Q3 2017 Earnings Call

Company Participants

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

Other Participants

- Andrew J. Ritchie, Analyst
- Daniel Bischof, Analyst
- Frank Kopfinger, Analyst
- Guilhem Horvath, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Nadine van der Meulen, Analyst
- Roland Pfänder, Analyst
- Thomas Fossard, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group Quarter Three 2017 Results Conference Call. Today's call is being recorded. There will be an opportunity to ask questions after the presentation. In order to give all participants a chance to ask questions, we kindly ask you to limit the number of questions to two.

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

Ian Kelly {BIO 19976646 <GO>}

Good morning, everybody, and welcome to the SCOR Group third quarter 2017 results call. May I please ask you to consider the disclaimer on page 2 of the presentation, which indicates that the financial results for the third quarter 2017 included within this presentation are unaudited.

With this, I would like to give the floor to Mr. Denis Kessler, Chairman and CEO of SCOR, who is joined on the call by the COMEX team. Denis?

Denis Kessler {BIO 1498477 <GO>}

Thank you, Ian, and good morning, everyone. In the third quarter, which, as you know, marked by a high frequency of large natural catastrophes, SCOR clearly demonstrates its resilience and shock-absorbing capacity. Indeed, it is a policy of the group to anticipate these risks and to absorb them within the framework of the group's risk appetite.

We do these through different means. First, through clearly defining our risk tolerances and regularly checking our exposure against them. Second, through maintaining a strict underwriting discipline under a controlled risk appetite. Third, through maintaining a high diversification of risks across both business lines and geographies and, on this point, as you know, we have the best diversification in this industry. And fourth, through maintaining a robust capital shield, and in this quarter, we're seeing clearly the strength and effectiveness of our retro program come into play.

Therefore, SCOR's core principles are instrumental to the group's shock-absorbing capacity and is a protection of the group's solvency. So, it is no surprise to us that the group successfully absorbs a series of major shocks, and it is no surprise to us that subsequently, our solvency at the end of the quarter is in the upper half of the optimal range.

Major catastrophes have punctuated history. We still have in mind the destructive hurricanes in North and Central America in 2005, we have in mind the major earthquake which hit Chile in 2010, and of course, the Japan Tōhoku earthquake and tsunami, as well as the flood in Thailand, which occurred in 2011.

Here, on this graph, we have the history of these shocks into our balance sheet in the last 11 years, including financial and sovereign debt crisis, political uncertainties, and of course, natural catastrophes. As human beings, we can only deplore these shocks, of course. But as reinsurers, our duty is to anticipate and to absorb these events. As this graph demonstrates, the group has not only successfully anticipated and absorbed these shocks, but it has also grown through them by more than tripling its shareholders' equity and successfully taking its credit rating to best-in-class across this period.

Let's move to slide 5. In anticipation of large events such as the natural catastrophes which we faced recently, we have done our job by maintaining a strictly controlled risk appetite on the one hand, and a robust and effective capital shield on the other hand. As you know, SCOR maintains an upper mid-level risk appetite, our U.S. P&C book is growing but it's still underweight, and we are less exposed and are pleased (04:06) to extreme U.S. cats.

We maintain a biometric risk focus on the Life portfolio and we are conservative asset management policy. Overall, this brings an optimized risk composition with superior divested cash and benefits. Regarding the capital shield, no surprises either. At SCOR, we've been a strategic retro buyer for the last 15 years, and we always have a business continuity with all our retrocessionaires. Being well protected in case of shocks is an integral part of our capital shield strategy. And surprisingly, retrocession program is worth exactly as we expected it to.

Furthermore, the capital shield remains in place and effective for the remainder of the year. We have not breached the upper limits, we have not even used reinstatements. In fact, we still have ample unused capacity, which would fully protect the group in case of further material events in the fourth quarter. The ILS Atlas (05:11) instruments have not been triggered by these events, and the probability of a €300 million Contingent Capital facility to be triggered in 2017 is extremely remote.

Let's move to slide 6. We see on this slide that we did a job correctly. What does it mean? First, you know that to anticipate shocks, we have a system of limits in place against which we continuously check risk exposures to ensure we remain consistent with the risk appetite. As you can see from the numbers, the actual losses of the 2017 hurricane events are still considerably below those associated with a 1-in-200-year scenario for a North Atlantic hurricane. But had they been of such an extreme magnitude, our solvency ratio would still have been within the optimal solvency range.

Second, as a consequence to SCOR's core principles in terms underwriting discipline, controlled risk appetite and robust capital shield, and as a testimony to the group's shock-absorbing capacity, SCOR's solvency position remains very strong despite the Q3 nat cat shocks. It stands at 213% at the end of Q3 2017, in the upper half of the 185%-220% optimal solvency range as we said it would. So for us, everything has worked as it should.

Let's go now to the following slide. In the light of the estimated industry losses – insured industry loss from the Q3 nat cat events, we believe with a strong conviction that conditions are set for a significant price correction beyond the U.S. market alone and beyond the cat plan of business alone. We are, at SCOR, structurally well-positioned to benefit from a change in the P&C environment. We are well positioned, we think, for a change in the industry dynamic for several reasons.

First, we're an excellent franchise with expertise globally, but in particular in the U.S., being underweight in this country with a potential to grow faster than the market. Second, in addition to being underweight, clients and potential clients have less reinsurance recoverables with us and we bring a very strong credit ratings to the table. As you know, we were graded less than two months ago by AM Best just before Monte Carlo, and this rating is key for the U.S. market. SCOR's teams will ensure a smooth and swift claims payment. We started to do so while continuing to stay alongside cost (08:06) clients to face future challenges and to find the right solutions in this new market environment.

Let's go to page 8. I describe the anticipation and absorption of the Q3 events and the effectiveness of maintaining a controlled risk appetite and a robust and efficient capital shield. I describe how as a result the group has maintained in the upper half of the optimal solvency range and is now structurally well-placed to capture profitable growth in a changing P&C environments.

Consequently, as everything has been working as it should, do not expect major changes going forward. SCOR confirms the consistency of its strategy and the strength of its technical underwriting fundamentals as it is paramount that we continue to run the group in a manner that secures our Tier 1 credit rating.

The group will, therefore, continue to execute its strategic plan, Vision in Action, with no change in risk appetite, no change in underwriting policy, no change in capital shield policy. All the same, all the components of our capital management policy remains unchanged. We continue to manage the solvency of the group in the upper half of the optimal range. Our dividend policy remains unchanged. The €200 million share buyback program is maintained. And as we stated in the last Investor Day in September, the share purchase has restarted with the program running until mid-2019.

