Q2 2016 Earnings Call

Company Participants

- Bertrand Bougon, Head-Investor Relations & Rating Agencies
- Denis Kessler, Chairman & Chief Executive Officer
- François de Varenne, Chief Executive Officer of SCOR Global Investments SE
- Mark Kociancic, Chief Financial Officer
- Paolo de Martin, Chief Executive Officer of SCOR Global Life SE
- Romain Launay, Chief Operating Officer
- Victor Peignet, Chief Executive Officer of SCOR Global P&C SE

Other Participants

- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- In-Yong Hwang, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Philip Kett, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst
- Xinmei Wang, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group 2016 First Half Results Conference Call. Today's conference is being recorded. At this time, I would now like to hand the call over to Mr. Bertrand Bougon, Head of Investor Relations and Rating Agencies. Please go ahead, sir.

Bertrand Bougon {BIO 18934799 <GO>}

Good morning, everyone, and thank you for joining the SCOR Group H1 2016 results con-call. Before starting this presentation, please consider our disclaimer on page two, which indicates that the first half 2016 financial information included in this presentation has been subject to the completion of limited review by SCOR's independent auditor.

With this, I would like to give the call to Mr. Denis Kessler, CEO and Chairman of SCOR Group, who is joined on this call by the entire committee (00:48) team.

Denis Kessler {BIO 1498477 <GO>}

Thank you, Bertrand, and good morning, everyone. First of all, once again, SCOR produced strong results this quarter. Of course, it's a quarter that marks the completion, as well as the successful achievement of the Optimal Dynamics strategy plan. As you know, it's a three-year plan. We launched it three years ago and it ended end of June, 2016.

The strategy has proven its resilience and enables the group to absorb all kinds of shocks. And I can refer to the events of this quarter as a high number of Nat Cats experienced in the second quarter of 2016. But also another shock, which is the uncertainties surrounding Brexit, another big concern is (01:41) financial markets and primary insurance companies in the UK. We demonstrate also a capacity to absorb the lasting trends affecting our industry, notably a lengthy soft P&C pricing cycle, and the pronounced ultra-low interest rate environment.

With regard to the results themselves, SCOR wrote €6.7 billion of gross written premiums in the first half of 2016, and that represents a robust growth of 5.9%. It's a very good sign of quality (02:18) of the group, at constant foreign exchange rates. The growth rate is 3.7% at current exchange rates.

We (02:28) a strong contribution for SCOR Global Life, with a growth of 10.2% and the fact that we were able to grow also in P&C, of course at a lower speed, proved the efficiency of the diversification strategies that we've been pursuing for the last 14 years. SCOR Global P&C delivered very successful June-July renewals with premiums increasing by 14.2%, while prices remain quite stable. And this is also after the April renewals, excellent news for the group. Victor will discuss those renewals in more details later on in his own presentation.

Overall, SCOR produces a net income of €275 million for the first half of 2016 with a return on equity of 8.9% and with a strong adjusted solvency ratio. Why adjusted? Just because we're going to call two debts really this week and early August. So, we don't take them into account when we estimate the solvency ratio. And so, the solvency ratio revised, which I just mentioned it, which is 210%, absolutely in line with the targets defined in Optimal Dynamics.

With Optimal Dynamics, by the way, completed at the end of June, I'm very pleased (04:08) to announce that we have successfully achieved all the targets defined in the plan with a return on equity of 1,111 basis points, above the risk-free-rate, on average, over the three-year period of the plan, and an estimated adjusted solvency ratio of 210% at the conclusion of the plan, well within the optimal range of 185% to 220%. So, we are extremely happy to demonstrate that we are able to deliver on a commitment and to be able to show you those good results three years after we announced the target.

We will certainly spend some time with the achievement of the Optimal Dynamics plan in more detail during the IR Day. And at the IR Day, we'll present (05:07) that will cover the next few years, early September.

Before giving the floor to Mark, who will give you more details on the financial performance of the group during the first semester, I would like to take a minute to speak about Brexit, which represents globally a disruptive shock, but not for SCOR. We can say that, if we look closely at the impact of Brexit for SCOR, the implied risk is minimal, extremely marginal from a financial perspective, as well as from a business and operational perspective.

