S1 2018 Earnings Call

Company Participants

- Denis Kessler, Chairman and Chief Executive Officer
- Francois de Varenne, Chief Executive Officer
- Ian Kelly, Head of Investor Relations
- Laurent Rousseau, Deputy Chief Executive Officer
- Mark Kociancic, Chief Financial Officer
- Paolo De Martin, Chief Executive Officer
- Unidentified Speaker
- Victor Peignet, Chief Executive Officer

Other Participants

- Andrew Ritchie, Analyst
- Frank Kopfinger, Analyst
- Guilhem Horvath, Analyst
- Iain Pearce, Analyst
- Ivan Bokhmat, Analyst
- Jonny Irwin, Analyst
- Kamran Hossain, Analyst
- Paris Hadjiantonis, Analyst
- Sami Taipalus, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group Q2 2018 Results Call. Today's conference is being recorded. There will be an opportunity to ask questions after the presentation. (Operator Instructions).

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

Ian Kelly {BIO 19976646 <GO>}

Good morning, everybody, and welcome to the SCOR Group 2018 First Half Results Call. I please ask you to consider the disclaimer on page two of the presentation, which indicates that the financial results for the first half of 2018 in subject to the completion of a limited review by SCOR's independent auditors.

With this, I would like to give the floor to Denis Kessler, Chairman and CEO of the SCOR Group, who is joined on this call by the entire company [ph]. Thank you.

Denis Kessler {BIO 1498477 <GO>}

Thank you, Ian, and good morning, everyone. As you might have seen, SCOR delivers strong results in the first half of this year. And we do outperform profitability and solvency target. So we continue to deliver disciplined and profitable endogenous growth with both the Life and P&C divisions expanding the footprints in targeted territories and business lines, and delivering a robust technical profitability.

Gross written premiums totaled more than EUR7.5 billion in the first half of 2018, up 8.2% at constant exchange rates compared to the same period last year. This growth comes from the excellent performance of two business engines. SCOR Global P&C, first, delivered successful renewals in June-July, in line with January and April renewals with continued price and volume improvements and higher expected profitability.

SCOR Global P&C pursues expansions of its franchise in the US, the largest P&C market in the world, where we have a unique position to gain market share. In addition, we continue to develop the cost benefits between our Lloyd's Syndicate, Channel 2015 and SCOR Business Solutions, who offer our clients a comprehensive offering on the London market.

Again, SCOR Global Life is also pursuing the expansion of its franchise, in particular, in Asia Pacific and in Financial Solutions, again, in line with Vision in Action. In addition, SCOR Global Life launched SCOR Life & Health Ventures and announced the venture's first strategic investment.

The SCOR delivers an excellent technical profitability in the first half of 2018. The P&C combined ratio stands at 91.4%. And the Life technical margin at 6.9%, whilst return on invested assets, which was 2.5%. In the first six months of 2018, we have had to face a issue raised by the Base Erosion and Anti-Abuse Tax provision of the US tax reform. We have managed it through the implementation of certain changes through operational structure.

Despite the accounting charge stemming from the implementation of this new operational structure, which is by the way fully accounted for in the second quarter of 2018, and represents a total expense of EUR62 million. The SCOR Group meet its ROE target over the first half of 2018, the net income standing at EUR262 million.

If we were to exclude this accounting charge SCOR's net income for the first six months of 2018 would have reached EUR324 million, corresponding to a return on equity of 10.9% well above the Vision in Action profitability target. Solvency ratio of the group is strong, standing at 221%, at the end of the second quarter, at the end of June, slightly above the optimal range of the solvency scale following robust capital generation since the 1st of January.

Finally, the SCOR continues to execute its EUR200 million share buyback program as planned with EUR67 million of shares bought back to date. Thus one-third of the program has been executed and completion remains on track for July 2019. Through the execution of this share buyback program, the Group reaffirms its confidence in the strengths of its underlying fundamentals, excellent ratings and optimal debt leverage.

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

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis, and good morning, everyone. So let's begin on slide four. I'll walk you through the financial highlights of the first half of 2018's results. SCOR underwrote just above EUR7.5 billion of gross written premium in the first half of the year, representing an 8.2% increase over the first half of 2017 at constant exchange rates or 0.2% at current exchange rates.

This top-line growth was fuelled by the strong contribution of both business engines, SCOR Global P&C with a 4.9% growth at constant FX, and SCOR Global Life with a 10.5% rise at constant foreign exchange. P&C net combined ratio for the first six months of the year stands at 91.4% for the 2.3% nat cat ratio.

The normalized net combined ratio stands at 95.1%. And this is in line with the assumptions of Vision in Action. The Life technical margin reached 6.9%, also in line with Vision in Action. And finally, SCOR Global Investments delivered a good return on invested assets at 2.5%. Overall, SCOR's net income for Q2 2018 stands at 262 million with an ROE of 8.8%. If we exclude the US tax reform charge of 75 million or EUR62 million, the net income would stand at 324 million.

And this translates into a normalized ROE of 10.9% above the Vision in Action target of 800 bps over the five year risk-free-rate. SCOR's solvency position remains strong at 221% at the end of Q2, marginally above the optimal range of our solvency scale.

