Scor Global P&C - January 2021 Renewals Results

Company Participants

- Jean-Paul Conoscente, Chief Executive Officer - SCOR Global P&C
- Laurent Rousseau, Deputy Chief Executive Officer - SCOR Global P&C
- Olivier Armengaud, Senior Manager and Investor Relations

Other Participants

- Andrew Ritchie, Analyst
- Darius Satkauskas, Analyst
- Kamran Hossain, Analyst
- Paris Hadjiantonis, Analyst
- Thomas Fossard, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to the SCOR Global P&C January 2021 Renewals Conference Call. Today's call is being recorded. There will be an opportunity to ask questions after the presentation. (Operator Instructions).

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

Olivier Armengaud {BIO 20892984 <GO>}

Good afternoon and welcome to SCOR Global P&C 2021 January renewals. My name is Olivier Armengaud, Senior Manager in the IR team. And I'm joined on the call today by Jean-Paul Conoscente, CEO of SCOR Global P&C; and Laurent Rousseau, Deputy CEO of SCOR Global P&C. Before we start, I would like to remind you that SCOR full year 2020 results will be presented on February 24th. When it comes to the Q&A session, we will only be able to refer to the renewal information that are provided in the press release or in the slides.

With that I hand over to Jean-Paul.

Jean-Paul Conoscente {BIO 20770277 <GO>}

Thank you, Olivier and good afternoon everyone. I'd like to share with you the outcome of our January 1, 2021 renewals, which represent a little less than two-thirds of our reinsurance portfolio and roughly 45% of our total annual SCOR Global P&C premium income. You'll find more information in the slides and press release distributed earlier today. There are three messages I'd like to convey to you today on our excellent performance of January 1. First, as we have forecasted our September 2020 Investor Day, we saw substantial price increases across virtually all lines of business in all geographies. In this significantly improving market we still have portfolio with the business was most attractive. As a result we achieved portfolio profitability improvements in all lines of business and geographies and strong growth in Europe, Fast Growth markets and Treaty Global Lines.

The U.S. portfolio growth was affected by a one-time management action on a large account. Secondly, witnessing a general slide to quality, our strong client relationships enabled us to seize newer profitable opportunities, increase our shares on attractive business and extract preferential terms and conditions with a large number of long-term clients. Third and last, our view of profitability integrates our latest research and analysis on climate change, social inflation and other loss transactors. And therefore provides us with a solid basis on which to project business performance going forward. The excellent underwriting conditions achieve will fully translate into profitability improvement over time in the quarters to come. The current market hardening was driven by the various environment dynamics we highlighted previously. Lower investment returns, successive cat years, and accelerating loss trends, all requiring better technical profitability of the business.

We believe these factors will continue to drive hardening market conditions in the month and year to come. In terms of premium income we achieved 15.9% growth on the back of an average 7.8% price increase across our portfolio, and roughly EUR315 million of new business. Leveraging our deep client relationships, we're able to grow our European portfolio by 22% on the back of increased shares and attractive renewal business and new business opportunities. In North America, a one-time management action on a large account affected the overall growth which was also via strong and driven by a significant price increases. Adjusting for this one-off account, our North American business would have grown 10%. The new regional structure we adopted in October allowed us to leverage our key client relationships in the rest of the world and helped us extract preferential terms and conditions.

In Fast Growth markets, we're able to expand our Treaty Global Line portfolio or benefiting from the organic growth of the traditional P&C lines, achieving an overall growth of almost 26%. Not reflected in these price increases are also more favorable terms and conditions for reinsurers. We led a market wide unwillingness to accept contiguous disease exposures and we're able to introduce exclusion clauses on short tail lines treaties and on selective long tail segments.

Overall, we are extremely satisfied with the outcome of the reinsurance renewals. We continue to leverage our franchise globally to make the most of improving conditions for reinsurers. The Specialty Insurance which renew throughout the year, the primary insurance hardening that started two years ago continues to be global for larger commercial risks. In 2020, we grew a specialty insurance premium by 16% on the back of an average 23% price increase across all geographies, among the business. Average increases in all regions exceed 20%. We are focused the specialty insurance growth on short tail lines where we see the biggest improvement in profitability. On longer-tail lines while rate increases remains substantial, we believe additional increases are required and we have refocused the book on lines and geographies that in our view reached or exceed rate adequacy.