And finally, the merger of the three SE legal entities is absolutely on track. We expect it to be completed by early 2019 with a potential solvency benefit of up to €200 million.

SCOR continues with the successful execution of Vision in Action as planned. Both profitability target and our solvency target are unchanged. All the same, the P&C and Life technical assumptions remain unchanged, so does the assumption of the return on invested assets.

All the teams at SCOR remain mobilized to deliver the ambitious development plan set in Vision in Action. And let me now hand over to Mark for the financial details. Mark, the floor is yours.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis, and good morning, everyone. So, let's begin on slide 10, and I will walk you through the financial highlights of the Q3 results. SCOR wrote more than €11.1 billion of gross written premiums in 2017, representing a 9.3% increase over 2016 at constant exchange rates or 8.9% at current exchange rates.

This top line growth was fueled by the strong contribution of both business engines: SCOR Global P&C, with a 10% growth at constant exchange rates; and SCOR Global Life, with an 8.7% rise at constant exchange rates. The P&C net combined ratio for the first nine months of the year stands at 107.5%, with a 16.8% nat cat ratio. The normalized net combined ratio, however, stands at 95%, indicating that the attritional loss ratio was in line with the assumption made for the Vision in Action plan.

The Life technical margin reached 7.1%, slightly above the Vision in Action assumption. And finally, SCOR Global Investments delivered a good return on invested assets of 2.6%. François will confirm later on that we are in line with the 2.7% to 3.2% range indicated for the full-year 2017.

As previously communicated during the quarter, our set of results has been impacted by an exceptional series of large losses from natural catastrophes. SCOR's net income for Q3 2017 year-to-date stands at €25 million. And I will come back later on to the net income and return on equity to give you some color.

Let's move to page 11 and I'd like to walk you through that normalization of our net income and return on equity. As of Q3 year-to-date, you'll have noticed that the group had a reported return on equity of 0.5%. Excluding exceptional items, such as the Ogden rate change, the Q1 reserve release and the Q3 severe nat cat losses and reflecting a 6% budgeted cat loss ratio, the annualized return on equity would stand at 8.3% in the first nine months of 2017 or 765 basis points above the risk-free rate, indicating we were on track to reach our target return on equity this year.

Moving to page 13. Shareholders' equity decreased over the first nine months to €6 billion. The reduction comes primarily from the €447 million currency translation adjustment reduction, which is due to the weakening of the U.S. dollar in the first nine months of the year, and from the €308 million dividend payment in the second quarter.

Net income, of course, has been affected by the nat cat events and this translates into a book value per share of just under €32 at the end of September. As a consequence of the reduced equity, our financial leverage stands at 26.3%, temporarily above our Vision in Action assumption of up to 25%. And we fully expect this to come back within our range as net income is earned in future quarters.

So, let's move on to page 14. We're in line with our expectations, and SCOR generated strong operating cash flows of €671 million, slightly above the €200 million per quarter run rate that we had always indicated. The SCOR Global Life cash flow has shown some catch-ups since Q1 2017 and is starting to normalize as expected.

On SCOR Global P&C side, cash flows continue to be strong and in line with expectations. As a reminder, in Q3 2016, SCOR Global P&C benefited from an approximately €300 million one-time funds withheld receipt, thus explaining the variance versus the previous year. The total liquidity of the group stood at €1.6 billion at September 30 with the rebalancing of the investment assets having started during the third quarter, in line with the Vision in Action plan.

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

Victor Peignet {BIO 6287211 <GO>}

Thank you, Mark, and good morning. This quarter has been marked by the recent nat cat activity. This isn't the first time we've been confronted with the occurrence of devastative nat cat events. Each time it happens, the industry's response and our own response creates mixed feelings. There is, on one side, satisfaction and pride in terms of contributing to the mitigation, the repairs and the recovery, but there is also frustration and regret regarding the difficulties involved in overcoming the challenges of the protection gap.

These exceptional series of events is no exception when it comes to the frustration and the regret, but we are all fully committed and working very hard to ensure that once again, the reinsurance industry proves itself and its added value.

We've already communicated on the impact of these nat cats on the quarter on a year-to-date basis for the insurance and reinsurance markets and for us. Whilst these series of losses, which occurred in Q3 and to which the wildfires in California must be added as a Q4 event, remains within the shock-absorbing capabilities of the reinsurance market, our view is that its impact on the annual earnings of insurers, U.S. principally, and reinsurers can't be without consequences.

In addition, most probably all the participants in the chain, whether they'd be insurers, reinsurers, retrocessionaires or composites, have now done as-if scenarios and realized and analyzed how much worse the situation could have been if Irma had continued to go east and if the insured losses from Irma alone had reached, say, $125 billion.

Conclusions from this analysis have already been drawn by some players and more are due to come, both from them and from others. As far as we are concerned, this event have not led us to change our view of the nat cat risk we carry.

For us, taking out this impact, the results of this quarter show a growth rate and an attritional plus commission ratio that are totally in line with our assumptions and latest indications, namely, of an annual growth in the upper part of the 7% to 8% range and a normalized net combined ratio at or slightly below 95%. The growth remains largely driven by the expansion of our footprint in the U.S. market as indicated in Vision in Action and during our last Investor Day on September 6.

Whilst the information about these events continues to flow in at a slow pace from the affected (17:33) and large corporations, the estimate show a consensus around a total initial loss that matches the $95 billion, on which we've partly based our estimates and on which we have already communicated. Similarly, the market reactions are now trending towards the point of view that we have developed since Monte Carlo, i.e. a general acknowledgment that these events have been a catalyst and that they are leading to a wide reassessment of the business and of the growth and net risk by all the actors in the risk transfer chain covering most geographies and line of business.

It's quite significant that the discussions in the U.S. market have not stayed confined within the boundaries of property cat and property lines of business, but have quickly spread into casualty and financial lines. And it's also a general acknowledgment that such a reassessment cannot not drive changes in underwriting and pricing up to six consecutive years of gradual deterioration in the terms and conditions of insurance and reinsurance and the erosion of margins.

The next phase following these reassessments will be seen through the 2018 renewals likely through expanded vertical and lateral reinsurance protections being purchased and through tightened reinsurance terms and conditions being quoted. Our expectations are that the offer will be there but at revised prices and with more differentiation between the buyers being applied by the providers and that demand will increase.

The main takeaway from these events can be summarized in the following points. From a market perspective, assuming that about 60% of the total insured losses from Harvey, Irma and Maria will be bound (19:20) by reinsurers and capital market capacities, primary leasehold collateralized reinsurance, the total reinsured loss represent about three-quarters of the $80 billion annual reinsurance premium generated by the U.S. market insurers all line combined.