Going to page six, shareholders' equity stood at the end of June at EUR6 billion, compared to the 2017 reduction mainly comes from the currency translation adjustment, primarily due to the strengthening of the US dollar at the beginning of the year, and from the 312 million dividend payment in Q2. This translates into a book value per share of 32.08 at the end of June.

Our financial leverage stands at 28.4%, temporarily above the Vision in Action assumption of 25%. And we expect this to come back to within our range, after we call our Swiss debt this November and as net income is earned in future quarters.

Moving to page seven, SCOR generated operating cash flows of 253 million. SCOR Global Life benefits from strong cash flow. While SCOR Global P&C, the operating cash flow reflects the claims payment impact from the 2017 nat cat events. And without the exceptional HIMM payments, the operating cash flow would have been at approximately EUR450 million for the first half of the year. Overall, the total liquidity of the group is strong and stood at EUR1.2 billion at June 30.

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

Victor Peignet {BIO 6287211 <GO>}

Good morning. This quarter has been pretty much eventless, and my comment will, therefore, be short. Growth for the first -- the second quarter and the first semester of the year, all the KPI [Technical Difficulty] with the net combined ratio of 91.1% for the quarter and of 91.4% on the year-to-date basis. Technical result is good and in line with the indication we gave at the end of Q1.

Once normalized, the year-to-date net combined ratio of 95.1% confirms the quality of the book of business and the efficiency of its active management. It's at the upper end of the 94% to 95% range because over here, heavier than normal load from large manmade losses in the second quarter. We don't see any particular pattern in the number of large manmade losses that have occurred in this quarter whether it be by nature, by goals, by sector or by geography.

In parallel to the good technical performance, the year-to-date growth at constant exchange rates that are shown on the two slides of respectively 4.9% on an accounting-year basis, and of 7.8% on an underwriting-year basis for the renewals confirm our ability to manage our client relationship and to continue to progress in the current market.

The media renewals show a continuation of the positive pricing trend albeit at the slightly lower rate of increase of 2.3% versus the 2.9% recorded since the beginning of the year. To give you a basis of comparison, I would say that for the technical ratio, the pricing of the portfolio as a whole is now back close to the level of 2014 and for the return on risk adjusted capital at the level of 2015. We expect the growth over the entire year to be in the upper half of 3% to 8% range that we have assumed in Vision in Action.

On this, I hand over to Paolo for his comments on Life.

Paolo De Martin {BIO 15930577 <GO>}

Thank you, Victor. SCOR Global Life had an excellent first half in 2018, where we continued to deliver strong performance both in terms of profitability and franchise. In the first six months of 2018, gross written premiums have reached EUR4.5 billion with an increase of 10.5% at constant exchange rate, or 2.5% at current exchange rate.

Once again the growth was well diversified, both in terms of geographies and product lines. We have continued to deliver according to strategic plan Vision in Action, in particular, where -- with our Life & Health franchise expansion in Asia-Pacific and the execution of new financial solution business. For the full year 2018, we expect premium growth to normalize at around 6% in line with Vision in Action annual premium growth assumption. The technical performance with the first half of 2018 remains robust with an increase in net technical result of 9.7% and technical margin at 7% both at constant exchange rate.

The profitability benefits from both the profit of growth of new business as well as the strong performance of the in-force portfolio with US mortality development in line with your expectations. As Denis said, I would like to also report that we successfully launched the SCOR Life and Health Ventures, that is accelerating our innovation strategy.

I'll now hand over to Francois for more details on the group investment strategy.

Francois de Varenne {BIO 7447858 <GO>}

Thank you, Paolo. Moving on to slide 11, SCOR's total investments portfolio reaches EUR27.3 billion at the end of June, with an invested asset portfolio of 19 billion compared to 18.9 billion at the end of March. The positioning of the investment portfolio is in line with the Vision in Action target asset allocation. Liquidity is stable at five points of the invested assets in line with the target level defined for the strategic plan.

The share of corporate bonds in the invested asset portfolio has been again increased by two points compared to the previous quarter and reaches 49% close to the maximum of 50% defined for the plan, and a duration of the fixed income portfolio is unchanged at 4.6 years.

Our fixed income portfolio remains a very high quality, with an average rating of A+, and highly liquid. Indeed, at the end of June, expected financial cash flows from the fixed income portfolio over the next 24 months stands at 5.1 billion, allowing SCOR to benefit from increasing our investment rates.

SCOR Global Investments delivered a 2.5% return on invested assets for the first semester, which is supported by your continuing increase in the income yield at 2.0% in 2016, 2.1% in 2017, and now 2.3% during the first half of 2018. We benefit from the continuing improved reinvestment yield of 2.8% at the end of June.

Under current market condition, we expect the annualized return on invested assets to be in the upper part of the Vision in Action 2.5% to 3.2% range, both for 2018 and over the entire strategic plan. This level could be achieved, thanks to the disposal of a significant equity co-investment that might be completed in the later part of the year.

