Q1 2020 Earnings Call

Company Participants

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

Other Participants

- Andrew Ritchie, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

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

At this time, I would 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 afternoon, everybody, and welcome to the SCOR Group 2020 first quarter results call. I hope you and your families are all keeping well in these extraordinary circumstances. I am joined on the call today by Denis Kessler, Chairman and CEO of the SCOR Group and all of the Executive Committee members.

Can I please ask you to please consider the disclaimer on Page 2 of the presentation, which indicates that the financial results for the first quarter 2020 included in this presentation are unaudited. I would also like to ask you to note the statement in respect of COVID-19, which indicates that the potential impact of the crisis cannot be accurately assessed at this stage, given the high uncertainty related to the magnitude and duration of the pandemic and of its wide-ranging social, economic and financial consequences on the one hand, and to the possible effects of ongoing and future governmental actions on the other hand.

With this, I would like to give the floor to Mark Kociancic, Chief Financial Officer of the SCOR Group.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Ian, and good afternoon, everybody. Let's start with Slide 4. The first quarter 2020 results were not materially affected by the COVID-19 crisis. But the event is ongoing and its impact for the remainder of the financial year cannot be accurately assessed at this stage. In this context, SCOR delivered strong results in Q1 2020. Both the profitability and solvency targets of the strategic plan, Quantum Leap, have been either met or exceeded and we have successfully combined disciplined growth with strong profitability and robust solvency.

SCOR wrote EUR4.1 billion of gross written premium during the first quarter, representing a 2.2% increase over Q1 2019 at constant exchange rates or 4.3% at current exchange rates. Net income stands at EUR162 million, up 23.7% compared to Q1 2019. And this translates into a return on equity of 10.7%, above our Quantum Leap profitability target of 800 basis points above the five-year risk-free rates.

The solvency position of the group stands at 210% at the end of Q1, in the upper part of the optimal range of the solvency scale of 185% to 220%. The 16 points reduction compared to the 31st of December is largely driven by market movements.

Let's move on to Slide 5. SCOR enters the COVID-19 pandemic benefitting from a strong balance sheet and a strong level of liquidity, which is paramount to successfully navigating the current environment. With reserves approaching EUR30 billion, the Group is in a strong position to absorb shocks from the current crisis. In addition, SCOR continues to enjoy a Tier 1 AA minus rating level and our rating has recently been confirmed by Fitch, demonstrating the resilience of our business model in the current environment.

Moving to Slide 6. Let's look at the business unit indicators in more detail. SCOR Global P&C grew strongly at 2.9% at constant exchange rates. The profitable growth was driven by robust renewals, especially in the second half of 2019. Overall, the growth recorded is in line with Quantum Leap assumptions and the business unit delivers a robust combined ration of 94.5%, driven by slightly reduced nat cat activity in Q1 2020 of 5.4%.

While COVID-19 was declared a pandemic in the first quarter, SCOR Global P&C has no material related claims for that period. Last week, SCOR Global P&C announced the successful renewal of its portfolio at April 1, 2020 and grew gross premiums up for renewal by 5.7%, while benefitting from broadly improving market conditions as evidenced by a 6.6% overall increase in pricing.

SCOR Global Life continues to successfully expand its franchise and delivered a positive set of results for the first quarter. SCOR Global Life gross written premiums were up 1.7% at constant exchange rates and 4% at current exchange rates.

Gross written premium growth includes the reduction in volume due to the targeted exit from underperforming markets and treaties. The Life technical margin is strong at 7.4% and the Quantum Leap assumption, similar to Global P&C, SCOR Global Life has no material related claims from COVID-19 in the first quarter.

SCOR Global Investments pursues a prudent asset management strategy and delivered a strong return on invested assets of 3.1% in the first quarter, benefitting from capital gains while pursuing the de-risking of its portfolio. The liquidity of the Group now stands at 11%, and the corporate bond portfolio represents 41% of the invested asset portfolio versus 43% at year-end 2019. The reinvestment yield at the end of Q1 2020 is strong and stands at 2.4%.

Let's move on to Slide 7. The shareholders equity is strong. It stands at EUR6.3 billion in the first quarter, down by EUR106 million compared to year-end 2019. And this variation is largely explained by the evolution of credit spreads and equity markets during the first quarter of 2020, with the net income contribution of EUR162 million, offset by movement in revaluation reserves of negative EUR244 million. This results in a strong book value of EUR33.41 per share. Financial leverage stands at 26.6% and allowing for the debt callable in Q4 2020, the adjusted financial leverage stands at 25.5%.

