2020 benefiting from real estate capital gains. So, let's move on to Slide 10. The balance sheet is another source of strength for the Group with shareholders' equity standing strong at EUR6.4 billion in the first half of 2020, even slightly up compared with the 31st of December 2019 and this is a testament to the ability of the Group to absorb the COVID-19 pandemic.

This results in a strong book value of EUR34.19 per share. Financial leverage is in a solid place and stands at 25.9%. Allowing for the debt callable in the fourth quarter of 2020, the adjusted financial leverage stands at 24.9%. On Page 11, we can see that SCOR generated strong operating cash flows in the first half standing at EUR343 million in Q1 2020 with good contributions from both business units. Overall, the total liquidity of the Group is very strong and stood at EUR2.8 billion at the end of the first half.

With this, I will hand over to Jean-Paul who will provide further detail on SCOR Global P&C.

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

Thank you, Mark. If I take you to Slide 12. As stated previously, this quarter's results have been heavily impacted by the cost of COVID-19. We have conducted an in-depth review of our exposures to the COVID-19 outbreak and the following government mandated orders to flatten the curve of the spread of the virus. Our assessment represents our ultimate view of our exposures giving the information currently available both in terms of premiums and claims. It should be noted that this is still an ongoing event and that to-date little information has been received from our clients. As of the end of Q2, we have processed EUR74 million of claims gross of retrocession mostly from affirmative non-damage business interruption reinsurance claims. The COVID-19 ultimate claims impact in Q2 is estimated at EUR248 million pretax net of retrocession and premium reinstatements. This represents an impact of 8.2 points on the year-to-date net combined ratio.

The main drivers of the claims are credit and surety and property lines of business with limited exposure coming from other lines of business. We have also booked the anticipated ultimate drop in premium income from economically sensitive lines of business including aviation, credit and surety, and engineering. The anticipated premium reduction is roughly EUR100 million or roughly 3% of the premium volume for the first half of the year. Our half year results -- if we move to Slide 13. Our half year results were also impacted by a number of small cat events including several tornadoes in the US and hailstorms in New South Wales and Calgary. We also saw an increased frequency of small to medium size man-made events.

Other market events such as US riots were immaterial to our results. As mentioned by Mark, we had a net combined ratio of 102.3% for the first half of the year.

Normalized of the impact of COVID-19 and of cat, our net combined ratio stands at 96% in line with the Quantum Leap assumptions. Our premium volume is increasing year-on-year by roughly 1% at constant rate of exchange, including the impact of COVID-19 showing the resilience of our portfolio. We move to Slide 14. For the P&C markets, we see COVID-19 as an accelerator of the market hardening observed in 2019 and '20. This was confirmed in the treaty renewals since April and illustrated once again in the June and July renewals. Whilst the market hardening is the most pronounced on property and property cat renewals globally, it is also expanding to all lines of business and most geographies. It is reflected not only in price increases, but also in changes in terms and conditions. SCOR Global P&C is ideally positioned as a global Tier 1 multiline reinsurer to take advantage of this market turn as illustrated by 8.2 points of price increases achieved in our June and July renewals.

We achieved double-digit premium growth across segments and geographies where profitability improvements were the most strongest. We also continue to review the rest of our portfolio adjusting our participations as a function of our view of loss costs versus price increases achieved. Our overall treaty premium renewed at the June and July 1st renewals increased year-over-year by 1.3% despite a significant projected premium decrease year-on-year from lines of business directly affected by COVID-19. If we move to Slide 15. We have also continued to seize opportunities in specialty insurance in a disciplined way. Specialty insurance remains a strong growth and profit generator for Global P&C as illustrated in the first half of the year 2020 results and we grew our portfolio year-on-year by 20% in the first half on the back of a total rate change of 22% across the different lines of business.

In summary, with the impact of COVID-19 being manageable for SCOR, we are very bullish on the P&C prospects for the remainder of 2020 and 2021. We believe the hard market will be durable as it is based on a combination of factors that are unlikely to dissipate any time soon. And through its global scalable platforms and strong client and broker relationships, SCOR Global P&C is ideally positioned to benefit from this durable market turn.