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

Ian Kelly {BIO 19976646 <GO>}

Thank you, Francois. On page 12, you will find the next scheduled events starting on September the 5th with our Investor Day here in Paris as well as the upcoming conferences, which we are planning to attend during 2018.

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

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question today comes from Guilhem Horvath of Exane. Please go ahead. Your line is open.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes, thank you. Good morning, everyone. My first question is for Victor. I'd like to know a little bit more on these manmade losses. Can you discuss a little bit what they are, how much they represent in terms of both of -- in euro terms and in terms of combined ratio points for the quarter? And the second question is for Francois, regarding the running yields. So you have an improvement there. Obviously, I guess, the Q2 running yields contains a little bit of dividends coming from your holdings. Can you break this down please in terms of what is the underlying running yield and what comes from Q2 dividends?

And then, what could be the full year running yield and the contribution from realized gains within this target that you reiterate today? And also, if you can discuss what is the actual reinvestments yield because you report 2.8%, but I guess this is at constant portfolio mix, but you're not reinvesting at the same at least currency mix as the one you had at the end of quarter? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Victor, the manmade losses, claims...

A - Victor Peignet {BIO 6287211 <GO>}

Well, first of all, it's not the first time that we have a quarter that is a bit heavy on manmade, that's the case. And then, on the year to date basis, you should integrate the fact that we are perfectly at normal. So it means that the normality of the quarter is already basically spread. And back to a more normal on two quarters. So I think we should not give it too much your attention.

Regarding the losses, well, they are geographically very spread, from Greece to US. They are by nature and by industry sector was different. The higher one is contingent business interruption loss that affects a car manufacturer following a fire in one of the supplier plant. I think on that I would only comment that we have a pretty tight control on our contingent business interruption exposures, which means that what we are been able to reserve for that loss is based on sub-limits of the policies and exhaustion of the sub-limits, we are pretty much safe on the reserving, even though the loss itself is dated back to May and is far, far from being adjusted.

So once again, I mean, nothing, no trend, no pattern, while something that we have already balanced over two quarters, so nothing really to worry about in my opinion.

Q - Guilhem Horvath {BIO 18460437 <GO>}

In terms of amounts, total amounts?

A - Victor Peignet {BIO 6287211 <GO>}

About EUR150 million net, in total.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Thank you.

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

So on your question, the first one on the income yield or recurring yield, so the pickup this quarter and the income yield is due to the very favorable condition, at which we managed to reinvest since a few quarter notably in the corporate bond space and more particularly in the US space, as well as higher allocation to higher-yielding assets places [ph]. However, the 2.4% observed [ph] in Q2 benefit from some non-recurring item. The underlying recurring income yield stands at 2.3% for the quarter, so we have 10 basis points of one-off in Q2 due to seasonality.

For the full year 2018, the income yield should be in the 2.2%, 2.3% range with a high probability to be in the upper part of this range. So as mentioned, the recurring yield has been gradually and progressively improving since 2016, benefiting from improved investment condition. The reinvestment rate is at 2.8% for this quarter. We have a strong appreciation of the reinvestment yield in dollar. Not yet in euro, but that should come in the second part of 2019 with the expected increase of interest rate by ECB.

Just to note on the definition of the reinvestment yield, the reinvestment yield is the market yield of the fixed income portfolio at the end of the quarter. So on the quarter, we benefitted from an improvement, of course, in the yield curve, but also on credit spread, which is positive for the portfolio.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay, thank you.

Operator

Thank you. Our next questions now come from Vinit Malhotra of Mediobanca. Please go ahead. Your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Good morning. So my main topic would be just on the larger picture on the hurricane losses, because it seems that, that's what is attributing to some of the Florida pricing disappointment. You've taken only, I understand, maybe EUR17 million net release from hurricane. But how much do you think the market is different from the magic $100 million number we saw last year, that -- or heard last year, so that's my main question really. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

So question to (inaudible).

A - Victor Peignet {BIO 6287211 <GO>}

I understand your question in view of some of the revisions that are going on. But, I mean, ourselves we have always said that it was around EUR95 million, did not change. What I'd like to insist on is that we set our reserves in Q3 last year. We've not moved since then, we are just starting to see some improvement, and we're just -- as you rightly say, we're adjusting by bit less than 20 million down.

And we still have quite a bit of a buffer on the reserve. So even though, we are not at the end of the process, we are quite portable with the level of reserves that we have set from the beginning and have not changed. So I think that, personally, I think that it may be a bit lower than the 95 million, but I think at the end, the original estimates we're probably correct. And I think there were a lot of comments regarding late developments, possible late developments in this year and the current of this year. I think we had anticipated that very well. And I feel we are in a good position on that one.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Can I just follow-up on the previous question, please? You've mentioned a number of manmade losses for 2Q of 150 million, just to be -- just to check that number, please.

A - Victor Peignet {BIO 6287211 <GO>}

You want me to be fully naked? 142...

Q - Vinit Malhotra {BIO 16184491 <GO>}

No, no, no, just want to -- just -- no, but okay, because I understood from IR that it is of the (inaudible) because 142 is a very large number.