It represents about twice the $30 billion annual U.S. cat and non-cat property ceded premium, and nearly five times the $13 billion cat ceded premium. Considering that the U.S. market generate half of the all reinsurance premium worldwide and that reinsurance is a global business, these exceptional series of events puts a heavy load on the combined ratios of the industry, but that load will not be evenly distributed.

For SCOR, based on our estimate of the total insured and reinsured market losses, our gross loss of $1.18 billion is in line with our current U.S. market share of about 2%. And our net of retrocession loss of €598 million pre-tax is in line with our risk appetite.

Our retrocession program has responded as expected and offloaded about 40% of the gross loss from our P&L. By the way, if we head out (20:40) to face the same series of events with Irma being a $125 billion insurance industry event, there would only have been a marginal difference on the total net loss of the group.

For the rest of the year, our underwriting capabilities are unaffected and we continue to be adequately protected by our retrocession program without having had to go to the market to buy replacement or additional covers. For next year and the remaining period of Vision in Action, there is no change in our plan. We are progressing normally in the renewal of our retrocession program, and have it started the process very early as we usually do, we are already well advanced. We are confident in our ability to satisfactorily complete the renewal of the renewable parts of the program.

As we highlighted it in our Investor Day, which took place on the 6th of September, We believe that we are very well-positioned to benefit from the new market environment, and the effect of the series of exceptional events should be beneficial to us, and is likely to enable us to accelerate the deployment of our planned business development, particularly in the U.S. While our claims teams are actively engaged in supporting our clients, our underwriting and pricing teams are ready to provide lead quotes, and are already busy working on the renewals that are brought early to the market.

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

Paolo De Martin {BIO 15930577 <GO>}

Thank you, Victor. SCOR Global Life continues to deliver a robust performance in the first nine months of 2017, both in terms of growth and profitability. Overall, we have recorded gross written premiums of €6.5 billion, representing an increase of 8.7% at both current and constant exchange rate. The strong growth is driven in particular by the continued development of our Life and Health franchise in Asia Pacific, where we have grown premiums by over 30%, with both protection and financial solutions showing a strong pipeline of opportunities. This is combined with a continued healthy pipeline of new business coming from EMEA and the Americas, and spread across all product lines.

For the full year, we expect the growth of 6.5% to 7.5% at constant FX compared to 2016, and slightly ahead of the Vision in Action growth assumptions. The technical performance for the first nine months of the year remained strong with a technical margin of 7.1%, slightly above the Vision in Action assumption. The profitability of new business continues to meet the group ROE target. I want to note that the U.S. mortality claim experience has been higher than expected. The overall technical result of the division is not impacted, as it continues to benefit from an active in-force management and the strong reserve position set up at the acquisition of the Transamerica Re and Generali U.S. portfolios. Overall, we confirm the Vision in Action assumption of 6.8% to 7%.

I will now hand over to François for more details in our investment strategy.

François de Varenne

Thank you, Pablo. SCOR's total investment portfolio reached €26.6 billion at the end of September, with an invested asset portfolio of €18.4 billion compared to €19.2 billion at the end of 2016. This evolution reflects primarily the weakening of the U.S. dollar against the euro since the beginning of the year.

In the third quarter of 2017, SCOR Global Investments resumed the rebalancing of the investment portfolio toward Vision in Action asset allocation after a pause in Q2. In that context, our liquidity continues to be progressively reduced at 8% compared to 9% at the end of the second quarter.

Our exposure to corporate bonds increases by 3 points to reach 43% of the invested assets, very close to the level achieved at the end of March 2017. This rebalancing was achieved by reducing exposure to government bonds, which represents only 22% of the investment portfolio today.

Our fixed income portfolio remains of very high quality with an average rating of A+. Its duration increases slightly to 4.6 years compared to 4.5 years at the end of the previous quarter. At the end of September, expected financial cash flows from the fixed income portfolio over the next 24 months stand at €5.6 billion.

SCOR Global Investments delivered a 2.6% return on invested assets in the first nine months of 2017. Restated from natural catastrophes impacting our ILS portfolio in the third quarter, the normalized return on invested assets in the first nine months of 2017 would reach 2.7%.

We benefit from a good reinvestment rate of 2.6% at the end of September which enable the dynamic management of our reinvest policy. At market condition permits, the rebalancing of the investment portfolio towards Vision in Action asset allocation will be continued during the next quarter. We confirm a 2.7% to 3.2% estimated range for the full-year of 2017 for the return on invested assets according to current market condition.

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

Ian Kelly {BIO 19976646 <GO>}

Thank you, François. On page 18, you will find the next scheduled events starting in early February with the SCOR Global P&C January renewals. The precise date will be confirmed shortly. This will be followed by the full-year 2017 results on the 22nd of February. You will find as well the conferences which we are planning to attend for the remainder of 2017 and early 2018.

So with this, we can start the Q&A session and a quick reminder to keep to two questions each. Thank you.

Q&A

Operator

Thank you. And we will now take our first question from Guilhem Horvath of BNP Paribas. Please go ahead.

(27:25-27:43)

Please go ahead, sir. Your line is now open. And we'll now take our next question from Nadine van der Meulen. Please go ahead.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Yes. Good morning. Thank you for taking my question. On the portfolio rebalancing, you resumed that. What do you expect the impact would be set at a full-year – sort of a full year between 2.7% and 3.2% return on invested assets and where in that range do you expect to be? And also, on the cash, do you still expect to bring that down towards a full 5% as you guided previously? And the realized gains were quite a bit lower this quarter, can you talk about the drivers and what your expectation there is going forward?

A - François de Varenne

Thank you very much for your question. So, I confirm that we have good market condition today. So, we will pursue the rebalancing of the portfolio between now and the end of the year according to the Vision in Action asset allocation, so which means as a consequence, a reduction of the cash.

For the expected return on invested assets for the full year, I think we will be in the upper part or at the top of the range. This will be supported by the ongoing rebalancing of the portfolio. Just an illustration, we've invested €500 million during Q3 on corporate loans and we were able to lock a book yield of 3.2% on this portfolio, so which is well above the income yield of the portfolio. So, we should see this benefit in Q4.

In terms of realized gain, that's something I mentioned in July, reiterated during the Investor Day. We are in the process of selling immature (29:45) and large real estate assets in Paris and I hope this should be done by the end of the year.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Thank you. Just one follow-up question on the life reinsurance side. You experienced higher claims for U.S. mortality. Should we expect more negative impact from U.S. mortality going forward? That's it from my side. Thank you very much.