I will now pass the floor to Paolo.

## Paolo De Martin {BIO 15930577 <GO>}

Thank you, Jean-Paul. COVID-19 is a tragic event with a dramatic loss of life and livelihood. Although we are discussing today the financial impact, we cannot lose sight of the traumatic impact it has had and continues to have on individuals and families across the world. I would like to stress how the situation is still evolving and all estimates we're presenting heavily rely on expert judgment and they are subject to a high degree of uncertainty. We view the pandemic as having three phases. An entry phase in the pandemic world where the virus takes a foothold in our environment and establishes sustained transmission. Intensity of the impact of the virus is most severe during this phase due to lack of knowledge and delayed mitigating action. This is followed by an active phase where we are cohabiting with the virus. The active phase is a balancing act between keeping economic activity open and avoiding moving back into an exponential growth of the epidemic.

All of this while seeking incremental improvements from control measures and medical treatment. Our view is that we have now entered the active phase and at this point, we estimate we will remain in the active phase for the next 12 months or longer. Our current assumption is that once a safe and effective vaccine is made available for wide inoculation and large part of the populations will reach immunity, we will gradually accelerate into the post-pandemic world and this will represent the exit phase. We consider the entry phase to have covered the period going from March to June 2020. In terms of the financial impact on the SCOR -- on the portfolio of SCOR Global Life, we expect that the entry phase will have the highest relative cost and therefore, we assume a lower burn rate from COVID-19 related claims going forward.

In Q2 2020 we have booked COVID-19 related claims of EUR194 million net of retro and pretax. Due to typical claim reporting patterns, limited COVID-19 claims were reported during Q2 and most of this amount represent estimates of incurred claims. This impact includes EUR182 million of claims incurred in the US with the balance coming from other markets. The COVID-19 claims costs impacted negatively the year-to-date technical margin by 4.6 percentage points. Our overall technical profitability benefited from active portfolio management and strong reserving position leading to a year-to-date net technical margin for the first six months of 5.4%. This result demonstrates the resilience of the SCOR Global Life business. Moving on to Page 17 of the presentation, few words on the US COVID-19 related claims.

The estimated impact of COVID-19 related debt on our US book reflects strong differences between the general US population and our reinsured portfolio and particularly this is driven by the upfront medical underwriting, higher socioeconomic classes which we believe is particularly relevant during this pandemic environment, and the lower portion of older lives in our portfolio. The provision recorded in Q2 heavily relies on expert judgment. Just to remind all on the call, the reporting of each month of that takes an average of six calendar months to fully complete. So by the end of Q4 2020, we will have a clearer view on the claims incurred during the entry phase. Moving on to Page 18 of the presentation, we would like to share our thoughts on how we look at the time ahead of us. Overall, while significant uncertainty remains and the situation is evolving particularly in the US, we believe that the impact of the active phase on our Life portfolio will be manageable.

We're currently projecting that our technical margin will land at between 5.2% to 5.4% for the full-year 2020, which means that the business will still generate over EUR400 million of pre-tax technical profitability for the year. As mentioned at the beginning of my speech, significant uncertainty remains and we are following the situation very closely with a large focus on epidemiological research. Before I close my section, few words on the business. We have continued to support our clients globally throughout this challenging time. While activity has been impacted by the pandemic and the lockdowns, we expect our premiums to remain stable at 2019 level for the full-year 2020. I will leave more details on our views and the evolving COVID-19 pandemic for today to the Q&A and we will update you on our evolving thinking in September at Investor Day.

I will now hand it over to Francois for details on our Investment performance.