A - Victor Peignet {BIO 6287211 <GO>}

Oh, you asked, I mean, (inaudible)

Q - Vinit Malhotra {BIO 16184491 <GO>}

Wow, okay. That's a very big number, okay.

A - Victor Peignet {BIO 6287211 <GO>}

It is bigger than usual, it's what we said. But if you average over the first six months of the year, we are back to normal already. So it is not -- which is why I'm saying it's not worrying.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right, fair enough. Thank you very much.

Operator

Thank you. Our next question comes from Sami Taipalus of Goldman Sachs. Please go ahead. Your line is open.

Q - Sami Taipalus {BIO 17452234 <GO>}

Hi, everyone. Can I just start with a question on the capital management? You've obviously bought back about 40 million or so of shares in the quarter. And you also -- the debt you issued I think was about 50 million or so higher than or will increase -- lead to roughly 50 million net increase in outstanding debt of the year once you include the cost that you plan to make. I mean, both of these actions kind of increased your debt leverage.

And I'm wondering why you're choosing to take this action, given that you are already above your target debt leverage. Is there any particular -- anything in particular you need the money for? Wouldn't it have made more sense to use your capital to reduce debt leverage instead? So I don't know if you want to start by answering that one and I've got another one on operational stuff later on.

A - Denis Kessler {BIO 1498477 <GO>}

You can hop by this question.

A - Victor Peignet {BIO 6287211 <GO>}

Yeah, sure. Our debt leverage ceiling assumption in Vision in Action is 25%. That's something that we were meeting at the early stage of Vision in Action. Last year, in 2017 we experienced a significant decrease in the currency translation adjustment aspect of our shareholders' equity because of the US dollar vis-a-vis the euro. And mechanically, that has some impact on increasing the debt leverage. We're not concerned at all with where we are with the debt leverage, right now.

Mechanically, it would have reduced to 26.6%, because we refinanced a callable bond, Swiss debt bond from this November. We redeemed one is June as well. So I think you'll see us naturally reduce backend line with that 25% figure over time. And it's more a function of adding retained earnings to the shareholders' equity position. Share buyback was something we announced last year, we're still very comfortable with it. And we execute that independently of its impact on the debt leverage ratio, it's not a concern, it's not an issue. Not an issue, that's been raised by rating agencies or other stakeholders.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah. Look, I guess, the reason I am asking is, you're above the range that you've communicated, I guess, that could potentially constraint on what you can do during the rest of the year. It's obviously a number that subject to some volatility based on what currency and interest rates are doing?

So wouldn't it more -- be more prudent to operate sort of lower down in the range, and you could have actually delivered the EPS accretion by reducing your net outstanding debt anyway rather than via the means of buyback? So I mean, it's a figure that you've communicated to debt holders and rating agencies. I am wondering, why you're taking it so vitally to move above the target range?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think going above the target range is mechanical effect. It wasn't our ambition to get to 28% or 26%. We've like I said the core earnings of the group are quite strong, the rating capital position is quite strong, so these are independent positions. We took the opportunity over the last three debt issuances in particular to execute long-term debt issuances with 11, 12 year type maturities before the first fall to secure the long-term financing of the company, of the group over a significant period of time. So that is a significant benefit to the group. And it's definitely, what I would call more long-term focus and short-term focus of just managing our quarterly debt leverage ratio and few basis points on the ROE.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. And then my second question -- sorry, did you want to add anything to that? My second question is -- yeah, sorry, go ahead, go ahead.

A - Mark Kociancic {BIO 17852409 <GO>}

I'll just finish with one point, sorry, Sami.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah, no worries.

A - Mark Kociancic {BIO 17852409 <GO>}

Terms and conditions on the debts that we issued were exceptional. We've been able to dramatically lower the cost -- average cost of our outstanding debt by almost 200 basis points since the last plan. And our issuance more recently, the Tier 1 that we had back in March was an exceptional trade especially for initiating Tier 1 market. So I think, we're locking in superior terms that are going to provide long-term shareholder value ultimately.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah, I mean, I think, if you compare it to other issuances by normalized companies in the quarter. It's -- the interest rate was actually a bit higher. But nonetheless moving on to my second question, which was on the underlying combined ratio. Just, I mean, we had a couple of quarters now -- or normalized combined ratio. So we had a couple of quarters, where this is balanced around a bit, so it was quite lower in Q4, quite lower in Q1, and then a bit higher now.

I guess what I'm wondering is, when you look at the pricing you're getting in the market. Is there any reason for you to change the outlook you have on the normalized combined ratio? Or is what you are seeing consistent with the existing guidance that you have out there. I guess, the way I am thinking about this, is that, yes, we've seen pricing improved a little bit this year, but that's -- but the target we set a couple of years ago. And if we look ahead, it might be prudent to assume that maybe pricing will -- we might see some pressure next year, assuming normal loss activity. So I'm just wondering, how you guys think about this.

A - Mark Kociancic {BIO 17852409 <GO>}

We've been -- as you said, trending quite stably between 94.5 to 95. I don't see why we should change that, I think, we are safe around that tranche with the sort of business development we see, with the sort of pricing, we are able to negotiate. Portfolio management in addition of that, I think, we're okay for the moment. And I'm still hoping that the prices are going to stem.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay, great. Thanks very much for your answers.