On Page 8, we see that SCOR generated strong operating cash flows, standing at EUR246 million for the first quarter, with good contributions from both business units. Overall, the total liquidity of the Group is strong and stood at EUR2.7 billion at the quarter end.

With this, I will hand it over to Denis, who will provide an update on COVID-19. Denis, the floor is yours.

Denis Kessler {BIO 1498477 <GO>}

Thank you, Mark and welcome, everybody. Throughout the past 50 years, since its inception, since it's the 50th anniversary of SCOR, we have built a reputation of being there for our clients, employees and all the stakeholders in the most difficult times. And throughout history, we were to face the World Trade Center, (inaudible), and tsunami and so on. The unprecedented crisis we are now facing is no different. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The event is ongoing, its duration uncertain, as are the eventual extent of the wide-ranging social, economic and financial consequences.

Let's move to Slide 17. As we go through this crisis, we do everything in our power to support our business partners, again our employees and local communities throughout the world, while ensuring that our operations continue efficiently. SCOR is really doing its utmost to help stop the spread of the COVID-19 virus, starting within the company.

Actively protecting the health of our employees is our top priority. This is why we adopted early very strict prevention measures before fully activating a business continuity plan and switching to working from home in all group offices, by the way, a move that came before lockdown and social distancing measures that were implemented in most countries.

But we're also acting outside the company as SCOR has launched a call for action, with the spread knowledge, not the virus campaign, which explains the importance of strict containment measures to combat the pandemic and calls on everyone to contribute to the fight against the spread.

The Group is also sharing knowledge on the evolution of COVID-19 with a regular publication of appropriate epidemiological data. Regarding our business, the resilience of SCOR's operational capabilities supported by high performance IT systems and applications, means that the Group can continue to serve our clients in this period of crisis and immediately without any delay respond to the reinsurance needs.

Let's move to Slide 18. The coronavirus pandemic is being addressed by governments via lockdown policies and fiscal stimulus and also by central banks via monetary policies to support financial markets and liquidity concerns. The outcome of these efforts and notably the time table at which the spread of the virus subsides will become clearer over time.

SCOR may see an increased level of claims in its Life and P&C businesses and an increased level of assets impairments throughout 2020. But the Group is not in a position at this stage to provide reliable and credible estimates of the impact of the COVID-19 crisis, of course, due to the high level of uncertainty.

Whilst we await these uncertain outcomes, let me update you on what we know today. On the Life side, the current situation remains well below the one in 200 year pandemic extreme scenario disclosed by SCOR. The key exposure relates to mortality business, primarily in the US, where SCOR has a diversified portfolio, predominantly exposed to younger age and higher socioeconomic groups.

There is limited exposure to lines of business impacted by economic downturn, for example, disability in France and Australia. There are some potential positive offsetting impacts over time from a longevity portfolio, but also from a long-term care portfolio in France.

On the P&C side, SCOR is continuously monitoring its exposures to the COVID-19 outbreak in light of the rapidly changing environment. Many lines of business are simply not loss impacted, with minimal loss exposures even if they may be affected in terms of volume due to the nature of the coverage.

Importantly, the Group has an incidental and immaterial exposure to event cancellation and contingency business. The business interruption development is very closely monitored in all relevant jurisdictions. Where the Group may see an increased level of claims is from within the Trade Credit & Surety and Political Risk portfolio, representing around 7% of the SCOR global P&C premium base.

On the investment side, SCOR pursues a prudent asset management strategy and entered the COVID-19 crisis with a resilient and highly defensive investment portfolio. Furthermore, since we voluntarily de-risked the investment portfolio across 2019, the material reduction of the credit exposure and a stronger liquidity profile. SCOR's investment portfolio has a very limited exposure to listed equities at just 0.6% of invested assets. The fixed income portfolio is of very high quality with an average rating of A plus and highly liquid, with limited exposure to the most heavily affected economic sectors. Mark has already described in his presentation the very strong liquidity of the Group. Just on the asset side, we expect in excess of EUR8 billion of financial cash flows over the next 24 months.

Let's move to Slide 19. The Group is today fully mobilized to anticipate, to measure and to manage the impacts of this major shock, just as it has done for the disasters in the past. As we have seen, the prudence that characterizes both underwriting and our investment policy should help us through a deeply troubled economic and financial environment.