Finally, we were able to complete the placement of our retrocession program by the end of November, in line with our plan, environment that was difficult, but better than originally anticipated. The supplier proportional an aggregate capacity continues to shrink while excess of loss occurrence capacity remained steady both from traditional reinsurers and ILS markets.

Thanks to our long-term approach with our largest retrocession partners, we're able to complete our retrocession program within our budget expectation. In this context, SCOR reiterates the guidance presented at the September Investor Day, including a combined ratio trending downwards towards a 95% and below the financial year 2021, in a continuously improving market environment. Profitable growth remains the objective of Quantum Leap and after having solidify our portfolio base in 2020, we'll continue to leverage improving market conditions with a view of outperforming original Quantum Leap targets.

So, I will now take any questions you might have.

Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much, Jean-Paul. We now can start the Q&A. Can I remind you to please limit yourself to two questions each.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions) And we will take our first question from Andrew Ritchie with Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi there. I guess, maybe if you could just recap, Jean-Paul and Laurent, the translation of headline rate into margin. You gave some indication on the Investor Day on -- and I think you're implying that everything has turned out in line with -- but just remind us, because you said in your opening remarks, the prices with full year and into margin, I guess you don't -- certainly may not because you're not expecting margins to improve by 8 points. Could you just give us a reminder on what you're seeing in the loss cost? And obviously some trajectory to what degree, how long this business will take to run through? Is there anything unusual about that?

I'm getting to the second question, I was a bit surprised that the strength of growth in motor, could you give us some sense of what the opportunity you've seen in particular in that process? Thanks.

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

Thank you, Andrew. So the -- you're correct that the -- for the price increases to translate into margin, you have to also take into account the increase of loss cost and other factors, including the change of structure of the portfolio. Given the price increases we achieved at 11, we expected the overall margin to be somewhere between 1.5 and 2.5 points of improvement. This improvement will has a certain earn out, as the written premium takes anywhere between 12 to 24 months to earn out. So we think this will earn out over the next 12 to 18 months. On your second question on motor, the growth comes from two places. One, that there was a Intertech [ph] opportunity, to support a company as a sole reinsurer. On the transaction there was one large transaction, we were able to write a very profitable terms. And the other was -- other opportunities in the Fast Growth markets, again with the treaty conditions, meaning our profitability targets. So most of it is just new business.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

Operator

And we will now take our next question from Vinit Malhotra with Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon everybody. Thank you. So my first question is just looking at the kind of outlook, where it seems you are a bit more bullish on pricing, sustaining than some of the other peers. I'm just reading, you have a comment in the presentation that sales program renewed independently of over '19 future claims settlement. So in a nutshell, I mean, you thanked the thesis that as more COVID claims discussions happen in the rest of the year, pressure on pricing or this hardening should continue. So if you just clarify this whole development as you see it? And second, very big one is that, in the morning when I was speaking to IR, I noticed the credit and surety, lots of changes also on the terms and conditions with sliding scale commissions. Could you just discuss a bit about how you seen the pricing and growth in data and surety, because the 21% you produced is far higher than at least one of the peers in the same line. So any comments on credit and surety would be helpful. Thank you.

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

Yes, Vinit. So on the first point, yes, we are bullish about the rate environment for insurance and reinsurance. What happen around the COVID claims, of course, there was a lot of discussions, especially around contingent disease exclusions. When it relates to how the COVID claims affects the reinsurance programs, here we're talking mainly about property BI, claims. And in many cases, most insurers have not finalized their view of what their ultimate claims are. And have not and also in many cases engaged with reinsurers about how they translate into reinsurance potential claims. These issues around the treaty wording, how the claims can aggregate into a single event, what the (inaudible) are, and those discussions are not taking place. So the rate increases that we're seeing are really environment driven. And we think that once for the discussions on additional claims coming from COVID take place that will lead to further rate strengthening in 2022.

On your second question regarding credit and surety, you're correct in that, we think this is a good time to increase in this line of business. The rate increases we see year-over-year between 2020 and 2021, as we pointed out in our presentation is modest at 4.3% on average. However, what it doesn't reflect is the fact that in 2020 there was significant rate improvement, push through by the credit and surety insurers. And the average price is between 15% and 20%. In addition, there has been a lot of re-underwriting of the portfolio, shrinking limits and focusing on segments that are more stable and less exposed to potential retrocession or COVID effects. Therefore, we believe the underlying performance of credit and surety portfolio is quite good. And the rate achievement 2020 is very attractive. And these as we see are expected to continue in 2021.