A - Mark Kociancic {BIO 17852409 <GO>}

I think -- think there is, in my opinion, there is -- there are different trends in the market today, I mean, it's obvious that the -- there is increase of the total reinsurance premium. The available premium is increasing. But basically, that increase is coming much more from large companies buying more and small companies buying less. So there is a management of portfolio that has got to be done. And there is, in my opinion, today, an advantage to larger size companies, larger size reinsurers with the diversification, with the ability to trade with large clients. And I think there is definitely an advantage in portfolio management through that category of reinsurers, to which we belong.

Q - Sami Taipalus {BIO 17452234 <GO>}

So we should be more focused on the sort of top line opportunity here rather than the margin opportunity, I guess, is what you're saying from your perspective?

A - Mark Kociancic {BIO 17852409 <GO>}

I think we have always said that our goal is to maximize top line under constraints and that's exactly what we're doing. We are pricing the business on a very disciplined way. We are managing the portfolio, but if we can get more top line within the target, which is both basically underwriting ratio, technical ratio and return on capital. Yeah, we'll definitely do it. And that's what we've been doing over the years.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay, great. Thanks very much for your answers.

Operator

Thank you. Our next questions now come from Andrew Ritchie of Autonomous. Please go ahead. Your line is open.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. I have a question for Paolo, who's been very quite. Paolo could you just give me an update on the claims experience in the US? I'm thinking particularly on some of the older age blocks, your revised assumptions on at least in S2 terms last year. How the experience been year-to-date? How sort of winter washed out in terms of what you're hearing from your cedants? Just a bit more color on that would be useful?

Secondly, could we get a sense as to what drivers were of S2 in the quarter between market movements and operating capital generation? And obviously, we know the buyback and dividend accrual was? Thanks.

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

So on the first question, Andrew. On the US mortality, the first six months of the year were in line with the expectations that we had. So there's really nothing to report, relatively uneventful. The seasonal flu of 2017, we expect that to be higher than the usual flu. We also believe there will be offset by overall strong performance of the in-force book. So that will flash through our books in Q3 and just a little bit in Q4. But we believe that will be offset by the rest of the performance of the book.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And as the -- when you say it's been in line with assumptions, in line with the revised opposite assumptions has a normalize backed down again in the claims experience?

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

Correct. In line with the revised assumption.

A - Denis Kessler {BIO 1498477 <GO>}

You want to add something, Andrew?

Q - Andrew Ritchie {BIO 18731996 <GO>}

On Solvency II -- yeah, sorry, the evolution of Solvency II.

A - Unidentified Speaker

(inaudible)

So there are no unusual movements in this solvency ratio in Q2, a very slight reduction because of economic movements, but small. As in previous quarters, we've reflected the shares, which we have repurchased in Q2. So that is a reduction obviously in addition to the accrual of the dividend. And that's been broadly offset by strong capital generation from the business, largely in line with what we would have seen in previous quarters.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Well, this capital generation almost equally offset by a combination of the accruals of capital plus market movements?

A - Unidentified Speaker

Yeah, you can look at in this way, yeah.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Andrew, next question please.

Operator

Thank you. Our next question today comes from Kamran Hossain of RBC. Please go ahead. Your line is open.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, good morning. Thanks for taking my questions. Just two. First one and apologies if I missed it. Just on the improvement in the HIMM losses. Was there one in particular improved better -- or kind of move -- did all improve or was there one in particular, the improved kind of the way, I understand it's that Harvey has improved quite a bit?

And the second question is, just on the underlying of the normalized combined ratio and casualty. Are you seeing any more signs of encouragement that you might begin to increase your business in casualty? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Okay. While on the cat it's relatively marginal improvement, 20 million out of total net of -- in dollars something like $770 [ph]. So I think for the moment what we are seeing is -- is positive, of course. But it's still early. What is important for me is the sort of buffer that we carry on top of information, we have received from ceding companies and the level of comfort we have in the reserve. Then we will see over time of how it goes. But very comfortable with what we booked.

Regarding the casualty in the US. Well, we are just continuing as we have done over the last two to three years. We are building up the portfolio block by block. I mean, we see the business, we evaluated, we have not return as much as we could have written. In order to basically keep the overall underwriting ratio and return on capital and within the plan for -- and for the division. So nothing -- our casualty book in the US at the moment has reached about dollars.

So we are on kind of a distribution like 65 properties, 35 casualty. We are still having some room to improve the balance. But we will -- we'll continue to do that as market conditions permit. But there are signs of primary rates evolving in the right direction. So we would see. But we are also quite cognizance of loss trends and we definitely want price to improve above just matching the loss trends.

Q - Kamran Hossain {BIO 17666412 <GO>}

That's right. I appreciate the color, Victor.