But whilst we fight today's war against the virus, we at SCOR are also thinking of tomorrow. One day, the pandemic will be over, but it may have a structural impact on modern societies. This incredible historic shock will remain a dark page in our world history because of its violence, its power and its resonance because, of course, of its universal nature.

For us, it is clear that the direct and indirect economic cost of this crisis will be extensive. In addition, the contraction in economic activity, combined with massive central bank intervention and also further bloating of public deficits could foster resurgency of inflationary pressures. This is generally the consequence of injecting helicopter money into the economy. Other post-war periods are always characterized by rising inflation.

Second and more fundamentally, we see changes in the behavior of all economic players. We see effects on both the demand and supply sides of the equation. The reason for this is that the current crisis is most likely going to increase people's aversion to risk to a two-fold effect.

First, a recognition effect, the ramp in progression of COVID-19 has made pandemic risk tangible for a very large number of people and companies who were previously either totally unaware of it, or at best underestimated this risk. Billions of individuals -- not millions, but billions of individuals are now keenly aware of this major risk. In fact, we will have an impact on every aspect in terms of behavior.

The second effect is a displacement effect. As is always the case of major trauma or shock, aversion to risk and particularly to the risk in question, increases. All else being equal, the demand for security to a broader sense rises sharply and additional demands for protection appear. This provides fertile ground for multiple initiatives purporting to reduce probability of set [ph] risk occurring and to minimize its consequences.

As individuals and consumers, all of us will change attitudes towards (inaudible) risk. In all likelihood, we'll protect ourselves more, consume differently, travel less and so on. For business and industry, meanwhile this pandemic shock will unquestionably lead to a reorganization of production chains and consequently of the international division of labor.

Any companies, particularly manufacturing companies, will reevaluate the structure, organization and geographic distribution of their supply chains. They will look in a different way at the production lines, the distribution networks and the inventories. It is also likely, very likely, that teleworking will become more common. The sum total of all these impacts, behavioral changes on the part of governments, individuals and companies, could result in changes to the global economic and financial equilibrium.

Finally, the political impact of the extreme shock is likely to be considerable. This health crisis, this sanitary crisis is giving rise to many serious questions about intimacy [ph] and freedom, a question of tracking, for instance, arising almost everywhere in each democracy. And nationally, protectionism could reemerge. Yes, for all these reasons, this major shock could change the course of history. But it is certainly too early to say how much.

The good news is the current crisis does not question the relevance of the reinsurance industry or its business model. Quite the contrary, by the way, more than ever it demonstrates the essential role of the reinsurance industry, which with its fundamental function of risk pooling and its ability to absorb sudden new shocks makes it possible to ensure resilience and consequently to support the development and maintenance of societies and economies. So as a Tier 1 reinsurer, I strongly believe that SCOR is well placed to address and respond to society's ever-evolving protection needs.

Let's turn now to the Q&A session. And maybe before, Ian, you could give us the agenda for the next events.

Ian Kelly {BIO 19976646 <GO>}

Yes, sure. Thank you very much, Denis.

On Page 20, you will find the forthcoming scheduled events and with that, we can move to the Q&A session. Before we do so, and as mentioned at the start and throughout the presentation, the COVID-19 crisis can't be accurately assessed at this stage, given the high uncertainty related to the magnitude and duration of the pandemic.

So as a result, when questioned about the status of the crisis, the committee members will only be able to talk about what we know at this stage and will not be able to speculate on a broader range of unknown outcomes. But with that, we can start the questions. And can I remind you to limit yourselves to two questions each? Thank you.

Questions And Answers

Operator

Thank you. (Operator Instructions) We do have our first question from Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. It's Kamran Hossain from RBC. I hope everyone on the line is well. Two questions from me. The first one is just around the reinvestment. How should we think about it? I know you have healthy kind of data, the level of assets that might end up in liquidity if you were to not reinvest. But how should we think about this? What are the trigger points for you actually going back to the market and kind of hitting that 2.4%? So how do we -- what's the trigger point for thinking about moving from liquidity to kind of reinvesting into other assets?

And the second question is on M&A. Clearly, some very attractive valuations compared to history elsewhere in the sector. Does the current environment make you more interested? You've got strong solvency, good liquidity. Is there something that you think will come onto your agenda a little bit more in the coming months? Thank you.