If you consider the financial risk of Brexit for SCOR, it's extremely limited. The SCOR hedging and capital management policies ensures strict IFRS congruency between its asset portfolio and its underwriting commitments, totaling £1.7 billion, which represents, roughly speaking, 9% of total invested assets. Hence, any devaluation of the pound, which, by the way, already took place, would not have a significant negative currency effect on the group. And with only 6% of the shareholders' equity denominated in British pounds, around £300 million, by the way, we believe that the group will not really suffer from the consequence of Brexit in terms of devaluation of the pound.

The group, only its UK-based real estate is in the prime location, by the way, Lime Street in the city (06:51) and is occupied by SCOR and so the question marks about the evolution of real estates in UK will not affect the group.

On the asset side of SCOR, the portion of assets denominated in pound sterling has been positioned in a very prudent manner. In preparation of the referendum on Brexit, we are mostly invested in cash and cash equivalents and bonds with an immaterial exposure to UK equities and we have a very short duration for the British pound portfolio of 2.7 years, which give us, of course, flexibility.

As far as operational risk is concerned, it's minimal again. You know that the group's platform is global, but it's centered. We operate from many countries in the world, and we're absolutely able to serve our clients worldwide, including United Kingdom, whatever the solution for Brexit will be chosen. We are headquartered in Europe, and this facilitates a lot of cross-border transactions. Therefore, again, we will be able to continue operating the way we do today with no disruption for our clients.

Let's talk about business risks, that was a dimension that we have to deal with. And certainly, pressures from Brexit would be focused on the cross-border direct business, which is marginal for SCOR. Most of SCOR's UK direct operations is written in continental Europe, and stands in the range of £70 million. And if you look also at the Channel 2015 Lloyd's Syndicate, this represents about £20 million risk (08:48). None of this material to SCOR, and we could even, according to the final decision on the Brexit rules, maintain this business. So, therefore, we consider the Brexit is certainly not a good news for the world, at least by my opinion, and certainly for Europe, maybe for UK, but this is not affecting SCOR Group in no ways; very marginally, if we have a negative effect.

The group in a very good shape. We're viewing the group's operations, group's strategy, the group's performance for the last year, because we're preparing the new plan, to be disclosed early-September. And really that's my intimate conviction that we are in a very good shape. We are well-positioned. We demonstrate quarter after quarter our capacity to expand profitably. And we demonstrate quarter after quarter capacity to absorb shocks (09:50) Nat Cats have been quite heavy this quarter, but we also – we demonstrate the capacity to absorb adverse developments of a financial environment. So, we are optimistic about the next three years that we will show – demonstrate early-September.

With that, Mark, the floor is yours to go into the details into the financials.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis, and good morning, everyone. Moving on to slide seven, I'll walk you through the key financial highlights of the first half of the 2016 results. SCOR wrote €6.7 billion of gross written premiums in the first half of 2016, representing robust growth of just under 6% at constant foreign exchange rates. The year-on-year top line growth benefited in particular from the strong contribution of SCOR Global Life with a 10.2% rise at constant exchange rates.

During the first half of 2016, SCOR Global P&C's gross written premiums were broadly stable at constant exchange rates, and slightly decreased by 2% at current exchange rates for reasons that were explained during the first quarter earnings call.

Overall, the net income reaches €275 million in the first half. P&C net combined ratio stands at 93.8%. Our Life technical margin continues to outperform at 7.1%, while SCORE Global Investments in the extremely low yield and uncertain environment delivers a solid return on invested assets of 3.1%.

Going to page nine. Shareholders' equity is €6.3 billion, corresponding to a book value of €33.79 per share, representing a significant discount to our current share price. And you'll notice several main effects impacting the shareholders' equity; the strong net income that we generated, the revaluation reserve for a positive €149 million effect due to the lower interest environment, and the currency translation adjustment of negative €119 million, largely due to the weakening of the U.S. dollar against the euro, although this number has diminished from the €191 million that we recorded in the first quarter of 2016, as we saw significant strengthening of the U.S. dollar following the Brexit results.

The other items were principally composed of treasury share purchases. SCOR's financial leverage stands at 31.8% as at the June 30, temporarily above the range indicated in Optimal Dynamics. It would stand at 25.5% adjusted for the redemption of the two debts callable, which will take place tomorrow, July 28, and next week on August 2. This ratio also reflects the successful placement of a dated subordinated notes issue in the amount of €500 million in May – this past May. With this issuance, SCOR has secured the financing of its new plan developments and beyond.