A - Laurent Rousseau {BIO 19524847 <GO>}

And perhaps -- it's Laurent speaking here. I'll extend Jean-Paul's answer, Vinit. This comment -- just made are actually true of most of our global lines. If you look on Page 14, whether it is marine and offshore, engineering, I think there is a consistent view across reinsurance and specialty insurance. Now the commercial line space is hardening faster than the personal lines, and this is a theme that we had put across at the Investor Day and that we very much are seeing very valid. And whether it is on the single risk specialty insurance side or on the global lines that you show -- that we show on Page 14. Those global lines are mostly proportional. And so we really picking up the underlying very strong growth in those classes, (inaudible) as well and agriculture actually. So we really have a healthy proportional underlying primary business in these large commercial lines business.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Right. Thank you very much. Thank you.

Operator

And we will now take our next question from Kamran Hossain with RBC. Please go ahead, your line is open.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Kudos to team. Two questions. First one, just thinking about rate adequacy, where do you think this is best now in the treaty side or specialty? So that's first question. And the second question is just around terms and conditions, I guess, outside of contagious disease or -- cyber exclusions, are there any other kind of areas that you would highlight that change this round of renewals? I mean, I wouldn't have still either of those of two changes with specific key kind of thing that has occurred in the soft market. So, just wondering if there are any other kind of headline teams [ph] on tenancies report? Thanks.

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

Thank you for the question. So on rate adequacy, right now we feel that the overall rate adequacy is probably still better on large commercial risk specialty insurance. Reinsurance is catching up, and that's why we think, it's not -- still not at the level that we expect to ultimately achieve. And we think further hardening is -- will take place in the subsequent renewals in 2021 and 2022. There were instances, for example, in U.S. casualty of some insurers achieving higher commissions on their programs, especially for segments where there was a significant price increases. And therefore, keeping reinsurance margins stable year-on-year. And we know -- so we think there again specialty insurance probably offers better rate adequacy than the reinsurance. But then we look at Europe, I think in Europe, most of the programs are non-proportional, there we have very good rate adequacy. So it varies by segment, by geography. But I'd say on average insurance is slightly more attractive than reinsurance, but reinsurance is quickly catching up.

A - Laurent Rousseau {BIO 19524847 <GO>}

I would say...

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

On your second question (Multiple Speakers)

A - Laurent Rousseau {BIO 19524847 <GO>}

Jean-Paul an additional consideration to take into account, if you look at Page 16 is the tail of the business. We're a lot shorter tail on specialty insurance than in reinsurance. Reinsurance get some PATs [ph] for the motor book, of course, some casualty, whereas specialty insurance is a lot shorter tail. And you're currently -- in the current environment, generally speaking, the long tails -- the long tail lines do not attract the same rate adequacy than the short tail lines.

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

No, no. Thanks a lot. On the second question on terms of conditions, yeah, you're right, continuous disease exclusions or it was one of them, (inaudible) cyber was another area we pushed very strongly. There is also a lot of clean-up on terms and conditions, another exclusions on the event limits undeductibles, a lot of the write-backs in the exclusions. So these are effects that are -- I'd say conditions that -- seek through in a softer part of the cycle. And as we enter a hardening there was a focus not only on rate, but also on cleaning up the terms and conditions overall. And in most cases, we don't reflect that in our pricing, but it leads to more profitable business for reinsurers.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks very much.

Operator

(Operator Instructions) We will now take our next question from Darius Satkauskas with KBW. Please go ahead, your line is open.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Hi, thank you for taking my question. Can you give a bit more color on the North America, I suppose, even without the impact of that large account, growth of 10% seems somewhat limited when increased about 1% plus. So any color here would be appreciated.

And then you also make a point that long-tail specialty lines. With the pro [ph] rate is needed, is this because you expect the claims strategy to kind of deteriorate on the back of COVID? Or any color here as well would be helpful. Thank you.

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

Right. Thank you. I'll take the first question and give the second question to Laurent.