A - Ian Kelly {BIO 19976646 <GO>}

So Francois, can you pick up on the first question on the reinvestment and trigger points?

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

Yes. So on the investment side, as Denis mentioned in the introduction, (inaudible) crisis was prudent, resilience in invested asset portfolio. Since the beginning of March, market environment, this is extremely volatile conditions and the impact of the COVID-19 crisis from the various asset classes to which cause invested assets, portfolio is exposed is highly uncertain.

So in this context and consistent with our prudent DNA and our successful cutting costs in previous financial crisis, notably what we did in 2007 and 2008, we have diligently decided to put on hold any reinvestment activity and to keep financial cash flow emerging from the invested asset portfolio in cash and short-term investments. Besides some focus and the improvement in competitive risk [ph] and all exposure to money market funds have been rebalanced into shorter securities, which are safer and more liquid in such circumstances.

We manage also very cautiously our exposure to banks, and we believe this will safeguard the value of our invested asset portfolio in case of future severe or a downturn. Of course, this tactical adjustment, coupled with declining interest rates, notably in the US has a short-term cost. But we believe it is more than offset by the benefits of this strategy.

When we will stop the freeze of the reinvestment strategy, I cannot say to this -- answer to this question today. The level of uncertainty is too high. So, we are going to wait a little bit, maybe a few weeks or a few months, depending again on the volatility on the market. On your question on the reinvestment rate, the reinvestment rate is high at 2.4% at the end of March compared to 2.0% at the end of December. Don't forget that the reinvestment rate is the market yield of the portfolio at the end of the quarter.

So, we saw an extreme amount of volatility during Q1 in the evolution of this reinvestment rate. But the good news is that if we have to reinvest quickly, the significant liquidity that we have accumulated over the last few weeks, we will reinvest and redeploy at a yield that is above the income yield of 2.3%. So that's the good news. But I cannot guarantee that will be the case in the next few months here.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. Thanks, Francois. And Mark, can you pick up on the M&A outlook, please?

A - Mark Kociancic {BIO 17852409 <GO>}

Sure. Hi, Kamran. I think in the short run, both buyers and sellers are going to be focused on understanding the magnitude of the crisis in all respects, P&C, Life, financial, economic, et cetera. And boards, in a similar vein, are going to want to understand their position, especially in an un-distressed environment in terms of the valuation. So, I don't see anything in the short run with this type of crisis overhanging. But coming out of the crisis, I think there could be opportunities for M&A in general. I think at SCOR, we're focused definitely on the organic plan and M&A remains an option for us. But it's not something that's necessary.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks, Mark.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. Thank you very much, Kamran. Let's go to the next question, please.

Operator

Thank you. Next question comes from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good afternoon, everybody. Thank you very much. So one question on Slide 10, please, the renewal slide. When I look at the light green price change bars, they do suggest that beyond this sample, which has been provided here, I mean a simple weighted average of these bars will not equate to 6.5%. So, I just wanted to get a sense of what's happening outside. The footnote three says this sample here, the 11% in the US, for example, it does not really cover new contracts. It doesn't cover changes in structures of multi-year contracts.

So given the sense that, yes, the renewal pricing is 6.6% in April, but actually some of the new business is written at a much lower price of 2%, 3%. Is that part of the implication? What if you could just comment on what you've seen on the renewals, particularly in the US in April? That would be interesting.

And second thing is just a clarification. So for Francois, did I get you -- did I understand correctly that you're accumulating cash, but not really reinvesting it very actively at the moment and you don't know when you will be able to do it? And this implies that the running yield sort of should see much more pressure over the next few quarters, just a clarification. Thank you.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. Maybe, Jean-Paul, if you can pick up first on the renewals?

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

Yes. Thank you, Ian. On your question, the methodology used for price changes is the same as in the past, which means that we cannot consider new business because we cannot compare the pricing of the new business of prior years. So, we use existing business that's renewing year-over-year and compare the price from last year to the price this year. The price changes that you see are premium weighted average for the quarter by country. The US has the largest price increases. This 11.4% that we're showing breaks down to roughly 15% for the casualty portfolio renewing at April 1, and slightly lower numbers around 5% to 6% on the property side.