So let's move to page 10. SCOR delivers a robust operating cash flow of €450 million on a year-to-date basis, thanks to the contribution of both business engines. And if we have a look at the cash flow from financing activities, you'll note that it's principally reflecting dividend payment and debt issuance proceeds, which occurred during May.

The total liquidity of the group reaches €2.8 billion at the end of June, representing a substantial increase year-on-year, in line with the temporary pause of the rebalancing of the investment portfolio but also to fund the pending debt repayments of approximately €850 million that will occur later this week and early next week.

I'll now turn it over to Victor to comment on the P&C results and the June-July renewals.

Victor Peignet {BIO 6287211 <GO>}

Thank you, Mark, and good morning. We are very pleased with the three sets of figures that SCOR Global P&C is reporting for the quarter, year-to-date and recent renewals, respectively. The June-July renewals were both confirming and encouraging. They were confirming because we have been able to manage the portfolio to contain the market downward pricing pressure and to deliver quality stable pricing at renewal, as it is shown on slide 12. Expected profitability remains at or above our targets in terms of technical ratio and return on risk adjusted capital.

They have also been confirming because our initiatives continue to develop positively. We've made good progress in the U.S. and in Alternative Solutions in EMEA. In the U.S., we achieved a 31% growth rate considering both Cat and non-Cat together. Growth was driven by two large contracts that contributed €47 million of increased premium. We add to non-renewals a small number of treaties with particularly weak pricing. On balance, new business has better expected profitability than both the portfolio on average and the business that was non-renewed.

Second word to describe the renewal is encouraging. Well, encouraging because while respecting the profitability targets, SGPC has grown renewed expected premium by 14%. Also, because during these renewals, we have seen signs of clear and broad resistance to further deteriorations of terms and conditions. Overall, conditions at the renewal remain difficult for reasons that you are all familiar with. SGPC's client, nevertheless, continue to respond favorably to the continual and regular improvements that SCOR has made for more than a decade now.

We see more business than ever. We have a market-leading rating. We have stronger team and tools and we are clearly positioned as a Tier 1 reinsurer. This is evident in our renewals. Moving on to the results of the quarter, we had a profitable quarter despite a high number of Nat Cat's. The net combined ratio for the quarter was 97.5% including the effect of the reserve release and a Nat Cat load that was twice the budgeted 6% annual Nat Cat ratio.

The second quarter is typically the lowest Nat Cat quarter in the industry. We estimate that the Nat Cat ratio from this year second quarter events consider altogether and relative to expectations for a typical second quarter is 1 in about 15 year written (16:44) period for our portfolio. This analysis is, of course, subject to all the caveats that need to be put on a seasonal analysis. Altogether, we are very pleased with the quarter results. Within this 97.5% net combined ratio for the second quarter, the attritional loss ratio stands at 52.7% plus 3.1% to be reinstated in order to neutralize the effect of the €40 million reserve release.

The favorable trend observed in the sum of the attritional ratio of 55.8% and the commission ratio of 25.8% demonstrate that we have a solid and stable portfolio. On a year-to-date basis, the net combined ratios stands at 93.8% and the year-to-date normalized net combined ratio at 94.5%. Within this net combined ratio, year-to-date Nat Cat contribute 6.9%, which means that the trend has been realigned towards the budgeted 6% and on Nat Cat ratio, following a first quarter with almost no Nat Cat activity. Overall, half year results confirm that SGPC has achieved the target of Optimal Dynamics. Indeed, we met the Optimal Dynamics plan, which ran from July 2013 to June 2016 on both financial and strategic goals.

Looking forward, we continue to expect to achieve our previously indicated guidance of a growth of 3% to 4% for the full year gross written premium at constant exchange rates. We make this determination on the basis of factors such as the growth of 0.6% at constant exchange rates at mid-year, 2.2% for the second quarter, the success of the June-July renewals, and the pipeline for the rest of the year.