## Francois de Varenne {BIO 7447858 <GO>}

Thank you, Paolo. Moving on to the Investment portfolio. The asset allocation reflects the current environment and our cautious positioning. Liquidity stands temporarily at 13% of invested assets, up from 6% at the end of '19 and 11% at the end of the previous quarter. The share of corporate bonds is stable compared to last quarter at 41%, our lowest level since 2017. And the fixed income portfolio remains of very high quality with a stable average rating of A+, a duration of 3.1 year, and highly liquid with financial cash flows over the next 24 months reaching EUR8.7 billion expecting to emerge from the Investment portfolio. Our return on invested assets stand at 2.6% since the beginning of the year. It benefits from real estate capital gains of EUR48 million coming from the disposal of a building at very good conditions in the first quarter of 2020 just before the COVID-19 outbreak.

Additional capital gain we are generating out of the fixed income portfolio and loans portfolio for a total EUR14 [ph] million. This relates to risk mitigation actions that we have voluntarily undertaken since the beginning of the year. Our theoretical reinvestment yield excluding future capital gains stand at 1.5% at the end of June and reflects the lower interest rate environment notably in the US as well as the normalization of credit markets. Moving on to Page 20. I first would like to highlight that SCOR invested assets portfolio has demonstrated its resilience and shock absorbing capacity thanks to a moderate risk appetite for investment risk, the risking action undertaken since 2019, and also the integration of sustainability into our investment process. As indicated last quarter, our portfolio has a limited exposure to sectors directly affected by the current crisis and a very limited exposure to equities.

It is well positioned to face a further deterioration of economic and financial condition. In particular, the emergence of a credit crisis should be manageable both in terms of potential future impairments and in terms of credit transition risk. Faced with the pandemic outbreak, we have decided in March 2020 to voluntarily freeze our investment activity and to build up liquidity in order to savor the value of our assets. In a less volatile environment, we have decided to resume our investment activity in June. We are coming back to credit markets, but this will be done very progressively and cautiously while strictly sticking to our risk management.

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

## Ian Kelly {BIO 19976646 <GO>}

Thank you very much. Francois. On Page 21, you will find the forthcoming scheduled events starting with our Investor Day to be held on September the 9th. This will be a virtual event and we will send further details on this soon.

With that, we can now move to the Q&A session. And can I remind you to please limit yourself to two questions each. Thank you.

# Questions And Answers

## Operator

(Operator Instructions) Our first question is coming from Kamran Hossain from RBC. Please go ahead, your line is open.

## Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Thanks for taking my questions. The first one is just around the capital position and dividends. From the way I understand it, you accrue two quarters of dividend in there. Obviously launches wasn't paid, but you have the potential to do it. What's the thinking around catch-up and then I guess in your solvency position, have you assumed any catch-up or kind of -- from last year? So, that's the first question. I appreciate you might not be able to answer that fully. And the second question is just thinking about 1/1, it kind of sits on the things, I think it should be positive, but Europe has been relatively soft or difficult to kind of see rate improvement in the last few years. What does that take? So, is this the kind of BI impacts in Europe or just any thoughts around that on why kind of the wider global reinsurance market should move at 1/1? Thank you.

## A - Ian Kelly {BIO 19976646 <GO>}

Maybe Mark, you can pick up on capital and dividend view first of all.

## A - Mark Kociancic {BIO 17852409 <GO>}

Yes, sure. Hi, Kamran. So, what I would reference you to Slide 6 of the investor pack that might help the discussion. So, we've tried to be very clear on this slide with capital management not to mention the COVID impact, operating performance, and macroeconomic impacts on solvency. So with respect to dividends, you've seen the ACPR come out and essentially forbid dividends in 2019. So, what we've done is we've added back the 2019 fiscal year dividend and that represents approximately 7 percentage points of solvency. You'll recall I think in the last meeting, I referenced the fact that you can only declare a dividend for 2019 through September 30th of the following year. So September 30, 2020 and thereafter, it can be done; but it would have to be done as a special dividend or something else.

So for 2019, we don't see a dividend -- sorry, for 2020, we don't see a dividend being declared and paid this year given what's transpired from a regulatory framework. We have taken the normal step of accruing our quarterly dividend -- regular dividend in the solvency slide for fiscal year 2020 and I think what will happen is we will review the capital position of the Group in February like we normally do and apply our capital management policy which is unchanged to determine what the level of dividend will be in 2021. And I would remind you that that's a Board decision that will take place. I will also point out that we do have a strong FTP capital position. I think the solvency position even at 205% is in a good spot for us. So, I think there are positives as well that we bring from a capital perspective.

## Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks, Mark.



## A - Ian Kelly {BIO 19976646 <GO>}

Thank you, Mark. Jean-Paul, if you could pick up on the 1/1 renewals and in particular the European context.

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

Thank you, Ian. I think the comment on Europe has been fair. When we look at the 1/1 renewal 2020 in Europe, the rate increases we saw were more moderate but they were still positive probably more in the 2% to 3% in Europe. If we take the July renewal, which is of course a much smaller renewal for Europe than July 1st, we see significant differences. Overall, the European renewal in July saw price increases of more than 6% and if we focus on non-proportional treaty, which represents the bulk of the treaty business we have in Europe, we saw a rate -- reinsurance rate movements of plus almost 11%. So, we think that the -- it's not just the expected claims coming from non-damage BI in Europe that's driving this. It's also the -- just the overall environment. And we believe that the June, July renewals is a good illustration of what we can expect at January 1st, 2021. So, the rest of the markets (multiple speaker) we saw very strong movements in the US and July 1st is mainly an Asia renewal and Australia where we saw also strong price movements.

## Q - Kamran Hossain {BIO 17666412 <GO>}

Okay. It sounds very encouraging. Thanks very much.

## A - Ian Kelly {BIO 19976646 <GO>}

Thanks, Kamran. The next question, please.

## Operator

Our next question is coming from Andrew Ritchie from Autonomous. Please go ahead, your line is open.

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

Hi there. Thanks a lot for the additional detail you've talked about on Life today. I wonder if it -- Paolo and maybe Mark, could you just talk a bit more around Slide 18. I'm trying to understand -- I think what you're trying to illustrate is that you've taken an IFRS hit, you've disclosed and talked about that. But then you talk about the Solvency II impact which -- where you've assumed a further hit than what's in IFRS I think, it's like you're receiving an additional 125,000. What was the kind of reasoning behind it or how have you come up with? Why is there a difference? Is this because in Solvency II you can sort of reflect future expected profit or lack of profits? Just maybe a bit of color around that would be very useful. I think it's a very important slide. The second question, year-to-date rate -- renewal rate increase on the P&C side I think is 4%. Maybe could you just help us translate what that would mean in terms of margin? I take it, it will take time to be earned, I understand that; but just on the discrete accident year. Is all that rate is going to be margin or what should be the kind of loss cost offset?

## A - Ian Kelly {BIO 19976646 <GO>}

Okay. So on the first part on the Solvency II impact, Paolo.

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

Yes. Hi Andrew. In our IFRS accounts incurred our key accounting event so in each reporting period, we estimate the amount of debt incurred in that specific reporting period and our estimate usually relies on reported claims, past experience, and expert judgment. And as you well know, Andrew, our IFRS accounts following the current accounting rules under IFRS 4 do not reflect the full value of future cash flows coming from our Life portfolio and these cash flows in our accounting processes create a strong level of prudence in our liability adequacy testing for our reserves. Under Solvency II, the full estimated value of our future cash flow is considering our solvency ratio and therefore when accounting for COVID-19 claims impact, we need to include the forward-looking provision.

So, the way we came up with that provision. We have a relatively comprehensive scenario planning right now that roll forward for 12 months. That scenario based planning is based on level of infection rates and level of fatality rate for the virus and then we apply a probability weighted on the scenarios. When we looked at that, we come up with 175,000 deaths for the next 12 months. As a good rule, about two-third that we expect to happen in 2020 and one-third of those in 2021. We expect the infection in terms of death toll at this point according to our scenario planning and our research to reduce as we approach mid-year 2021. We will present more details about this at the Investor Day where we can update you on the Q3 and we'll give you an update on the 12-month roll forward as well. (multiple speakers)

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

Yes. So, I think that in practical terms that means that the Solvency II position of the Life business is kind of depressed or at least what would happen is you will generate capital in the Life business. To the extent that capital is depressed by COVID claims, those COVID claims have already been up to the point you've reflected -- already being reflected?