The overall weighted average for the quarter, as you see, is 6.6%, being driven largely by Japan. In Japan, we show you as well on Slide 11, the price evolution for cat excl. But in addition to cat excl, there's a number of other treaties renewing, and so the premium weighted average comes to 6.8%. What should be considered, as we explained in prior quarters, is this is just a raw price increase. How that translates into profitability depends on our view of the risk modeling that we do. And for Japan, for example, we increased our view of typhoon risk. So the 6.8% improvement in profitability doesn't necessarily translate to a 6.8 points of improvement on the underwriting ratio.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks, Jean-Paul. And Francois, on the cash accumulation impact on the recurring yield?

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

Yes. So, your comment is correct. So, we have decided to put on hold all reinvestment activity since early March. So with all financial cash flows emerging, especially from the fixed income portfolio, those financial cash flows are kept in cash. And we will maintain this strategy until we see leverage this year on the market. Of course, there is a short-term cost, but that is like we say, not material at this stage. And we believe that this cost, it's a cost to protect the value of the portfolio. This cost, we believe, it is more than offset by the benefit of this strategy.

We have on Slide 15 the evolution of the liquidity. If we freeze throughout the year the reinvestment activity, it gives you an idea of what we are doing. Keep in mind also that's exactly what we did in 2007 and 2008, so we are accumulating cash to protect the value of the portfolio and the net asset value of the Group before and after the high financial crisis was stable. And then as soon we saw less volatility in early 2009, we massively reinvested on the corporate bond market. So, we think that this strategy has a benefit and a significant amount of liquidity will be reinvested in the future, but weaker and potentially at higher investment rates.

A - Ian Kelly {BIO 19976646 <GO>}

Thank you, Francois. And thank you, Vinit. Let's go to the next question, please.

Operator

Thank you. We can now take our next question from Vikram Gandhi from Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello. Can you hear me?

A - Ian Kelly {BIO 19976646 <GO>}

Yes. Go ahead, Vikram.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Yes. Thank you. Good afternoon. It's Vikram from Soc Gen, just a couple from my side. Firstly, can you tell us if the combined ratio of 96% or thereabout (Technical Difficulty) or was there some sort of man-made impact in the first quarter has pushed it a bit higher?

And secondly, just curious about the tax rate, which seems to be trending a bit high for the past few quarters. And I just wondered, when should we expect this to yield back and what is leading to this higher rate? Thank you.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks. Jean-Paul, on the combined ratio, first of all?

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

Yeah. Thank you, Ian. So we had an elevated man-made losses this quarter, primarily fire losses and engineering losses. Compared to Q1 2019, the overall increase is about 0.5 points. So if we had a similar level of occurrence of man-made losses in Q1 2020, the normalized combined ratio would have been around 95.5%. I think that answers your question.

You can go to the second question, Ian.

A - Ian Kelly {BIO 19976646 <GO>}

Yeah, sure. So, Mark, on the tax rate?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. Vikram, there's really a couple of factors impacting it this quarter. The first is geographic rate mix. So, you'll recall that we did have a significant capital gain in the real estate portfolio, which transpired in the French tax perimeter, where we have an elevated tax rate relative to the 22% average. So, that part's picking up most of the variance versus the rolling assumption. And then there's a very minor leakage of BEAT tax, US base erosion anti-avoidance tax, slightly more than 1 percentage point. But I would expect this distribution to normalize over time.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you. Okay. Let's go to next question, please.

Operator

Thank you. We can now take our next question from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, everyone. Thanks for taking my call and questions. Good to hear, everyone, on the line today. Miss you guys. So first question, I'm not looking for you to speculate on what we might expect to come from COVID. But just in terms of what you're already seeing, if you can give us anymore kind of color than you've given us, that would be great. So in particular, on the P&C side, I'd be interested to hear what you're seeing on claims activity in terms of SME versus larger corporate.

And then secondly, on any kind of trends you're seeing on business interruption so far, can you give us an indication of whether -- what you're seeing on the BI claims. Is the reinsurance wording following the primary wording, or are there any kind of exceptions to that? Thank you.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks, Johnny. Jean-Paul, if you can pick up on the P&C COVID view?

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

Yeah. Thank you, Ian. So to date, we received the roughly 500 precautionary claims. Most of those are from SME business on the specialty insurance side. So this -- on the really precautionary, there is no declaration of the claim or justification of the claim. So, we're investigating these claims to date. I'd say in your question, SME relative to large corporates, the majority of claims is coming from SME businesses, especially in the hospitality area but today we haven't received any substantial claim to date. We're following what's going on in the industry. There has been a number of proposed legislative changes designed to extend the scope of coverage under insurance policies to include protection of business interruption and contingent business interruption, notwithstanding the contractual terms negotiated and agreed between the parties. And several lawsuits have also been filed in the US claiming that COVID-19 does cause physical damage to property. And is that in theory is seeking to secure coverage for COVID-19-related loss? It's unclear at this stage what the results of these efforts will be.