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

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor. Moving on to page 14 of the presentation, I'm pleased to report that in the first half of 2016 SCOR Global Life continues to deliver strong and profitable growth. Our gross written premiums reached €3.9 billion, which represents a growth of 10.2% at constant exchange rate or 8.3% at current exchange rate. Our new business pipeline continues to be healthy across all product lines with new business margins expected to meet or exceed the group profitability target. During the first half of 2016, we continue to successfully execute our global franchise strategy providing flow of profitable new business in both Protection and Financial Solutions, with all our regions contributing to the growth.

New business underwritten in our longevity line of business in the second half of 2015 particularly in the third quarter of 2015 contributed positively to the development of our In-force premiums in 2016. We expect growth in premiums to normalize at approximately 5% at constant exchange rate for the full-year. With third quarter of 2016 expected to be almost flat compared to third quarter of 2015 driven by last year's strong production. Overall, the 5% growth expected for the year brings us in line with the Optimal Dynamics plan assumption of 6% per annum growth between 2013 and 2016, which we have successfully delivered.

We will provide you more details on this and on our future prospects during the IR Day in September. Overall, technical performance over the first half of 2016 remains robust with a technical margin standing at 7.1% above the 7% assumed in Optimal Dynamics. We've been able to deliver this technical margin, thanks to both the profitability of our new business and the results of the In-force portfolio in line with our expectations.

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

François de Varenne

Thank you, Paolo. Moving on to slide 15, SCOR total investment portfolio reached €27.6 billion at the end of June with an invested asset portfolio of €18.8 billion compared to €18.2 billion at the end of March. Market condition remained very challenging this quarter. Economic and financial uncertainties are still very high, and were supported by the Brexit vote, which impacted financial markets at the end of June and sent interest rates at new historical lows in all major currency.

In this context, SCOR Global Investment has tactically reinforced its prudent investment strategy consistent with the portfolio positioning implemented since June 2015 in order to preserve our investment portfolio and the wealth of SCOR shareholders. As a consequence, we have maintained our liquidity at a very high level of 14%. Ahead of the Brexit votes, SCOR has positioned it's GBP portfolio very defensively. It is mostly invested in cash and high-grade fixed income with an average rating of AA- in a very short duration of 2.7 years. Besides, SCOR has almost no exposure to UK equities and has de-risked it's corporate bond portfolio by getting rid of exposure to the UK, Italian and Spanish financial sector exposures.

The high quality for fixed income portfolio has been maintained as well with a stable average rating of AA-. Moreover, SCOR Global Investments has maintained a very strict policy of avoiding any sovereign exposure to euro payable (22:17) countries. At the end of June, expected cash flows from the fixed income portfolio over the next 24 months stands at €7.3 billion facilitating the dynamic management of our investment policy as soon as market condition (22:32). In spite of the adverse economic environment and the prolonged low yield context in all major currencies, SCOR Global Investments manages to deliver a strong and recurring return on invested assets, which stands at 3.1% for the first half 2016. This quarter enable us to deliver an average return on invested assets over Optimal Dynamic of 3% above the strategic plan assumption made in September 2013, which was to reach this level by the end of the plan.

With this, I will hand over to Bertrand Bougon for the conclusion of the presentation.

Bertrand Bougon {BIO 18934799 <GO>}

Thank you, François. On page 16, you will find the next scheduled events starting on September 7 with our Investor Day, as well as all the conferences which we're planning to attend over the remainder of 2016.

With this, we can now start the Q&A session. (23:28 - 24:17)

Q&A

Operator

Ladies and gentlemen, we will now move on to the Q&A session. We have our first question from Vinit Malhotra from Mediobanca. Please go ahead. Your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. So, I just wanted to quickly check on the trend in the running income. So, sorry, both my questions are on the asset side. The €93 million reported for the ordinary income, I would assume has probably a sizeable portion, say, €15 million or so from equity dividends. So adjusted for that, the fixed income yield, if you like is quite low this quarter, I thought, at least compared to what I had expected. Please could you comment a bit if there's any special here that we should note? So, that's the first question.

Second question is - we always hear about the maturity of the assets over the next two years and that number today is €7.3 billion, was €6.8 billion last quarter and used to be in €5 billion odd range few years ago. So, this number is obviously just increasing in size as SCOR keeps holding on to its short-duration strategy. But could you just comment on where are you thinking of investing? Is it more corporate credit? Is it more real estate? If you just refresh our memory on that, please? Thank you very much.