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

I think it's difficult to say. We believe a large amount of what we're seeing right now is volatility. So, we'll update you as we go. We believe we have a very strong reserve position and we have a very active in-force management program to be able to offset additional volatility coming our way.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Thank you.

Operator

Thank you. We will now take our next question from Guilhem Horvath of BNP Paribas. Please go ahead.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Hello. Can you hear me?

A - Operator

Yes.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. So, the first one is just coming back on the U.S. mortality, so it's a question for Paolo. I'd like to understand, so because you say on the slide that it is an underlying U.S. mortality kind of experience. So, you implied that the word the underlying. And now, you say it's volatility. So, I'd like to understand what's underlying and what's short-term volatility in this trend?

And also you speak about a large reserve and also in-force management. Can you elaborate a little bit more on how long can this reserve be there to sustain IFRS profitability going forward. Thank you.

And the second would be for Victor and you spoke about the renewal of your retrocession program and how confident you are. Still even if you didn't see the (31:56) of this program, you had a little bit of contribution from retrocession there. So, how do you expect the prices to evolve into renewals in this program and what would be the conditions for you not to renew the entire retro strategy going forward as it is today? Thank you.

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

Yeah, this is Paolo. I really meant underlying in the sense that if we would've never told you, you wouldn't have seen it coming through the technical result. So, maybe I used the wrong word there but I used underlying, meaning as the numbers rollout, there was underlying movements on U.S. mortality.

In terms of how long we'll have the reserves there, I think we're very well-reserved given the very good purchase price that we had upfront in those acquisitions. So, I don't see that going away too quickly.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, Guilhem, as you know, our retro policy has been extremely stable for years. And people who are participating to our retro program have gone through for most of them; Katrina, Harvey, (33:11) and Irma they went through 2011. They see the behavior of the company in its buying of reinsurance year-after-year. So, as I said, we start very early. We are among the very, very first ones in the market every year.

I mean, generally in Monte Carlo, we already are into the negotiation of our retro program, and this year was no different. So, this is why I said we are well-advanced. Well, we are having sensible discussions. I mean, don't forget that our retro is largely proportional and our proportional are very diversified, so that's another element, so yeah. When I say I'm confident, I'm confident because we are already well into it. We've got our lead quotes. We are carrying on. I would expect that to be completed as every year - early November, so...

Then, as far as the pricing is going to be concerned, yes, there will be some increase in certain parts of the program, but at the end of the day, we retain 90% of our overall premium, so - while any increase in the retrocession is on 10%. And as we said also, we are going through a market reassessment that goes well beyond the nat cat.

So again, I'm not worried that this - whatever at the end of the day, is the price of our retro will be totally compatible with what we believe we can negotiate on the assumed risks.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Thank you. Maybe a follow-up on this one. If you had to put a number on what could be the pricing evolution for the reinsurance business going forward across the globe, what would be this number today?

A - Victor Peignet {BIO 6287211 <GO>}

I would not put any. Well, I would not publicly put any. I have my own ideas, but that's it. But we are entering into the discussions. We have some programs that are there to be quoted, some are already in the market. Well, I think what's going to be the fact this year and this – is that, well, every client will basically be dealt with on its own merit, and then there will be, in my opinion, more differentiation. But I don't think it would be proper to indicate, well, kind of a general – we know exactly for each client where we are in terms of actual pricing compared to technical pricing. The thing is that depending on the starting point and depending whether that client has been affected by the losses or not, but there will be a negotiation to get to technical prices or as close to it as possible, or if it's required.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Thank you very much, Victor and Paolo.

Operator

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good morning, everybody. I have two questions. My first question is also on the renewals outlook. Victor, I think you made very strong comments that you even expect improvements, I would say, in non-loss affected lines, also other geographies, other lines of business. But my key question is why should really clients accept price increases in these non-loss affected lines, what's the rationale behind this?

And then secondly, probably more on, for François, so it's in the Life business. Within the Life division, the regular investment income, or as you call it, investment revenues, they have been very low, the €27 million, 20% decline quarter-on-quarter. What is the driver behind this?

A - Victor Peignet {BIO 6287211 <GO>}

I think the answer to the first question is the essence of our business. Our business is a global business of mutualization of risk. We are – no client would have today in the condition it has without being part of a pool – a pool of risk. That pool of risk today is affected by major losses. The consequences of those major losses have got to be redistributed. If there is no redistribution, there is no insurance and reinsurance system.

A - François de Varenne

On your question on the investment income in the Life division, you have the detail on slide 24, 25 in the appendix. As a reminder, my mandate is to manage the global portfolio. Of course, we're feeling constraint for the Life and the Non-Life division. And the driver of the evolution in the Life division this quarter is less of realized capital gain compared to previous quarter. Consider that it's not a policy, it just happened this quarter and no specific trend to be mentioned for this one-off event.

Q - Frank Kopfinger {BIO 16342277 <GO>}

But my point was not so much on the realized gains. It was on the €27 million investment revenues. This really came down significantly. Was there any trouble behind this? So, is this going to catch up as you're going to derisk?

A - François de Varenne

I don't know. No, I think that should be mostly a dollar effect.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thanks.

Operator

Thank you. We will now take our next question from Andrew Ritchie of (38:44) Please go ahead.

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

Hi, there. Two questions. One is, could you just clarify what the Solvency II impact of U.S. mortality was in the quarter? I'm assuming I should think of that as a kind of one-off catch-up rather than a recurring item.

Second question, Victor, you're not changing your corporate (39:11) risk appetite or you business plan, I think that's what you said. How do I square that with your degree of positivity about the environment going forward? I mean, isn't this the perfect environment to particularly increase your risk appetite and/or your business planning assumptions now look on the conservative side. Thanks.

A - Operator

(39:35) Maybe, I'll answer the first question.

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

So, the impact of the U.S. mortality experience is in the range of 2 points to 3 points of solvency ratio decline. I guess there's an element of catch-up in this. So, this is not only purely Q3. So, there are reporting lags which have also accumulated in Q3 to some extent.

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

Sorry, could I clarify? Is the mortality pre-2005, pre-2004 or is it more recent years?

A - Victor Peignet {BIO 6287211 <GO>}

Paolo?

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

Yeah. What we're seeing is adverse mortality rising from (40:21) reinsurance and permanent policy, so universal life policy issued somewhere between 2006 and 2009 timeframe. This is really focused on a few specific lines in these years. The prior to 2004 is largely due to a write in our fee gap. So, those are eras that, yeah, performed much worse than were originally priced that we – as we bought the books from 2011 on, we were aware already a lot of those issues and those are captured already in the value of the – in the purchase price effect yield of the business. So, what we're seeing here is more recent years.