We're liaising with the insurance and reinsurance trade associations and bodies to ensure the potential impact of such legislation is fully understood. We're also working to identify public solutions designed to provide relief for the significant economic damage COVID-19 is causing to many businesses and individuals. And we'll defend litigation claims seeking to expand the scope of coverage provided by the relevant policy and contract. That's about all I can tell you right now.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. Thanks. Thanks, Jonny. Let's move to the next question, please.

Operator

Thank you. We can now take our next question from Andrew Ritchie from Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. First question is on Life. Can you just give a sense of the underlying mortality experience to date, at least to the quarter end, in terms of how that was versus long-term assumptions, particularly in the US? I don't know if you've got any hypothetical sort of scenarios on mortality rates and that potential earnings impacts or not, or if you have any additional color on sort of insured versus broader population mortality experience to date with respect to COVID, and whether that's -- I think any additional color?

The second question is around the mid-year. I guess I'm just wondering if you're seeing the dislocation creating any more opportunities for mid-year renewals? There are a number of primary insurers who have already indicated they're buying more reinsurance, especially ahead of wind season, both, globally several examples. Will that color your decision at all on the dividend, which you indicate today is still up for discussion ahead of the AGM. In other words, would you see the scope for potential additional capital deployment at mid-year renewals rather than paying the dividend? Thanks.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. So firstly, Paolo, if you can pick up on the life question.

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

Yes. Hi, Andrew. This is Paolo. Overall, our performance of the US portfolio in terms of the total in-force has been in line with what we would say our expectations were in Q1 2020. In terms of the incurred claims, we have seen those coming in slightly higher than expectations. On Q1, we continue our work on the in-force management, as we discussed last year at the IR Day. And that has roughly compensated the uptick on claims that we saw versus expectations.

In terms of the impact between general population and insured population, I think we had various conversations already in the past. Our book is really focused on the underages and higher socioeconomic classes. So, we expect the difference between the impact on the general population and the impact on the insured population could be significantly different.

Now at this point, we cannot make though any comments on how big that difference would be, as we are completely missing any historical proxies on this. Our teams have been studying this in detail. We keep studying it. The only certainty we would have is when we see enough claims coming to our own book, and then we can compare that to the projection I did in logical models are giving us. I'll pass it back to you, Ian.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks, Paolo. Maybe Jean-Paul, just a quick word on the mid-year renewals before Mark can speak about how we view the capital management side. Jean-Paul?

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

Thank you, Ian. So you're correct in that we are seeing more opportunities for several reasons. As you said, a number of insurance companies are buying more reinsurance to protect their capital and to predict the volatility of the results. We are also seeing additional opportunities because clients are nervous about some of their reinsurers and are focusing on the higher quality rated reinsurers. Also, we feel that the rating environment is dramatically improving and we start seeing that at April 1. And we expect the continuation to continue in June and July.

Mark, maybe I could ask you to speak about the dividend?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. Sure. Thanks Jean-Paul. On the dividend, I think that decision is really independent of executing the operating plan for the upcoming renewals that we see on 6/1 and 7/1. So there's ample capacity. It's really two separate discussions for the board to consider.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

A - Ian Kelly {BIO 19976646 <GO>}

Yeah. Thank you, Andrew. Let's get to next question, please.

Operator

We can now take our next question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon. I have got two questions, and maybe one clarification. Just to start on the clarification side, Jean-Paul, regarding the follow-the-fortune question of Jonny. Can you just -- I mean just to be clear, I mean many uncertainties you've got on your BI exposure, is that linked to potential legislative or legal changes in some jurisdictions? Or I mean there is potentially -- I mean your wording in your treaties does not prevent you from being exposed to non-damage BI, just a clarification.

Second question would be related elsewhere to the P&C-re business. What's your view regarding in terms of premiums? What is your view regarding the recessionary impact of the macroeconomic environment? I mean clearly maybe demand is going to up. Rates are going to go up. But I mean what is the part of your book which is potentially economically sensitive from a top-line point of view?