A - François de Varenne

Thank you, Vinit, for your two questions. On the first one, that's true that in the past we used to have some seasonality in Q2 on dividend, especially on the equity portfolio and continental names (26:43) since the tradition is that the dividend upgrade in Q2. If you look at the composition of our equity portfolio, first in absolute terms today, it's what - it's less than 2% of the portfolio. And if you move to slide 47, which gives you the breakdown of the equity portfolio, most of this equity portfolio today is made of convertible bonds. So, let's say that the seasonality on dividend now is almost immaterial in this set of results.

For your second question, that's true. We increased the liquidity in the portfolio. And you have two effects this quarter. The fact that we remain still relatively shocked in terms of duration. We maintained a high level of liquidity of 14 points. Those 14 points include the €850 million of cash of debt redemption for tomorrow and next week. That was mentioned by Mark at the beginning of the call. So, for the investment strategy over the next few months and quarter, we'll just ask you to wait for a few weeks in early September to have a full update of future investment strategy.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you, François.

Operator

Thank you. We'll take our next question from Andrew Ritchie from Autonomous. Please go ahead. Your line is open.

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

Oh, hi there. Sorry. One quick follow-up question on investment return. I think you talked about at the end of Q1 that you felt that there was a 20 basis point opportunity cost from the holding of excess liquidity. Is that still the right kind of level? And maybe remind us as to what you think about the likely investment return for 2016 and whether the opportunity cost has risen? The second question, you see debt in the quarter. Pro forma, your leverage is at the higher end of your target or it's kind of at the high end of your target. I'm talking about pro forma the repayments that you make tomorrow. I'm just curious to know what motivated you to issue the debt in the quarter? Was it purely opportunistic, or was this very early refinancing of retentions in a couple of years' time? What was the thinking behind it? Thanks.

A - François de Varenne

Andrew, that's true that during the Q4 2015 result, I mentioned and indicated return on invested assets in the range of 2.8%, 3.1% for the full year 2015. I indicated also during the Q1 presentation that the temporary rederisking of the portfolio implemented earlier this year and pursue this quarter in the context of the Brexit vote, with notably high level of cash, and this level is what, 10% above or higher than our long-term strategic level, would have an impact of 20 basis points on annual basis this year. Since the Brexit decision, has materially impacted as you know downward interest rate everywhere in the world, which are reaching new historical low. I will update you in September during the new strategic plan presentation on our future investment strategy and expected financial performance for the full year and during the next three years.

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

So, I guess the 20 basis points must've increased because you're cut short. And meantime, yields have fallen. Is that not fair?

A - François de Varenne

That's correct. I mean, if you look at the reinvestment rate, it was 2% at the beginning of the year, and it's 1.8% at the end of June this year. So, you have the effect of the decrease of interest rate everywhere in the world.

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

Okay. So, the effect of opportunity cost has gone up, then I guess, is the right way to think about it?

A - François de Varenne

Yes.

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

Okay. Okay.

A - Denis Kessler {BIO 1498477 <GO>}

Mark, on the strategy leverage?

A - Mark Kociancic {BIO 17852409 <GO>}

We did the €500 million debt issuance in late May. It was definitely opportunistic given where market conditions were prior to the Brexit vote, Brexit results. It's something that allows us to really lengthen the duration of our hybrid debt financing. It really locks in the long-term financing of the debt structure in the group for the next 10 years to 12 years. It also serves to support the next strategic plan so we can say categorically that the financing is secure and locked in. And the last point I would add is that the average yield on our subordinated debt that's outstanding is actually quite low, probably the best of the four major European reinsurers.

Operator

Now, we'll take our next question from Kamran Hossain from RBC. Please go ahead. Your line is open.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Morning, everyone. I've got two questions on P&C. The first one is just on the combined ratio. If I look back to your - if I look at your comments today about the 94.5% being in line with your expectations. Maybe I'm just really picky. But if I look at your guidance earlier this year, you think suggest - standard renewals that net combined ratio would be close to 94%. Q1 you then said 94.3% is close to 94%, which I agree. Is 94.5% the limit of what you would say is close to 94%? First question one is probably a semantics one. It probably me being picky - but that's my first question.