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

Exactly. Under Solvency II, we have gone to ultimate effectively.

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

Got it. Okay. That's very clear. Thank you.

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

Ultimate of claims not incurred yet so it is subject to a very high level of uncertainty.

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

Yes, I got it.

## A - Ian Kelly {BIO 19976646 <GO>}

Okay. Thanks. And then, Jean-Paul, on the year-to-date rates experienced in the renewals.

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

Yes. So the year-to-date as you stated, we saw roughly 3 points of price improvement in -- at January 1st, roughly 5 points at April, and now a little bit more than 8 points in June, July with an average of 4 points for the first half. We think this translates into an improvement in margin between 1 point to 1.5 points and this should be -- start to be reflected in our accounts as we earn premium over the next two quarters.

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

Great. Thank you.

## A - Ian Kelly {BIO 19976646 <GO>}

Thanks very much, Andrew. We'll go to the next question.

## Operator

Our next question is coming from Vikram Gandhi from Societe Generale. Please go ahead.

## Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. I hope you can hear me alright. Vikram, SocGen. I've got two questions. Firstly, can you please confirm if the 13 percentage point COVID-19 impact in Solvency II ratio includes exactly the same figure as in IFRS for P&C claims, that's the EUR248 million number? The reason I'm asking this is I can't reconcile the 13 percentage point with the EUR392 million on the Life side that's included in the Solvency II so presumably there's some degree of variance on the P&C side. That's question one. Secondly, can you also comment on what benefits, if any, you are assuming from the Group's longevity exposure against your mortality claims? Thank you.

## A - Ian Kelly {BIO 19976646 <GO>}

Thanks, Vik. So Frieder, if you can pick up on the Solvency II impacts.

## A - Frieder Knupling {BIO 17247809 <GO>}

So hi, everybody. The 13 point -- percentage points estimate includes all the claims estimates for Life and P&C up to the ultimates which we have discussed earlier. It also includes a few secondary effects, some SCR movement, slight increases, and some tax effect. So, that's why you probably can't reconcile them fully. But we will come back to this at the Investor Day when we are hopefully able to update the estimates and then maybe we can help with that reconciliation.

## A - Ian Kelly {BIO 19976646 <GO>}

Thanks, Frieder. And Paolo, if you can pick up the longevity offset.

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

Yes. Hi Vikram. We expect the longevity to give us a good edge economically, particularly against our UK mortality book. On IFRS, given the way the longevity business earns, we're not seeing much of a benefit on IFRS 4, but we're seeing a good benefit from an economic perspective.

## Q - Vikram Gandhi {BIO 18019785 <GO>}

So, is that impact already reflected in the Solvency II ratio economic effect?

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

That economic effect currently is not reflected in the Solvency II ratio, but we would expect that to be offset by claims coming from our UK mortality portfolio, which are also not reflected in the Solvency II number. So, they offset each other. So, you wouldn't see a big upside coming from that.

## Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

## A - Ian Kelly {BIO 19976646 <GO>}

Thanks very much, Vik. The next question please.

## Operator

Our next question is coming from Vinit Malhotra from Mediobanca. Please go ahead, your line is open.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good afternoon, everybody. So, my two questions. The first one would just be on the P&C growth, which I appreciate you're quite pleased with. But I would just -- I mean if you look at the US for example when I see the 1% growth in the US, just a bit curious as to what lines are you holding back in. And I know from speaking to the IR team today that there was a quota share or some quota shares that you didn't participate. But then if there's any more commentary around where you're holding back in casualty or whatever you'd like to comment. So -- and second thing is just on the asset re-risking. So the 1.5% reinvestment yield on Slide 19, is that assuming that some of the re-risking is already in place or would you say that there were other measures you would take to kind of increase that? And also one comment I would -- when I see the 2Q versus 1Q pie chart, liquidity only 2% move; but listening to you on the call in the 1Q, it felt like there was quite a bit of a change on how much cash is being held. So, I'm just curious on where you are on the re-risking and how to look at this needle going forward. Thank you.