Operator

Thank you. Our next question comes from Ivan Bokhmat of Barclays. Please go ahead. Your line is open.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, good morning. Thanks for taking my questions. First of all, maybe a bigger topic on the next 12 months. Do you see, do you think that the reinsurance rates are close to have being bottomed or rather the improvement have been done for this year and what would you expect for 2019, maybe if you could spot any divergence by regions that would help. And secondly, it's more of an operating question I've noticed you've been doing some restructuring in the core business solutions. And then your London market business, maybe you could expand a little bit on that. What impact on business, should we expect. Thanks.

A - Victor Peignet {BIO 6287211 <GO>}

I'll address the first one and Laurent will address the second. Both of them are a bit linked and I don't understand really this sort of pessimism that you seem to be willing to put on the business. I mean, we are not pessimistic. I mean, we are delivering. We have been delivering. I mean lot of people would dream about a net combined ratio of 91% for a global diversified reinsurer.

So I mean, you seem to be willing to by all means to have a saying that, well, you are basically under pressure on price. No, the prices are improving. They are not improving at the level they should in our opinion, but they are improving. And this current market stage, we are delivering. So -- and we have relationship with clients, where we believe we are in a position to negotiate. So I would myself will not enter and renewal session with this sort of conviction that things are not good and are likely to deteriorate. Things are not bad and they are likely to continue to improve moderately as they are unless something else happens.

So I don't share your view of pessimism. And in our operation, the reorganizations we are doing is our -- reorganization not because we have problems, but we have because we have ambitions. We want to continue profitable growth. So we are reorganizing our operation in order to maximize business synergies and get more efficiency in the business, produce more at the level of profit we are today or both. So Laurent, maybe you want to talk about what is done with SBS and the London platform.

A - Laurent Rousseau {BIO 5131107 <GO>}

Yes, let me add to that, essentially there are two announcements we did. The first one mid-May on SCOR Business Solutions, which is our large commercial lines insurance and fac [ph] business. It is a business we're in for like over 30 years, focusing on technical heavy occupancies and taking a fairly technical approach.

This business has been performing pretty well, strong underwriting performance and taking a very technical approach to energy, construction, and heavy occupancies. Our ambition there, I guess, is two-fold. One is to broaden the product range and keeping that technical approach. And two, is to continue to have an original approach and growth in APAC, EMEA, and Americas, and combining these developments across through regions and across a broader range of products.

So that was an announcement in May and so far it's doing well. It's going to take us some time. This is going to be a development plan for the next two years. The second announcement was in 9th of July. And here with regards to our London market specialty insurance business. What we call the London market specialty insurance is the combination of channel, our Lloyd's Syndicate, which started operating in 2011.

And SCOR Business Solutions in London. The idea there is, as Victor mentioned is a growth plan. There is no -- it's not a cost-cutting plan, it's not a negative plan, it's quite contrary to that, is how can we bring the two platforms closer together and offer greater value proposition to our clients in the London market.

The second point I'd like to make is, this announcement we made has actually started -- has started being prepared last year. It has been long prepared. The CEO of the Managing Agency has told us last year, that he would retire and we put in place a succession plan and have hired a successor, who arrived at SCOR early April. And so, in a way of this announcement is in the continuity, first of all of the channel syndicate strategy, which has developed and with a strong infrastructure.

The second point is, the succession of David Reed the CEO of the Managing Agency was well anticipated and he is staying as non-executive director of the Syndicate. Even though, he's going to retire from his executive position, he would remain as a non-exec.

And third, I guess, the third point is this growth plans with SBS and having the ability to use Lloyd's paper and company paper in a flexible way. So I think, it's important to have a look at these announcements in a development way, and as well in a very logical way if you look at it from a historical perspective and the long-term ambitions that we have.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Thanks. Just to clarify, I wasn't trying to bring down the moods, but obviously, the markets color has been perhaps progressively deteriorating, whereas your results have indeed kind of, bucked the trend. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you. Next question, please.

Operator

Thank you. Our next question comes from Vikram Gandhi of Societe Generale. Please go ahead. Your line is open.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, morning, everyone. Thank you for taking my questions. The first question is around the Ogden rate. We still don't have any visibility around the new Ogden rate and considering that there might be a potential delay in the announcement. Can you please comment on how you plan to approach the reserving in the meantime?

And the second is, it will be great, if you can provide an update on where you are with the merger of the three French entities? That's all from my side.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you. Ogden rate, I said, we tackled the issue last time, but, Victor, maybe?

A - Victor Peignet {BIO 6287211 <GO>}

No. We are not changing our position, we have reserved, we have anticipated in a way, but in a very moderate way. We have decided to reserve at zero from September of this year. We are -- that's what we're doing. But we don't know any more than you do regarding where it's going to land and how it's going to land. But I mean, we feel that it's going to land positive somewhere, which can only be good news for us. But for the moment, we should -- we basically hold that at zero.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. And on the merger of the French entities?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah, on the three SEs, so this is another business, as usual, type update, we continue to make progress on schedule, and we're targeting a January 1, 2019 implementation date -- effective implementation date. The approval will likely come later in the first quarter, but with a retroactive effect. So I expect it to be completed on schedule by the end of March. And the benefits that we expect are roughly in line, we haven't done any serious update on the risk margin update. But I gave guidance last year that was close to EUR200 million of risk margin benefit from out of it.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you very much.