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

Okay. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

To the question of your changing risk appetite...

A - Victor Peignet {BIO 6287211 <GO>}

Yeah. Well, I think we are not going to change the risk appetite, that's for sure. We could certainly write more if that justifies. I think we'll adjust as we walk into the renewals and, well we'll have better clarity, in say, three or four weeks. And what I can say is that, we have the flexibility to adapt the deployment of capital through the renewals, and that's with the 1/1, but through the 1/1 and, well, the May-June of next year, which is more – going to be more of a date for the U.S. than 1/1 where there's a limited amount of business of the U.S. business that renews. So, I think we'll...

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

Okay.

A - Victor Peignet {BIO 6287211 <GO>}

Probably we can answer your question when we will publish the results of the renewal beginning of February next year. We will have gone through 1/1 and if we have seen during the 1/1 the opportunity to adjust, then well communicate at that time.

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

All right. Thank you.

Operator

Thank you. We will now take our next question from Daniel Bischof of Baader Helvea. Please go ahead.

Q - Daniel Bischof {BIO 17407166 <GO>}

Yeah. Good morning, all. I have two questions for Victor. The first one on the P&C side mostly. I'll be interested to hear your view on the element, non-traditional capacity. I mean, we entered Q3 with a record high capacity at record low spreads, to what extent could this put the cap on price increase? And we are seeing some banks already collecting money for 2018.

And the second one, then on the loss estimate. I think you mentioned the numbers is based on the market loss of $95 billion, so could you explain to what extent the €430 million or based on a top-down view and how much visibility you have from the (43:09) side by now?

A - Victor Peignet {BIO 6287211 <GO>}

I think Denis wanted to make a comment about the previous question. So, maybe we could start with that.

A - Denis Kessler {BIO 1498477 <GO>}

You're too kind with me, Victor.

A - Victor Peignet {BIO 6287211 <GO>}

Thank you. Yes. Vested interest.

A - Denis Kessler {BIO 1498477 <GO>}

We – yeah. Sure. There's three important ways of distinction but as far as if we can write more, taking to the same risk appetite. So, the answer is of course if conditions are met, and we're quite optimistic about the fact that the market dynamics today is in favor of reinsurance (43:43). I have seen no one talking about price decreases, it's the first time. Usually, you have always wanted to (43:52) us to hear about it, you know, it's not the case.

Anyone talks about the rate increases and (43:58) relations to be strengthened, (44:00) Now, the size of it, we have to wait but of course it could be on a client-by-client basis, market-by-market, business-by-business, so we're quite optimistic.

Now, we don't change the risk appetite, whether we're going to expose the capital to lines or shares of businesses if we consider, I'm kind of speaking to the well-defined risk appetite framework. But of course, we can write more within this risk appetite framework. And if conditions are met, we will write more. There's no question about it and we'll inform you as soon as we see where the market is heading through.

Let's say, we have - as I said, we are quite optimistic about the market dynamics right now. So, the losses of our competitors will certainly are more and more now disclosed, paves the way for - no one escapes the fate of those events. So, everyone is concerned. So, more than others and by the way, all seems to be less concerned than others when you compare that to our net equity or to income or to earnings. But having said that, all players are concerned.

So, this is a worldwide global effect affecting the entire industry. And that's why we expect the reaction to be worldwide and global in all business lines. Even marginal players or let's say, second-tier players in Asia with business in the U.S. and they are concerned in that there's so much financial capacity, so that's why we believe that no one is going to be safe (45:35-45:41) as soon as we have some, let's say, quantitative signs of this upturn of the market which is, to my point of view, absolutely obvious.

Can we go back to the first question?

A - Victor Peignet {BIO 6287211 <GO>}

The question - the first one - yeah.

A - Denis Kessler {BIO 1498477 <GO>}

Do you want to answer, Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well or maybe you want to deal with the first one, Denis?

A - Operator

Maybe, Daniel, if you could just repeat your questions, that would help.

Q - Daniel Bischof {BIO 17407166 <GO>}

Of course. So, the first one was on the non-traditional capacity, where we had obviously the record issuance outstanding and also quite low spreads into Q2 and Q3. I was wondering to what extent this could be or put a cap on price increases?

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think, as you know, I mean those events are affecting primarily traditional players and collateralize reinsurance players with less cat bonds. For me, it's quite simple. I mean once you face those events but it is quite probable that, yes, there will be reloading, the question is what sort of expectations or returns, I mean, are having the investors? So, I think, everyone is going to reassess the expectations of return in view of what has just happened. Well, again, I mean, it's probably early days and we are not even having a clarity about how much the fact that the collateral are being locked up is going to impact. So, I think it's - we need to wait a few more weeks to see exactly where we are. In addition, any buyer would like to keep probably a balance between traditional and less traditional.

Regarding the loss estimate that $95 billion - but there are certain risks that are fit for being modeled, there are other risk that are less fit for being modeled which why our estimates are not purely based on model. They are based on model for the risk where we can rely on model and they are based on really, while assessment of contracts by the underwriters and our claims people based on their own knowledge of the contract for risk that are, well, much less, not as well captured by model. So - and then you rebuilt this blended approach. You rebuild it and that's where the market loss figure that we are communicating on comes from.

Q - Daniel Bischof {BIO 17407166 <GO>}

Okay. Thanks a lot.

A - Denis Kessler {BIO 1498477 <GO>}

Hereto, I would like to add something. Victor said everyone today taking into account what has happened, absolutely true. But we also take into account what could have happened if Irma went East instead of going West. And it's certainly a key element. I think in those worst-case scenario, it happened but could have happened. And in that case, those market dynamics would be even different from the one we have here. So, for investors in cat bond funds, something we have in mind with this scenario - alternative scenario where suddenly Irma would have destroyed the East Coast of Florida then going up North, so - and that's a lot of anxiety because it would have been, maybe here, a historical event.

A - Victor Peignet {BIO 6287211 <GO>}

Next question, please.

Operator

Thank you. We will take the next question from Jonny Urwin of UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, good day. Good morning. Just two questions from me. So firstly, if we add up all of the losses announced by listed companies globally, so far, both primary and reinsurance, we only get to about $35 billion, that's actually your announced initial estimates with - not many yet to report now. So, if we believe the modeling agencies of industry losses around sort of $95 billion, $100 billion, which you guys seemed to do, then where do you think these unaccounted losses are? It seems like an awfully high number to be (50:14) on the private markets or collateralized players. So, any color there would be great.