## A - Ian Kelly {BIO 19976646 <GO>}

Thanks, Vinit. So Jean-Paul, first of all on the P&C US growth.

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

Yes. Thank you, Ian. So, you're right that June and July we -- our overall US book has shown a slight decrease. It's driven by two factors. First, it's the area of this renewal. We have some significant renewals in credit and surety as well as in auto. We have one -- especially one treaty on auto that is around the mobility business and both of those lines of business were heavily impacted in terms of the projections -- or ceding to our projections in 2020 year-on-year is a significant drop. So, that element on its own represents roughly 4 points of overall premium year-on-year for all Global P&C. The second portion is the continued re-underwriting of the -- of our portfolio especially on casualty. We remain very attentive to the increase of loss costs from social inflation and other factors, including the potential impact of COVID-19. And so even if price increases are sizable, sometimes they don't offset in our view the increase of loss cost. And so if that's the case, then we take actions on managing our shares on those treaties. So, what you see on the US book is a combination of both. But what we also outlined is you see a strong growth on the property side where we believe the price increases are positive and above the loss cost and there on the cat for example, we grew our book by double-digits on US cat.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you.

## A - Ian Kelly {BIO 19976646 <GO>}

Thank you, Vinit. Let's take the next question, please.

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

No. Maybe -- yes, maybe.

## A - Ian Kelly {BIO 19976646 <GO>}

I'm sorry.

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

To the question on, Ian...

## A - Ian Kelly {BIO 19976646 <GO>}

Apologies, Francois. Go ahead.

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

Yes. Two points. So, the first one on the reinvestment rate. Again I insist on the definition of -- that we use for many years now on the definition of the reinvestment rate. That's the theoretical reinvestment rate at which we should deploy EUR1 or $1 in the portfolio with the same allocation -- asset allocation at the end of the quarter. So in practice, that's the market yield of the portfolio. So, if we deploy to the -- at the end of June $1 or EUR1 in the portfolio again with the same asset allocation which mean in practice with the same amount of liquidity, this euro will generate on an average 1.5%. So, that's not linked to the historical reinvestment rate during the quarter and we have been consistent with this definition over the last few years. So, your second question is where we are reinvesting and what is the amount of liquidity accumulated over the last few quarters.

So, again we have deliberately decided to put our investment activity on hold since the beginning of March and we have kept all financial cash flows emerging from the investment portfolio in cash in practice between early March and mid-June. So further to this decision that was explained to protect and to safeguard the value of our investment portfolio during the peak of the volatility on the market, our liquidity exposure stands at 13% at the end of Q1 compared with 11% at the end of -- stand at 13%, sorry, at the end of Q2 compared to 11% at the end of Q1 since again we have accumulated cash between March and June and this amount was 6% at the end of December last year. So as I mentioned it, we have decided to resume our investment strategy in June. This will be done very cautiously and progressively during the second half of 2020 of course market condition allowing.

So hence, our investment activity in Q2 was almost immaterial. So, where are we are reinvesting today? With less volatile financial market and after the freeze of the reinvestment activity between March and June, we have decided to launch a investment program market condition allowing that will aim at cautiously and progressively increase of corporate bond exposure. The current level is 41%. We target by the end of Q3 or Q4, again depending on market condition, to come back to a level of 45%. So, this program focuses mostly on increasing the recurring financial contribution of the invested asset portfolio and we will avoid the riskier sectors; namely energy, automotive, hotel, and leisure; and we are targeting mostly primary issuances to capture if possible additional premium on the market.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you.

## A - Ian Kelly {BIO 19976646 <GO>}

Thank you very much. We can go to the next question now. Thanks.

## Operator

The next question is coming from Paris Hadjiantonis from Exane Paribas. Please go ahead.

## Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes. Hi everyone from my side as well. I hope you're doing well. I'm looking at Slide 16 so I guess it's a question for Paolo. When I look at the technical margin for the first half and I normalized for the COVID impact, that is at a very, very high level of about 10%. I assume there's probably some release of prudence, but if you can give us some more clarity, Paolo, of why the underlying looks pretty good in the first half of the year. The second question relates to your contingent capital facility of EUR300 million that you have with JP Morgan. One of the triggers of that is the ultimate net claims amount for Life Insurance. So, I was wondering if you can give us some more color of where we stand versus the trigger point right now, I think you have to see two consecutive six month periods of elevated claims. But any kind of clarity on that front will be certainly useful. And also if you can remind us how exactly it works, whether it's in different tranches, et cetera. Thank you.

## A - Ian Kelly {BIO 19976646 <GO>}

So Paolo, first of all on the technical margin.

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

Yes. Very good. On the technical margin, I'd like to remember that we have a large book of business and we've been -- over the years been very active in managing our in-force and this has given us over time some margin of flexibility in managing shocks and this has been very helpful in the situation and will offer us some further flexibility going forward. In addition, as you said, we are benefiting from a strong reserving position built throughout the years. And I have to say that all these factors are considered also on the projections that we gave you on the full-year 2020. In terms of the contingent capital, we're not far away from triggering the contingent capital. We're going to give a thorough update on all our field capital as we go to Investor Day. So if you wait till Investor Day, we'll give a good update there.

## Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Sorry, Paolo. I didn't get you said you are far away or not far away.

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

Yes, we are far away.

## Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Okay.

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

Yes. We are far away from triggering it, yes.

## Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Clear. Thank you.

## A - Ian Kelly {BIO 19976646 <GO>}

Thanks very much. Paris. And I think we can take the next question.

## Operator

Certainly. Our next question is coming from Thomas Fossard from HSBC. Please go ahead, your line is open.

## Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon. Just two questions. The first one would be on the Life side, just to better understand. I think that remembering the initial discussion we had on the Life book at the start of the year, I think that you clearly mentioned that there were huge -- kind of a huge or significant symmetry between the profile of the people dying from COVID-19 and your insured book. And as long as the mortality was pretty strong in Europe, I would say that this kind of symmetry was working pretty well. But it seems to be that we see the virus going into the US, this symmetry maybe less perfect or it seems to be that -- I mean to be fair, the amount of losses -- mortality losses you're reporting today on the US and maybe also on the next 12 months is potentially somewhat of a surprise in terms of magnitude of the losses. So, I was wondering if you could help us to better understand why this is the case and why this is the case and why we've got such a number.

And also a small add-on is on your scenario of additional 175 million -- sorry 175,000 deaths. Why would it be I would say it kind of linear -- (inaudible) in linear in terms of claims estimates. It's a kind of doubling of the losses, would have expected it to be I would say more impactful for your earnings as long as -- as soon as the number of deaths on a cumulative basis would increase to higher level. And the second question will be related to the P&C segment. You're currently trading with a significant discount to book and there is a view in the market that SCOR has less leeway, less gearing to improving market conditions and this is where you're trading with a discount. Can you reassure that at this point in time you've got the full capacity to take the advantage of improving market conditions with your -- with currently your financial mean and that there is no need or no intention to come to the market to raise money to put additional capital at work? Thank you.

## A - Ian Kelly {BIO 19976646 <GO>}

So first of all, Paolo, for you on the Life side.

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

Yes, Thomas. No, the symmetry is still very -- I mean there is still a very strong difference between general population and insured population. The only reason why you're seeing more claims in the US compared to Europe where we had very little impact is one, Europe, our book is very focused on younger ages and very connected to credit as well. And we're not seeing losses coming through, their face amounts are much smaller. The US is just that we have a much larger book that we have in Europe. If you recall all the Investor Days, I think you can recognize that we had about -- we had a number about 15 million in terms of the people that we ultimately reinsure in our portfolio. If you take an overall US population of 327 million, that gives you like roughly around 4.5%. So, it is the size that makes the claims maybe larger as you see them.