And the third question will be related to Solvency II. Could you give us an idea of what is your sensitivity to one notch negative rating migration of your corporate bond portfolio? Thank you.

A - Ian Kelly {BIO 19976646 <GO>}

Firstly, Jean-Paul on the treaty wordings and the recession impacts?

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

Okay. Thank you. So first of all, our exposure will be determined by specific facts of the claim, the contract policy language at issue, and the applicable law. So it's very difficult to do general statements. That being said, many contracts have followed-the-fortune clause. That's mitigated by definition in many cases, what constitutes a valid business interruption claim to the treaty.

So you have follow-the-fortune in many cases in the treaty. You also have, in many cases, a business interruption being defined following a physical loss. And so the overall outcome will have to be reviewed on a case-by-case basis. On your question regarding premium, the majority of our book -- premium-wise, it's not directly related to economic activity. There are some lines of business that are linked to economic activity, such as aviation, credit and surety, the specialty insurance side, engineering, but those constitute a relatively small percentage of the overall portfolio.

We estimate that in terms of percentage, it's maybe 20%, 25% of the overall premium income. And many of the contracts from a treaty point of view, if they're not proportional, also have the minimum deposit premium associated with them. And so in case there's a drop of premium, the premium income to reinsurance would be the minimum deposit premium.

Ian, I'll turn it back to you.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

A - Ian Kelly {BIO 19976646 <GO>}

Yeah, sure. Frieder, do you want to pick up on the solvency ratio sensitivities, please?

A - Frieder Knupling {BIO 17247809 <GO>}

Yes, Ian. Thank you. We don't disclose that type of sensitivity. So, I think the best you can probably do is use our published sensitivity in relation to corporate spreads, then make an assumption about how a rating migration would translate into spread movement and then estimate the solvency ratio using that sensitivity, which we published in February.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. Thank you. And thank you, Thomas. The next question.

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

Ian, maybe if I may add a point on -- to answer to Thomas' question. On the risk of, let's say, conditional migration risk on the corporate bond portfolio, so again, we have significantly de-risked the investment portfolio since last year. And if we have a focus on our BBB bucket, this bucket is more defensive than the investment universe, is very well-diversified, is granular. We have more than 200 issuers and the average individual exposure side is EUR11 million per issuer.

And to give you a sensitivity of the rating of the portfolio, if we make the assumption that we have a one notch downgrade of our BBB-rated securities in our portfolio, this would marginally impact the average rating of the fixed income portfolio and this average rating would stay at A plus as today. Another illustration of what I'm saying, we took off some of the rating condition tables observed during the Great Financial Crisis of 2008 to 2009. And from those condition tables, we can extrapolate how certain events would affect our current bond portfolio. And again, if we apply those condition tables to SCOR corporate bond portfolio at the end of Q1, again the average rating of the portfolio would stay stable at A plus, so which gives you an idea of the positioning, the very resilient defensive positioning of the corporate bond portfolio today.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks, Francois. That's very helpful. And thank you, Thomas. Let's go to the next question, please.

Operator

We can now take our next question from Michael Haid from Commerzbank. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. Can you hear me?

A - Ian Kelly {BIO 19976646 <GO>}

Yes, Michael. Go ahead, please.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. Fantastic. One question only on the April renewals. Of course, the 6.6% price increases, as you mentioned, are coming primarily from the less affected lines of business. Nevertheless, the April renewals that are already done at the time when the corona crisis already was going on. So did you see already in the April renewals any impact from the COVID-19 on demand, on pricing, on any changes in the contracts, anything like that, anything interesting?

A - Ian Kelly {BIO 19976646 <GO>}

Thank you. Jean-Paul, if you could pick up?

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

Yeah. Thank you, Ian. As you said, the pandemic became very present in everyone's mind, I'd say, within the last 10 days of the renewal in April. So, we did not see necessarily more demand for reinsurance. We had expected a number of clients would request an extension of existing contracts and that did not take place. I think they were keen to complete the renewals as soon as possible. And even though most companies were working remotely, the renewals were able to be completed. We did see a push for exclusions of contagious disease. And I think the response was mixed by market, with some attempts more successful than others, given the fact that this was introduced within the last maybe five days of the renewal. But we expect this to be a predominant feature in the upcoming renewals.