On the first question, in North America treaty renewal, we grew a very strong growth in Canada, where we felt the conditions were adequate. In the U.S., we had despite the big rate increases we felt -- still took a very prudent approach on both casualty and proportional property. On casualty, there is underlying factors that have been in play for a while, such as social inflation, venture funding of litigation in the U.S., that are driving loss cost upwards. Rate is keeping pace with these, then you have additional factors such as COVID which -- a looming recession. There is one, that will be weighing down those lines of business. So, that's why on the casualty, we remain still very prudent. In the U.S. and we think further not only just rate increases on the primary side, but for the reinsurance conditions have to improve for us to be more bullish on U.S. casualty right now.

In U.S. property, there was a difference between proportional and non-proportional. We felt non-proportional pricing was quite good. We try to grow in that area, but it was a very competitive market with the new capital entrants having a dampening in effect on price increases and on shares. On the proportional, we feel that again the commission levels that were used in those programs, really, we're not providing reinsurers enough margins relative to the capital that's required. And therefore, we took a prudent approach as well, proportional property. And that's why you see the overall growth of roughly excluding that one time a large account of 10%. And the 10% growth is really focused on non-proportional.

Laurent, do you want to take the second question on the long-tail specialty lines?

A - Laurent Rousseau {BIO 19524847 <GO>}

Sure. Thanks Darius for the question. So, no, there is no link, we actually do not see any casualty COVID claims so far. So that comment as we have on Page 16 or we said a more rates increases are needed for the long-term classes is a much broader statement, which I would say predates COVID, if you wish, in the sense that, we have had quite a high claims activity, whether it is social inflation or more generally speaking, the claims activity in casualty has been fairly high. And when you compound this with the lost investment return the rate adequacy and that is required is therefore quite a bit higher for the long-tail lines. So, I would say this is just say continuation of long-term trends we've been seeing on long-tail classes. Nothing, to do specific or linked to COVID.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Thank you.

Operator

And we will now take our next question from Thomas Fossard with HSBC. Please go ahead, your line is open.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon. A couple of questions. The first one would be ready to treaty Europe issuing, a pretty significant growth. I would say are relatively unexpected for a relatively mature market and stable position. So wanted to better understand specifically why or how you managed to get 21% growth in France and maybe also 14% in Germany. What you see is a case now? That would be the first question. And also maybe one for Laurent. When do you think that actually we should see more positive volume growth in the specialty insurance, seems to be that clearly rates are still running ahead of premium growth. So when is that going to stabilize and see more volume on your side?

And the second question would be related to the retro, maybe you could shed a bit some light on the change in structure, obviously there has been a lot of changes happening in the market. The trade price mentioned earlier back in November, that you had to scale down your -- again get covered, and that you speak your excess of loss covers into peak and non-peak risk. So overall, I mean, what does this changes mean in terms of your protection for -- I don't know severity or frequency risk, I mean, what should we expect of this new structure to have in terms of impact on your earnings profile be volatility or addendum swings? Thank you.

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

Thanks, Thomas. You managed to have three questions, you had two questions, but I'll answer the first one part on Treaty Europe. Here that the growth we achieved, it was really driven on the deep franchise we have in Europe, and the strong client relationships that we've built over time. I think as many clients in Europe-based COVID claimed and start engaging in discussions with reinsurers. On the reviews there was many clients that didn't decided in terms of renewal to probably increase shares with the reinsurers that we're going to be there for them on the long-term, and also had constructive discussions with them on sort of the management of these claims. And this was not only on increased shares on existing business, but also opportunities to write new business, and that's why we took fully advantage of in France, in Germany. In the UK, the growth is coming more from new business on motor, one large, as I said in (inaudible) company in the UK. And one large whole account quota share is focused on short-tail large industrial risk business.

So, maybe, Laurent you can answer the second question on the specialty insurance.

A - Laurent Rousseau {BIO 19524847 <GO>}

Sure. I mean, what we're seeing currently, to my eyes is a mechanical feature of most hard markets. So that the rate increases come first. This is on the back of claims activity.

And the premium volume and the premium growth is lagging slightly behind. So clearly, I would expect from 2021 maybe to see a narrower gap between premium volume and rate changes. This is a function as well of the fact that we've been, as you know we've been leading quite some restructuring in two buckets of our portfolio. One is at Lloyd's, over 2.5 year period, we shrunk our Lloyd's premium volume by a third. Now this pruning is done, as we said in September the other day. And actually, we're going to have a profit for us indicates for 2020.