And the second one, on the retrocession program, obviously, you reduced your catastrophe loss expectation to 6 points this year on the basis of an improved retro program. How do you expect that to perform in, I guess in a severe hurricane season? I kind of look at this course and see your 12% cat loss, and I'm not sure how much benefit you got from it or kind of how we might think about it reacting if there are further large losses for remainder of the year? Thanks very much.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I don't know about the semantics but for me, I mean we are on 94%, we are midyear. We've no reason to believe that the 94% doesn't stand today. We are at 94.5%. We had a bit of a heavy quarter. For me I mean, no real comment about that. I mean, we fluctuate on 94% and that's where we are. It's still a pretty good one. And regarding the retrocession, yeah, I mean, we improved our retrocession. I mean, this second quarter is mixed of all sorts of perils, all sorts of region, none of them really being of very substantial natures so our retrocession is primarily a capital protection.

So, those losses that we had this year on the second quarter as it stands today will get very little contribution from retrocession, and it's totally normal. It's what those losses are doing, they are just eroding the underlying to our aggregate covers. Some of our aggregate covers are getting closer to kick, but none of them has kicked. And it's not totally – it's not abnormal at all. It's totally normal considering the structure of our retrocession. And you look at it while you cannot assess that on a quarter. It's even very difficult to assess them on a yearly basis, so I mean at half year we are at 6.9%. It's a mixture of – at first quarter we had no cat activity, and second quarter where we have pretty high Nat Cat activity.

I mean, if you look at it for any reinsurer and in the quarters that are heavy in terms of Cat exposure is the third quarter because of the hurricanes in the U.S. And Q1 and Q4 because of the European storm. So, normally Q2 is a pretty quiet quarter, while this year is a bit of an exception to that, which is why we tried to calculate what sort of return period such a second quarter as this one is having on our portfolio and while we came out with a figure of around 15-year return period which means that it's certainly a bit of an exception.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks very much. I appreciate the color.

Operator

Thank you. We'll take our next question from William Hawkins from KBW. Please go ahead. Your line is open.

Q - William Hawkins {BIO 1822411 <GO>}

Hi guys. Thank you very much. On the June-July renewals, when you flag those two large contracts. Can you give us a bit more detail about what those contracts are and how exactly you won them? Because you said that they were priced more attractively than existing business, presuming you won that business from somebody else who doesn't agree. So, if you could just walk us through how you won that business. And, then, secondly, as you think to the future the Solvency II ratio of 210% even after the debt increase. You're still only within your target range when your big three peers in Europe have massively blown through their upper limits. How do you interpret that when you think about your strategic strengths and weaknesses for the future? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

I'm not going to give you a lot of details about those two. What I think is important for me to highlight those two is to confirm the fact that while our growth in the U.S. is a very, very discipline growth. And the underlying growth, while it's a mix, of course, of cancellation and new business. Well, the growth since you exclude those two contracts is something like 4.5% overall at renewal, which means that we are having a very disciplined sort of approach of our U.S. activity. Those two contracts while, both are proportional, one is property, one is multiline. Didn't steal them from anyone else. Those are new contracts from two clients. One is a syndicated to some extend and the other one is principal to principal.

Q - William Hawkins {BIO 1822411 <GO>}

That's great, Victor. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Victor. And maybe (37:40) on the solvency ratio.

A - Mark Kociancic {BIO 17852409 <GO>}

We can't really comment on the solvency capital management strategy of our peers. I mean, we have clearly set out our solvency management framework in our target range. We've consistently managed our solvency position within the optimal range. That is one of the strategic targets which the group has set out. And we've adhered to what we have disclosed, and that is really the backbone of our entire capital management strategy. So, we were just very consistent with what we set out for the current strategic plan. We are obviously reviewing this, and we'll give an update on this at the next IR Day with a view at the next strategic plan. But for now, we are just working within the framework which we have set ourselves.

Q - William Hawkins {BIO 1822411 <GO>}

Are there any important issues on the Solvency II framework that you have been reviewing recently?

A - Mark Kociancic {BIO 17852409 <GO>}

I didn't catch your question. Could you just say that again?

Q - William Hawkins {BIO 1822411 <GO>}

Just given your passing remarks there, are there any important issues on Solvency II and your own model and framework that you have been reviewing recently?