And secondly, I suspect you won't, but can you give us an update on pricing moves that you've seen on early renewals coming to market? Anything anecdotal would be appreciated. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, Jonny. Victor, you know where's the black hole?

A - Victor Peignet {BIO 6287211 <GO>}

No, unfortunately not.

A - Denis Kessler {BIO 1498477 <GO>}

Can you explain a little bit? Can you explain a little bit?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think we have done - we have done a, I believe, pretty realistic work to get to the figures that we are building our reserve on. So, I listen to what you say. Well, I see what we have in our books. So, at least on our side, I'm confident that, well, what we are talking about is realistic.

A - Denis Kessler {BIO 1498477 <GO>}

We think it was a market share. Many criteria have been taken into account, many parameters to estimate. It seems that the $95 billion is, let's say, the center of the ballpark, maybe the (51:36) was the ballpark. But still that's what we put into accounts are estimated on the basis of a $95 million series of events. Let's see what it's going to disclose and let's see what's going to happen in the weeks to come. I said this morning and I repeat, we don't expect to have to revise reports as the estimates we have, that's for sure. That's not the important statement, okay? So, hopefully - I don't want to say anything more.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Next question - Do you have another question? Do you have a follow-up question, Jonny?

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah. (52:16) just the other question which is can you give us an update on pricing moves that you've seen on early renewals that have come to market or just anything anecdotally you could give us? That'd be great.

A - Victor Peignet {BIO 6287211 <GO>}

Mutual gain.

A - Denis Kessler {BIO 1498477 <GO>}

There has been no contract concluded of any significance in the past two or three weeks. One or two are in the market at the moment and being discussed, but (52:41) of the terms have been given that could give us a good indication of where we are.

Q - Jonny Urwin {BIO 17445508 <GO>}

All right. Thanks.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Hi. Good morning. Thank you. So, several things have been addressed. I'll just try to clarify one or two. I'm quite curious to know how the retrocession you think of – Victor, I guess. On your slide, I can't mention number, but you have a number which states $630 million protection not yet triggered, and from the – I mean, the stated reported numbers today, there's obviously €500 million, €600 million that went to retrocession. How should we look at – I mean, this is quite a lot of retrocession given that your nat cat budget is much smaller, obviously, net basis of €300 million to €400 million. But if you could just help us understand when you said 90%, you retain 10% as retroceded. How should we put in context of this very large retrocession cover?

And the second question is just you obviously talked about ILS investors reassessing. I was just curious that given that SCOR investment partners also has €650 million AUM which you manage, and some of that is cat bond, what's the feedback you're getting from investors? So, in other words, from cat bond investors? Is your expectation that they will reassess returns based on some feedback from your business experience of SCOR investment partners, or is it your expectation from what you would normally get? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Maybe we stop by François.

A - François de Varenne

So, on the ILS, so we manage a little bit more than that. When you said we are above $1.2 billion today in terms of capacity of funds. Our main flagship, the Atropos Fund, in which SCOR is coinvested, has suffer from a negative performance in September of minus 7%, which is in line with what our investors were expected. And even compared to peer, we are a little bit less exposed.

The first reaction that we observed from our investor, I remind you that we have no retailing of our client base, so we only speak to professional clients in Europe, mostly insurance companies, banks, asset manager and pension funds. The first observation is that our investor are waiting, asking question. We have no redemption on any of the three funds we manage today.

We signed a large mandate for UK pension fund over the last three weeks, so just after the event. And, I think people are waiting for potentially increasing their investment capacity early next year if they see a positive trend in the pricing.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And isn't that going to bother the theory that ILS will come in but not really have price effect? I mean if there's a mandate coming in now and more expected from just your experience?

A - François de Varenne

It's a new mandate that's been decided. As you know, some of the funds of ILS would be blocked early 2018. So, that recently dried up a little bit the capacities, that's what we believe. And people are hesitating, they wait to see us proceeding to go to see whether or not they contribute again or not. So, it's still of the open question to know what would this contribution upside is to the 2018 market, I mean so...

My view is that it would be less buoyant than to be expect, because as I said, people will start and agree to (57:18) try about the alternative scenarios. In one of the scenarios that could have happened, they would have lost a lot so - and that maybe (57:27) today, so we have to wait for the disclosure of the value of future ILS at cat bonds that will be in the weeks to come to see how they are impacted which is not yet retransferred, and so it seems like in the move - it's moving right now.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you.

A - François de Varenne

Maybe on retro, Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, on retro first of all, I mean cat business for us will present about what 15% of the total premium. So, we are not essentially a cat writer; we write all lines of business. When I say that we retain 90%, it means we retain 90% of the overall premium. And then what we buy as writable program is basically a cat program and a high excess per risk on our large corporate business, that's what we buy as writable, so...

And as far as our cat rate is always concern, well, a significant part of it is proportional. So, that explains basically what I was saying. The non-proportional part of our cat rate has been very little affected by the losses; only some of the aggregate colors have been partially affected.

A - François de Varenne

And all those protections are still in place in case we would have additional events by the end of the year so, that's why we didn't - we are in a good position in case something would have (58:55) so...

A - Victor Peignet {BIO 6287211 <GO>}

Our proportional stays in place. Our vertical non-proportional is unaffected and some of our lateral protections have been triggered, but not all of them.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Can I just crosscheck my understanding? So, this means that you're not very worried about retro pricing because the non-proportional layers are still not hit. Is that a reasonable summary of what you just said?

A - Victor Peignet {BIO 6287211 <GO>}

Well, we are not worried, first of all because we believe that we have the relationship that guarantees that there is continuity and there is a spirit of continuity and consistency in the pricing. So, I think that's the first main point, probably. And then, yes, a lot of our retro is totally unaffected. That's the fact.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

Operator

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

Q - Thomas Fossard {BIO 1941215 <GO>}

Good morning, all. I've got two questions. First one would be for Victor. Victor, as we understand, you're pointing that you've got compliance risk appetite and you are not a cat writer. But still, if I'm taking the €600 million of Q3 losses and look at what this is representing in terms of the shareholders' equity of the group at the end of June. If my math is right, I'm reaching something which is around 9.3%, 9.4%. Compared to many (1:00:37) losses disclosed this morning, I'm reaching a number which is 9%. So, are these actually SCOR will have, I would say, a similar risk exposure or market position which is a bit counterintuitive compared to what you've said in the past on SCOR being underweight, possibly also being underweight at Texas and Florida. So, maybe if you could answer this?

And the second question will be on the dividend policy. You're saying that obviously there is no change in the dividend policy, I fully understand. Now, if we are to take a normalized Q4 results and apply in 35% payout ratio, clearly, this would mean a cut to the €1.65

dividend per share paid last year. So, any clarification on what would be the intention of the group despite the significant losses incurred in Q3? Thank you.