So, it's the turnaround is really working well, and so will expect to see more growth coming from SCOR channel syndicates. And the second bucket where we had done some pruning was and still is in our casualty classes in single risk. Both general liability, professional lines and the condition that we're seeing on the casualty lines are improving fast. So I would expect to see a bit more growth in 2021. So, the restructuring phases are largely over now. So I wouldn't see any real drag there. And maybe the last point is on credit and surety, in single risk insurance. We stopped underwriting between May and September when we saw the crisis unfolding, we really could depend on. And so our political risk and credit risk business and insurance has taken quite a hit on the premium written in 2020. But here we have resumed selectively with a lower risk appetite. But again, we would see some growth year-on-year. So 2021 should have again a pretty high premium volume for single risk insurance.

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

On your second question, Thomas, related to retro. So I think as we explained previously, we launched in 2020 a complete restructuring of our retro and also a tender for different brokers to get different ideas of our restructuring. The market, the renewal at 11, 2020, was already difficult with the first signs of capacity shrinkage on proportional, on aggregate. And therefore, we anticipate the market that 11, 2021 continue on the same trend. And I wanted to start doing the changes required to basically keep our risk appetite the same, in terms of capital protection and volatility. But anticipating difference of supplies, and so that's what we've done. As I mentioned earlier, there was less -- we bought less proportional retrocession than previously, and we also bought less aggregate. But we should restructure with excess of loss. And so -- and that was the budget, we had -- that was part of our plan. As we build our operating plan for 2021 that's fully accounted for. In reality, I think we saw a retrocession market, that was better than we anticipated. And actually, overall budget we achieved were slightly below our initial plan. So we're slightly better than we had anticipated.

In terms of the profile, I think what we have today is both through the retrocession program, we bought and through the underwriting actions we took in 2021. And the price increase in 2022, we believe we're probably less exposed to volatility than we were previously, and is well protected for capital events as we were previously.

Operator

(Operator Instructions) We will now take our next question from Paris Hadjiantonis with Exane BNP Paribas. Please go ahead, your line is open.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes. Thank you, and hello from my side as well. Two questions. The first one in -- about proportional lines. So price increases there of 6.4%. And I was wondering if you could give us a better idea of whether that is pure underlying price improvement or whether there is any effect from ceding commissions as well? You've made a passing remark about certain accounts in the U.S. -- how actually seen a ceding commissions going up rather than down. So if you could give us a bit more detail about certain lines of business or other geographies and what the movements on ceding commissions have been there?

And then the second question is on catastrophe pricing. So about a month ago, when we were adding the insurance broker reports, we got the feeling that catastrophe pricing can go up as much as expectations. I guess, what do you think on that, obviously, you have reported today cut pricing up 10%. You've grown premiums by about 13%, and also what do you think about catastrophe outlook in April and mid-tier rate renewals? Thank you.

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

Thank you, Paris. So on your first question, the price increases we show do not include commissions or it's just price. Commissions varied really by country and by line of business. And as I mentioned, there was a few cases in U.S. casualty where commissions went up. But those were not programs that we supported. Overall, we achieved commission improvement across our portfolio, a little less than 1.11 [ph], which is on the portfolio that we grid. And on the cat pricing, I think, there was again varied price increases by region. We saw Europe really between 5% and 10%. And I think the average for Europe for our portfolio is a high single-digit. So it's closer to the 10% and to the 5%. And through Americas and Australia, we were closer to 15% -- 20% increases. In U.S., there was in our number of regional accounts that were affected by tornadoes, (inaudible) in the year. And some of those programs actually received much higher rate increases than 20%, some of them were 40%. But on average, it was between 15% and 20%. So for the rest of the year we expected the U.S. price increases to be of similar size. And I think for the April renewals in Japan, you know (Technical Difficulty) significant. But as we have said, that did not -- sufficient or full payback of the losses we've suffered in '18 and '19. And so we expect probably further price increases at April 1, but likely not to the same extent as we experienced last year, so maybe similar to what we expect in the U.S. between 15% and 30%.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

That's great. Thank you.

Operator

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

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much. Just as a reminder, we are available to answer any other additional questions. So if you'd like to get in touch, then please do so. Next call will be on February 24, our full year 2020 results. Thank you very much and enjoy the rest of your day.

Operator

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