And then pricing as well, I think in the end, pricing tended to be more on the upper end of ranges, when there were ranges. That's what we can see for now. But as I said, it was really in discussions with the Japanese clients, for example, that started very early in December, January. COVID-19 became real only in the last five days. And so it was hard to undo -- add a new element into lengthy discussions that were very difficult and very lengthy. But we expect a very different environment for the May, June, July renewals.

Q - Michael Haid {BIO 1971310 <GO>}

Perfect. Thank you very much.

A - Ian Kelly {BIO 19976646 <GO>}

Thank you very much, Michael. We can go to the next question.

Operator

We can now take our next question from Vikram Gandhi from Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. Thank you for the opportunity. I've got just one on Solvency II. Given the volatile markets, I wondered if you have any thoughts to implement VA going forward, as most of your peers now do? And then finally, when can we expect the 2019 Group SFCR report to be published?

A - Ian Kelly {BIO 19976646 <GO>}

Great, thanks. So Frieder, I'll hand both of those questions to yourself.

A - Frieder Knupling {BIO 17247809 <GO>}

Yeah. Okay. Thank you, Ian. We don't use VA currently, and we don't have any plans to implement this in the short term. It's not particularly relevant for us. We feel, and we have said we would, like most of our competitors, probably also publish numbers without VA or other measures. So, we prefer to keep it simple. The SFCR will be released very shortly. So that could happen any day.

Mark, I don't know whether you have anything to add, but this could happen either today or tomorrow.

A - Denis Kessler {BIO 1498477 <GO>}

Yeah, within days. Within days.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Thank you very much.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. Thank you, Vikram. I think we have one more question.

Operator

We can now take our next question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thanks. A couple of additional questions. The first one will be for Francois. Is the EUR47 million gain from real estate all what we have to expect for the full-year 2020, or there are other mature assets, real estate ones to be sold or in the process to be sold?

The second question would be related to your solvency position on that S&P rating basis. Could you update us on the buffer of the AA rating or potentially AAA, if it's still the case? And the last one will be on the credit & surety book. Could you tell us what was the combined ratio or the loss ratio of this book, back in '09, in '08 or early '09 basis? Thank you.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. So firstly, Francois, on the real estate?

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

Yes. So Thomas, we realized a few million euros capital gain in Q1, coming primarily from real estate. This gain is driven by the disposal of a mature real estate asset and we started the sell process at the end of 2019 last year. And we've managed to execute this transaction just before the start of the crisis, which is optimal and secures EUR47 million capital gain that will benefit for the full-year return on invested assets roughly 23 basis points on the full-year basis.

For the rest of the year, we have not planned. That was not our plan to sell another real estate asset in the portfolio. So that's done. So for the rest of the year, we don't expect a realization of significant capital gain. However, a number of assets are still bearing insignificant realized [ph] gain, and we will look at opportunities as they arise.

A - Ian Kelly {BIO 19976646 <GO>}

Thank you, Francois. Mark, comment upon the capital?

A - Mark Kociancic {BIO 17852409 <GO>}

Yes. Just two points to make here. I would remind everyone that we do manage the company on the basis of the group internal model. So the rating models that exist serve as more constraints on the side or secondary models to manage. Having said that, the S&P capital threshold, we're in a health position coming into 2020. We don't quantify it per se, but it's quite good, above the AAA threshold that we're required to keep.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks. And then finally, Jean-Paul, on the credit surety piece?

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

Yeah. Thank you, Ian. So going back to 2009, it was a little bit of a different crisis because the -- well, our main exposure comes from quota share of the large trade credit insurers. They have the ability to sort of follow companies and determine, which ones were the most fragile and take underwriting actions. Therefore, the underwriting action in terms of de-risking and also in terms of price increases, so if I remember correctly, the combined ratio was around 102%, 105% during 2009.

However, the payback on that portfolio was very quick. Within two years we had the complete payback of the losses. This crisis is a little bit different, as the loss is very sudden. And again, the large trade credit insurers are monitoring the risks, taking underwriting actions. There's also the further complication of government actions trying to prop up and secure the local economies as well.

A - Ian Kelly {BIO 19976646 <GO>}

Thank you very much, Jean-Paul. And thanks, Thomas. I think the questions are complete. I'll hand back to the operator.

Operator

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

A - Ian Kelly {BIO 19976646 <GO>}

Thank you very much for attending the conference call. As usual, the team is on hand to pick up any further questions you may have. So please don't hesitate to give us a call if you would require any further information. So keep safe and healthy, and I wish you all a good day. Thank you.

Operator

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