A - Denis Kessler {BIO 1498477 <GO>}

We're on track. Next question, please.

Operator

Thank you. Our next question comes from Frank Kopfinger of Deutsche Bank. Please go ahead. Your line is open.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes, good morning, everybody. I have two questions. My first question is on the tax effect. So obviously, you remove now this one-off charge, where you should have a benefit now going forward from lower US and French taxes. Can you comment on what we should -- what and when we should expect to have an effect on this? And then secondly, on the investments, one of the targets was also to match the duration and change this asset-liability mismatch there. I was only wondering because what we saw now at least in the US, is that there is a spread narrowing between short-term bonds, so let's say two years and 10 year bonds. And I was wondering whether there is even a requirement that you need to change this asset gap given that you get almost the same yield on a duration bond now?

A - Denis Kessler {BIO 1498477 <GO>}

Mark, first on the benefits of the US tax reform.

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. On the tax side. So I think the -- we've made this point before we do expect to marginally positive benefit for our P&C operations globally as a result of the changes in the US. I think the French rates will be an issue -- more of an issue or impact in 2020. And then 2022 in the second reduction comes, so that's a little bit further out. In terms of the Life side, we expect it to be broadly neutral in terms of the effective tax rate of the Life division.

I do expect probably some frictional tax expense to remain in 2018 in terms of the second half of the year from the beat impact in the US. And when I say frictional that would be probably on the EUR5 million to EUR10 million range for the remainder of the year. I would expect this to stay in the 22% to 24% range next year, probably at the lower end, and potentially improving on that that figure, but it should diminish over time. Francois?

A - Denis Kessler {BIO 1498477 <GO>}

On the duration to, that's true that we are almost matched today the duration I mentioned of the fixed income portfolio is unchanged at 4.6 years during the quarter. And that's true what you said, we did during Q2 kind of twist operation in the USD denominated portfolio. Just to give you an example on the corporate bond space. We invested in Q1 at an average maturing of six years.

And in Q2, we reduced a little bit this average maturity of the corporate bond by -- at four years. So with the same remuneration, but we have reduced a little bit the maturity given the flatness of the recovery [ph] in the US.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay, thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Next question, please.

Operator

Thank you. (Operator Instructions) Our next questions come from Jonny Urwin of UBS. Please go ahead. Your line is open.

Q - Jonny Irwin {BIO 20491581 <GO>}

Hi, there. So first question, you mentioned technical pricing on the P&C book is back to 2014 levels. It seems like quite a good level given the excess capital in the industry. I wondered if you had a view on where the market is at the moment in terms of technical profitability? Are you a bit ahead of the market? That would be my first question.

A - Victor Peignet {BIO 6287211 <GO>}

No. I can't really say that because I think we are having very precise figures and statistics for our book. But for the entire market, our book is very different from an average of the average book. So no, I can't give you an answer on that.

Q - Jonny Irwin {BIO 20491581 <GO>}

All right. That's fine. I mean, it sort of leads into my second question, which is I mean, if you are at 2014 levels and say in the market maybe 2015. I know, some companies commented that they wanted to get back to 2015 levels after the Hurricanes, but they said they didn't quite get there. But say, if the the market is sort of 2015 maybe 2016, then if Hurricane season runs clean from here and capital build then I am struggling to understand, why pricing wouldn't fall again, especially if the market is at 2015 levels of profitability. Because, we've got much more capital since then, and I don't think demand has risen terribly. So I'm just struggling conceptually to understand why pricing wouldn't decline, if we had a -- have a clean Hurricane season? So any comments there would be great.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I would say myself that you are looking at things through the prism of the US cat business. I mean, US cat business is only part of the overall, and it's not driving the overall, and it's not even driving the US market as a whole. So I think this is an element of the total. What I would say is, what has happened over the years, over the past years, there has been an erosion of the superior profitability of the US cat business. I mean, that business used to be priced higher, the return better.

So basically, people who had been relying enormously on US cat to produce the results, well, of course, are seeing a bucket of superior margin business that is shrinking and that is creating an issue. But if I take our case, we are in a completely different position, first of all. I mean, we have never really enjoyed those periods of superior margins, because we were not heavily involved in US cat at the time. And while we are building a book that is an overall diversified book. So the impact of US pricing on the total, we can manage it in a different way, because we don't come from the same position.

As far as the renewals are concerned, well, I think, negotiations are going to take place. But again, I would say that when you're negotiating on a US cat only basis, that's one way. I mean, our relationships with clients are global relationships across all their needs, all their lines of business. So I think the discussions are different in essence, and I would hope that this difference, in essence, is going to continue to the benefit of company like SCOR.

Q - Jonny Irwin {BIO 20491581 <GO>}

Brilliant. Thanks so much.

Operator

Thank you. Our next questions now come from Iain Pearce of Berenberg. Please go ahead. Your line is open.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi, good morning, everyone. Two questions for me, if I could. Just on the commission and the expense ratio in the P&C business. I'm just trying to understand what's caused those to take up in the first half of this year? And if there's anything to do with the sort of business mix and the structure of that business that's caused those increase and should we expect those to be slightly higher going forward?