A - François de Varenne

Victor, first.

A - Victor Peignet {BIO 6287211 <GO>}

Well, first, just a slight correction. If you want to talk about ratio on equity, you should not take the €600 million, but the €430 million post-tax, but that's the detail which has its importance. But I think we – you need to compare on three – in my opinion, three different parameters; the equity of the premium and the annual earnings. And if you do those, if you take those three, and you put that in perspective, yes, you will see that we are relatively less affected. That's to me, there is no rocket science in that. But I think you need to look at the three parameters to get a view that is not just through one angle, but through the three that are relevant.

A - Denis Kessler {BIO 1498477 <GO>}

All those table exist. So, they are circulating everywhere right now. And you have to take the earnings. You have to take the equity. You have to take the premiums, whatever. And when you look and you find out that we are in the good part of the curve – of the quadrant today. When I say good part, relatively well as exposed, but that's clear.

There are some competitors that are heavily exposed. You know them because you had the rating agency's reaction almost immediately. So, easy to identify, but we have to wait still for full disclosure before drawing anything, but we have the conviction and we have the demonstrations that we're less affected. Everything being equal than our peers. It's a very important statement as always, so...

Now, on the dividend policy, I will ask Mark to do a precise answer.

A - Mark Kociancic {BIO 17852409 <GO>}

Okay. Thank you, Denis. Just one clarification of the mathematics, Thomas, on your first point. So, we had roughly €6.4 billion of shareholders' equity at the end of June 30. So, with the €430 million nat cat loss, you're looking at a figure just above 6%, not the 9% you referenced. But as Denis mentioned, I think you'll see all of these relative comparisons come out soon enough in the marketplace since it's all public information.

With respect to the dividend policy, I would draw your attention back to the IR day slides. We've been very clear about the methodology that we apply in setting the dividend. You're right that there's only one constraint, which is the 35%. However, we do have a four-step methodology, and it starts by securing the solvency position of the group, making sure that it's in the optimal range, that it's where we want it to support the operating plan of the group and making sure that we're able to take advantage of the opportunities that we have forthcoming in 2018.

And then we see how much of the dividend potential is sustainable going forward. So, these three steps have not changed, and will not change as we head into the next four months when we start making these types of decisions.

So, I would guide you to, I think, it's slide 46 of the IR deck And separately, just in terms of net income and so forth, we have – there have been some – there is public information, I think, about things that will probably benefit various companies in the industries; SCOR is one of them. You've certainly heard potential for positive reserve developments on Ogden, for example.

Recently here in France, there was some very material decision by the French Constitutional Court with respect to the withholding tax that we've spoken about frequently and every May, when we end up making these payments and that's a favorable ruling for companies like SCOR that have to make these dividend payments.

And certainly, I would point you to the guidance that we've provided on the return on investments as another area to look at. So, I think, our net income possibilities for the future are good.

Q - Thomas Fossard {BIO 1941215 <GO>}

Mark, just a quick follow-up on the withholding tax. This was something also I had in mind. Would you expect this to come as a one-off, cumulative one-off impact as soon as Q4 now that the decision has been given by the court and the state will have to comply to this judgment or I mean, a bit more...

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. The decision came about two weeks ago, actually. I think about two Fridays ago. So I expect it to be a Q4 event for the industry. I think there's a great deal of certainty in this decision. The state has, to my knowledge, really only delaying tactics in terms of any kind of recourse but there's no way to appeal it, really. So, I expect it to occur in Q4 and I expect it to be beneficial to the group.

Q - Thomas Fossard {BIO 1941215 <GO>}

How much you would say in terms of one-off...

A - Mark Kociancic {BIO 17852409 <GO>}

Well, it's a 3% tax that's been applied to our dividend for the past four years, I believe. So, I think, you can calculate them, the impact, for us which is roughly €300 million a year of dividends.

Q - Thomas Fossard {BIO 1941215 <GO>}

So, should you then pay it out externally, yeah?

A - Mark Kociancic {BIO 17852409 <GO>}

It's something that SCOR pays, the company, not the dividend recipient.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yeah.

A - Mark Kociancic {BIO 17852409 <GO>}

So, that withholding tax is 3% of the gross dividend payout annually.

A - Denis Kessler {BIO 1498477 <GO>}

And we say it's north of €40 million or we cannot say it?

A - Mark Kociancic {BIO 17852409 <GO>}

I think if someone was to add up all the public information on our dividend payments, that would be a very safe statement.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you very much, Mark. Oops, sorry I shouldn't have.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Next question, I guess.

A - Ian Kelly {BIO 19976646 <GO>}

So, can we take our next question?

Operator

So, we take the next question now from Kamran Hossain of RBC. Your line is now open. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, everyone. Two questions from me. First of all, just coming back to the really helpful kind of industry overview of losses (01:08:39) during the presentation. Do you have an idea of how much of the loss will fall to ILS, I guess, just coming back to the earlier questions around how we get to that €100 billion, but how much falls to ILS?

And the second question, clearly, some reference to competitors impacted or kind of having negative comments by rating agencies. I guess, in relation to that, your Lloyd's syndicate, the channel syndicate, looking at the coming into line that's going to occur shortly, is there any capital that actually needs to go into the Lloyd's syndicate? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

I think on the second part was the capital that is going to go into channel, well, will be a function of the approved SBF that is currently being discussed with Lloyd's, but we have no particular worry about that. I mean, it's part of the normal operation. So, no particular concern. I mean, we are in discussion with Lloyd's about our SBF and what we hope is to get to a safe landing on that and from there, and the capital requirement will be activated.

Regarding how much the ILS is going to pick up from the loss, I think, unfortunately, in a market or unfortunately - well it's not fortunate or unfortunate, it's a fact. The market is very, very fragmented today. And as we said from the beginning, we know how much it's going to cost us. What we don't know is who are going to be the ultimate payers. I mean, this will take some time before it emerges.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay. Thanks very much.

Operator

Thank you. We will now take our new question from Michael Haid of Commerzbank. Please go ahead. Your line is open.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good morning. First question. I'm still trying to understand a little bit more your retro protection, the gap between €108 million and the €600 million. To my understanding, it's fair to assume that most of this gap is covered by proportional retro and what you said is that the XL covers have - the attachment points have hardly been hit. And for that reason, you also don't need to reinstate that much, that would be also consistent with your statement that any higher gross loss would not have a huge impact on the net loss. So, is it fair to assume that if we now see higher losses in the fourth quarter from U.S. (01:11:16) that this immediately hit your full account or any aggregate covers? That is my first question.