We still believe there is a very strong difference between the general population and the insured population driven, as I said, by the upfront medical underwriting, by socioeconomics which play extremely strongly in this pandemic. If you just take the significant amount of death that in the US that happen in retirement homes where most of the people are actually been officially on Medicaid and those people are largely not likely to are -- to be in possession of a life insurance policy. And the third point is our book is much younger than the general population in the US. Just give you a sense, the general population is about 13 million of people over 8 years older so that's about 4% I guess and in our case, about 1.5% of our book is above -- is over 8 years old. So, we still see a very large difference between the two books. And Thomas, could you repeat your second question? I don't think I fully understood it. You had two questions on the Life. The second question wasn't very clear. Hello.

## A - Ian Kelly {BIO 19976646 <GO>}

I think your line is till muted, Thomas.

## Operator

Mr. Fossard, your line is open.

## Q - Thomas Fossard {BIO 1941215 <GO>}

Sorry I'm back. I was -- the second question was on the first 163,000 deaths, you incurred roughly EUR200 million and for an additional 175,000, you're going to incur another EUR200 million. So, it seems that there is a kind of perfect linearity in terms of claims impact as a proportion of the total number of deaths. And potentially I would have expected at some stage maybe I would say the losses to be more important just because you could have some kind of excess of loss contracts starting to kick in or something like that. It seems to be very linear or...



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

Yes, it is linear. Keep in mind that we don't have in this case the structures that you might imagine in a P&C book. We cover per life amounts to our clients. There is a difference between as and insured portfolios because we -- our clients retain a certain amount per life and we have very little first loss business and we see almost our entire lives at excess 8 million. So we have an 8 million retention that we apply, but we don't have accumulation on excess of loss structures. It is a per life and is relatively linear. So, roughly you have about EUR10 million, EUR11 million per 10,000 deaths at this point. That average may change significantly as the geography of the epidemic changes and our portfolio is now evenly distributed through the States. But as a rule of thumb for the moment given all the uncertainty we have, that provides you a decent rule of thumb.

## Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you, Paolo.

## A - Ian Kelly {BIO 19976646 <GO>}

Thanks. Paolo. And then finally, Mark, if you can pick up on the Group capacity.



## A - Mark Kociancic {BIO 17852409 <GO>}

Yes. Thanks, Thomas. So, let me just make a few points here and perhaps Jean-Paul can finish the commentary for the question. So to start with capacity, I think it's important to establish the fact that we do have a very scalable platform in P&C. So there's nothing internally that needs to be built; structurally referrals, underwriters, et cetera, pricing actuaries, to increase volume substantially if we wanted to. We have prepared over the years for this type of moment. So, I think the structure is there. In terms of the capacity so like I said before, we do come into 2020 with a strong S&P capital position. We also think the solvency position is relatively strong. I don't see any kind of equity raise in 2020. It -- I'm not sure it makes sense given where we are with the pricing anyways. There could be potentially a limited debt issuance, small; but that could be something that supports additional organic growth particularly in a P&C hard market. I think you'll see us emphasizing our message going forward of how we take the opportunities provided by the COVID crisis during our IR Day in September. So, there could be some hybrid issuance limited to facilitate additional capital for a larger expansion, but otherwise I think we're pretty much set.

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

And just to complete what Mark said, we have already at the June, July renewals taken the opportunity when we thought the business was attractive to increase our shares. And as we look for plan 2021, we'll have the same approach so push for larger shares on business that we think is providing value to the Company and where we think the -- again the price increases outpaces the loss cost increases.

## Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you.

## A - Ian Kelly {BIO 19976646 <GO>}

Thank you very much. Thomas. That was the final question so we'll close the Q&A there. I'd just like to say thank you very much to everybody for attending this conference call. And as usual, the IR team's on hand to pick up on any further questions you may have. So, please don't hesitate to give us a call should you require any further information. So with that, keep well and I would like to wish you all a good day.

## Operator

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