A - Mark Kociancic {BIO 17852409 <GO>}

No. No. I mean, our model has been approved. We are happy with it. As it works, we are using it for risk and solvency management purpose. We've been doing this for a long period. So, we are comfortable with the model, with our Solvency II position. We are not affected by the industry debates about things like changes to the UFR and so on which has zero impact on us. So, there's no issue which is keeping us awake when it comes to our solvency. And we are very comfortable with, as I said, both the model and our solvency framework.

Q - William Hawkins {BIO 1822411 <GO>}

Brilliant. Thank you.

Operator

Thank you. We'll take our next question from Xinmei Wang from Morgan Stanley. Please go ahead. Your line is open.

Q - Xinmei Wang {BIO 17860767 <GO>}

Hi. I have two questions, please. The first is on the investment income. On the real estate portfolio, François said last quarter that we should expect more to come in the next couple of quarters on realized gains in real estate. We didn't see any in 2Q, and there's still a stock of unrealized gains there. Is that something we should still be factoring in, in the next couple of quarters and something you're thinking about to achieve the target ROI? First question.

The second is on how to think about using reserve releases. You have strong reserve margin and clearly that gives you optionality to use it for high Nat Cat in the quarter. Should we think of it as quarters with - with high Nat Cat meaning that we should see reserve releases or with the base case to be still to - so you are factoring no reserve releases and sort of how should we think about that in context of the Nat Cat environment? Thank you.

A - François de Varenne

On the real estate portfolio (41:05) I'll explain the strategy we've got. We like to work our asset and to create values. So, that's true that we sold one building with total return of 13% since the initial acquisition and that was in the account in Q1. If you look at the annualized gain in the real estate portfolio that's in the appendix on slide 50. We still have a material amount of unrealized gain on this portfolio. Those asset are not yet mature, so don't expect in the next few weeks or months something, but throughout the next strategic plan for sure.

A - Denis Kessler {BIO 1498477 <GO>}

Victor, on the reserve release?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think we have commented on that quite number of time regarding the fact that basically we have a margin above best estimate that is a management margin. That margin is there to be used in rather exceptional circumstances, but we consider that this quarter, as I said, I mean I mentioned the sort of return period. So for us it's a heavy quarter. But we do €40 million of release to smooth the quarter as we did in the past in few other occasion, exactly in the same circumstances, by the way. So, nothing really special. Just a continuity of the practice that we have had for more than five years now.

Q - Xinmei Wang {BIO 17860767 <GO>}

Okay. Understood. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

When was the last time we had a reserve release?

A - Victor Peignet {BIO 6287211 <GO>}

It was 2013.

A - Mark Kociancic {BIO 17852409 <GO>}

German floods in the second quarter of 2013, we had a small reserve release similar to this size, yeah.

Q - Xinmei Wang {BIO 17860767 <GO>}

Okay. Great. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

You put in your – you have lots of (42:55). Sometimes you have to use them. Next question?

Operator

Thank you. We'll take our next question from Jonny Urwin from UBS. Please go ahead. Your line is open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Good morning, everyone. Thanks for taking my questions. Just two from me. So, firstly, on pricing trends, I mean you guys actually sound a bit bullish compared to some of the comments that we've heard so far. I mean pricing currently stable at sort of minus 0.2%. I mean I see a comment there, the proportional lines are improving in places. I just wondered if you could give us a bit more color on that, and how you're seeing proportional rates going forward. And also in non-proportional, which obviously continues to get sort of less negative? Secondly, you've reiterated guidance for P&C, GWP growth at 3% to 4% constant currency. Obviously, there's a bit of catch up to come from the H1 levels, and the June and July renewals are helpful, but I just wondered if you could give us a bit more into the pipeline there, and how you're seeing it. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Both for you Victor.

A - Victor Peignet {BIO 6287211 <GO>}

I think on the growth, you can see that the second quarter is already better at plus 2.2%. I think June-July are coming very nicely. We have a number of discussion today on contracts, which are not as substantial as the two I mentioned in the second quarter, but that each of them is substantially enough have an impact. So overall, I think we are pretty confident that at the end, we do the catch up and we lend more as where we thought we would be ending. So difficult for me to give you information about the pipeline. It's pretty much – but we think we have a number of discussions sufficient considering a reasonable hit ratio to bring us within that, that sort of range.