And the second question, I noticed that in Q3, there must have been a significant amount of other nat cat losses aside of these U.S. hurricanes and the Mexican earthquake losses. Can you talk a little bit about how much these were and where they came from?

A - Denis Kessler {BIO 1498477 <GO>}

So, your summary of the retro protection of the group is right. Now, the impact of Californian fires, Victor, can you say a word about it?

A - Victor Peignet {BIO 6287211 <GO>}

I think during the quarter, we have very little in addition to the major losses before the fire (01:12:02) actually. We have a bit on the Typhoon Hato (01:12:09), a bit of floods here and there but overall, this represents a - well, we're exactly in the right fare is (01:12:16) €13 million, 1-3, on top of the €598 million that is coming from the fire. So, there's very little other activity of cat in the quarter.

Q - Michael Haid {BIO 1971310 <GO>}

And any other manmade losses or anything like that because I was wondering that...

A - Victor Peignet {BIO 6287211 <GO>}

No.

Q - Michael Haid {BIO 1971310 <GO>}

...the combined ratio you showed was quite high.

A - Victor Peignet {BIO 6287211 <GO>}

No. If you normalize the combined ratio, you takeout Ogden and the reserve release and you take out the - you bring the cat at 6%, which is the budget, you get to 95%, 94-point-something but very close to 95%. So, we are in a quarter where - and you look at our attritional ratio, our attritional ratio, again, you need to normalize it from Ogden. So, you need to remove about 2.9% of the 58%. So, again, you are in an attritional, which is 55-something, very, very consistent. But we are very pleased with the way the underlying portfolio operates. I mean, we continue to operate at a combined ratio, as I was saying, which is around 95%, exactly as per plan, as per the assumption of the plan.

Q - Michael Haid {BIO 1971310 <GO>}

But Ogden is not a Q3 event, right? It occurred in the first quarter.

A - Victor Peignet {BIO 6287211 <GO>}

Yeah, yeah. You know, I'm talking of year-to-date combined ratio.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. I was talking about the Q3 combined ratio...

A - Victor Peignet {BIO 6287211 <GO>}

On a quarterly basis, you can have a bit of - what is our normalized (01:13:43) Q3?

A - Ian Kelly {BIO 19976646 <GO>}

So we can refer to slide 34.

A - Victor Peignet {BIO 6287211 <GO>}

95.4%.

Q - Michael Haid {BIO 1971310 <GO>}

Okay.

A - Victor Peignet {BIO 6287211 <GO>}

So, for normalized on Q3 only. So, I mean, we are not a business that is a quarter business, but 0.4% what I mean is just within the margin. So, for me – but year-to-date, which is a bit more relevant, we are just below 95%, so we continue to basically sail exactly in line with the assumptions of the plan, which is very satisfactory to me without any reserve release from (01:14:24) the nat cat. I mean, our nat cat, we've taken them with no reserve release at all. So, the only reserve release were the ones we did in Q1 to soften the Ogden rate change.

Q - Michael Haid {BIO 1971310 <GO>}

Yes. Okay. Perfect. Thank you very much.

Operator

Thank you. We will now take our next question from Roland Pfänder of ODDO BHF. Your line is now open. Please go ahead.

Q - Roland Pfänder

Yes. Good morning, everybody. Two questions, if I may. I would be interested in your short-term business opportunities post the hurricanes in U.S. You're actively selling backup covers as they are high demand. Can you indicate any pricing there? That's the first question.

The second question, Life reinsurance. Could you talk me through your in-force management actions? Do you see there maybe a threat that those actions might lead to negative IFRS impact going forward? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Backup cover, Victor.

A - Victor Peignet {BIO 6287211 <GO>}

We have not been actively seeking backup covers. I mean, we have looked at a few backup covers from clients that are clients of ours, and we have tried to respond to their needs but this is really a handful of backup covers that we signed. So, to me, not significant at all.

A - Denis Kessler {BIO 1498477 <GO>}

There was some demand, yes, for sure, but we need follow-up. Paolo?

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

Yeah. When you look at what we call the active in-force management, there are really two areas we've been working on over the years. One is working with our retro partners to optimize the retrocession structures. And the second is really working with our clients on treaties, which are not performing as expected.

Now, on neither of these two areas, at this point, we have any plan to activate any actions that would have a negative IFRS impact.

Q - Roland Pfänder

Okay. Thank you.

Operator

Thank you. We will now take our next question from Guilhem Horvath of BNP Paribas. Please go ahead.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes. Thank you. Just two quick follow-up questions. The first one – and tell me if I'm wrong, but what I hear is – I interpret that as your cat budget shouldn't go higher than 6 points of combined ratio next year. Am I correct? And the second question is on the €200 million potential capital release from the merger of legal entities in France. Let's assume that in early 2011, you still have a 213% Solvency II ratio. Would you return this capital freed up to shareholders or would you keep that in order to rebuild flexibility? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

On your second question, Mark, please (01:17:21) but we never said that we will only do share buyback in case we're above the optimal Solvency range, we said we want to change the Solvency and if we are in the upper part of the Solvency range, we can proceed to those capital management actions. So, it has been said, I repeat it, it's not mechanical, we just need to have the Solvency I to reach in the upper part of the solvency range, and be able to support the development of the group and pick up opportunities, there's also opportunities happen as it seems to be the case. Mark did I interpret the policy rightfully?

A - Mark Kociancic {BIO 17852409 <GO>}

Excellent interpretation. It's really consistent with what we said at the IR Day that we're comfortable being in the upper half of the – or the upper part of the optimal range of the solvency ratio, that would not dissuade us from yielding with the €200 million benefit, and we would still use the same decision tree that I mentioned before in referenced from the IR Day dividend policy question.

A - Denis Kessler {BIO 1498477 <GO>}

Victor, the other question.

A - Victor Peignet {BIO 6287211 <GO>}

No. I think you're right, we won't have a prior year reason to change the budget.

A - Denis Kessler {BIO 1498477 <GO>}

Our budget remains at 6%.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Thank you.

Operator

Thank you, and unfortunately, due to time constraints, that was our final question on today's call. I would now like to turn the call back to our speakers for any closing or additional remarks. Please go ahead.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. Thank you very much for attending this conference call. For those analysts attending the round table, we will see you later on today at 5:00 PM UK time, 6:00 PM European time, and in any case, myself and the team are available should you require any further information. So, please call if you need to. Thanks very much and have a nice day.

Operator

Thank you, ladies and gentlemen. That will conclude today's call. You may now disconnect. Thank you.