And then just second one on investments. And apologies, if I misheard, but just was there something mentioned about potential disposal in H2 leading to something that would increase investment performance? And if you could give a bit more detail on that, that would be great. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, the trend on the expenses is no surprise basically, it has got two origins. One is the development of our insurance business, which carries a higher expense rate than our reinsurance business. So that's one element. The second element is the fact that we have increased our rate position, in particular, proportional rate position at 1/1/2018.

So there is a mathematical effect, which is that, if you reduce the denominator slightly more than it used to be ceding a bit more, your net earned premium lowers, while your expense ratio gets a bit higher.

What is important to me is once you stacked the attritional, the cat, the commission and the expense ratio. Well, we are still delivering excellent net combined. But the trend on the expense was anticipated. And if you would go back to Vision in Action, you would see that we are in the ballpark of Vision in Action.

A - Denis Kessler {BIO 1498477 <GO>}

It's due to the change of business mix.

A - Victor Peignet {BIO 6287211 <GO>}

So the realized gain, just as a reminder, so we took during the first six months, 28 million of capital gain, 19 million in Q1, mostly on the equity portfolio and 9 million on the related portfolio in Q2. At the end of June, we have 288 million of capital gain on equities and real estate. And as indicated, we plan to realize a substantial capital gain on an equity co-investment in the course of the second semester, more probably in Q4.

Q - Iain Pearce {BIO 19522835 <GO>}

Okay, perfect. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Next question, please.

Operator

Thank you. Our next question come from Paris Hadjiantonis of Credit Suisse. Please go ahead. Your line is open.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes, hi. Good morning from my side as well. I have two questions. The first one is a very general one. Victor has discussed the benefit that global reinsurance, diversified reinsurance player like SCOR has in the current environment. And in the past, Denis has been pointing to the tiering in the industry with Tier 1 players benefiting a lot more than Tier 2 and Tier 3.

My question is that, is based on the fact that we haven't really seen any kind of major consolidation even on the back of the large losses last year. And also on the back of the price increases, which are probably not what the industry was expecting. So maybe you've seen somebody, is still not a major consolidation among the two Tier 3 and Tier 2 players. Do you think that this will be changing in the coming quarters? And is it at all based on what we're going to see during the joint audit renewals. So that's question number one.

The second question, much simpler, Francois, can you remind us what the impairment rules are for fixed income? Thank you.

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

So on the fixed income portfolio, the impairment rule is very simple. Under current IFRS rules, we impair a security when we think we have an evidence of a default of a restructuring of the debt. We don't impair due to volatility and interest rates or credit spreads. Just when we think there is a default or a high probability of default on an insurer.

A - Denis Kessler {BIO 1498477 <GO>}

On your first question, I mean, I think the hypothesis at SCOR first expressed about the tiering of the industry that was more than four, five years ago. That seems to be valid. I mean, this hypothesis seems to be confirmed as our five Tier 1 players, it's a global rule. We'll diversified between (inaudible) operating on the five continents, being nicely rated with the AA level of rating. And as you've seen, they've not been implied in major M&A activities over the last four years. So that's what we said four years ago and seems to be proven.

The movements you mentioned are the Tier 2 and Tier 3 sphere, where you see some acquisition and merger. But that was a Tier 1 space, so it's certainly our -- this means the case for the last four years. So I don't want to talk about the future. But if I had to make a prediction, I see it would be valid for the years to come. So in those words, the tiering would go on. Access to large business, the capacity you need to put forward, the number of business lines you have to offer to your clients, that's a trend. Economies of scale, economies of scope, those are trends.

Fixed cost, due to regulation and compliance, it's a trend. So basic factors, explaining why you have a tiering of the industry, all those factors still play a role. So I don't see as it's going to disappear. So critical size matters, size, capacity and so and so, because that's why I believe the hypothesis you put forward is still valid and should remain valid. Mark, you want to add something?

A - Mark Kociancic {BIO 17852409 <GO>}

That answer was pretty complete. I would emphasize the benefits of scaling with respect to pricing power, economies of scale for absorbing cost, whether it's regulatory burden or technological burdens that we have to face as an industry. And clearly, there will be a larger move forwards. I think from a productivity point of view amongst the larger players, putting even more pressure on the Tier 2 and Tier 3s to have this strategic question of consolidation in their future.

A - Denis Kessler {BIO 1498477 <GO>}

Yeah.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

That's useful. Thank you.

Operator

Thank you. That will now conclude today's question-and-answer session. I would now like to hand the call back to Mr. Ian Kelly for any additional or closing remarks.

A - Ian Kelly {BIO 19976646 <GO>}

Thank you very much for attending this conference call. Can I remind you that we have the roundtable session later this evening, starting at 5 PM UK time, 6 PM Europe. And in the meantime, please do not hesitate to call us, should you require any further information. Thanks a lot. Have a nice day.

Operator

Thank you. That will now conclude today's conference call. Thank you for your participation ladies and gentlemen. You may now disconnect.