A - Denis Kessler {BIO 1498477 <GO>}

Pricing trend?

A - Victor Peignet {BIO 6287211 <GO>}

On the pricing side, as you noticed, while reinsurance non-proportional continues to be the most competitive end, I mean, there is least competition on proportional, in particular on proportional that requires a real knowledge of local markets. There is more resistance on the commissions, which means that the negotiation on commissioning in proportional is getting tougher, and to some extent, I mean, we would benefit from it. So, I think that's – and that's primarily starting from the U.S. position.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

Operator

Thank you. We'll take our next question from Frank Kopfinger from Deutsche Bank. Please go ahead. Your line is open.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thanks. I have two questions, and I would like to come back to the pricing. As you have now disclosed a stable pricing outcome, looking forward, would you say that we are now at the bottom? And do you see chances and what are the chance – what are the risks that we are now at the bottom?

And my second question is for François on the liquidity share of the 40% (sic) [14%] (46:17) on investments. I think, in Q1, you mentioned that going forward by the end of the year, you would like to bring down this high liquidity share. Now, as of Q2, you kept it due to the uncertainties also on Brexit. But how should we think about this going forward for the second half of this year? And what would be the target range that you would look at?

A - François de Varenne

Well, from the liquidity to, as you see, we have 14% of liquidity today, of which, almost 4.5 points that will disappear tomorrow and next week with the debt redemptions. Going forward, let's say between the summer and the end of the year, the intention now is to decrease (47:10) amount of liquidity and to come back to a, let's say, normal level.

In terms of pricing, are we bottoming up or down or bottoming?

A - Denis Kessler {BIO 1498477 <GO>}

I think, first of all, our communication is not massively different from the communication of one of our peers, who has been communicating on pricing that we agree not to name them. And I think we are pretty much in line, so we are not the only ones. And regarding whether we are at the bottom or not, it seems that in certain areas, yes. And it seems that a number of others, no. But I think it's very, very difficult to make a general statement. I mean each client is having a purchase policy and a purchase strategy and it's specific to that client. What I'm saying is that for those clients want to rely on leader insurers and reinsurers that having the ability to price the business, I think, yes. In number of cases, it's close to the bottom. Then, if those buyers of reinsurance will want to broaden the source of capacity and go to different markets, different reinsurers, well, they can still find flexibility.

As far as we are concerned, all our business is priced by our own people and we have our targets and when the business doesn't meet the target, then we enter into negotiation, where basically the relationship with the client becomes the driver of the overall discussion on the profitability we get from the client.

And then, because all of the job we do at the moment is to put ourselves into best possible position, if ever the market turns to grab as many opportunities as we can, we protect the franchise by negotiating with clients that we value. But you've seen in our report on renewal, basically two markets have caused us difficulties, Middle East which has started even earlier than this quarter and South Africa where we had certain issues. And those issues we had in South Africa, the consequence of it is that we reduced our lines, because we thought that we were not in a position to support the pricing levels. So, in that case, it's your choice to walk away or to negotiate, reduce your share, keep a position and then hope for the future.

And so, I think it's client-by-client and market-by-market. But with a clear strategy which is to position to ourselves with the client we value in such a way, the day the market turns, whenever it happens, we should be among the very best place to benefit from it.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thanks.

Operator

Thank you. We'll take our next question from In-Yong Hwang from Goldman Sachs. Please go ahead. Your line is open.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Hello. Just two quick questions for me. Firstly, on the Life technical margin. I think there's a very slight deterioration I think in the technical margin was 7.2%; in the first quarter 7.0%. Is that just kind of random fluctuation or should we expect that to kind of go down further? I think, Paolo, you said before that as the share longevity increases, the margin there should come down gradually.

And my second question is on the floods in China. I think at the end of June, start of July. I don't think that made into the second quarter cat losses. Just wondering whether you see that as a major reassurance, given that I think some people are saying it's the worst flood in 20 years. So, just any comment you can share on that would be helpful. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

(51:09) start with technical margin, Paolo?

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

Yeah. This is something we communicated upfront when we communicated Optimal Dynamics back in 2013 that we were expecting technical margin to come down at around 7% by the end of (51:21). I think we had some very favorable writing of protection business that helped us offset the growth on longevity so far. But, as we're going to see now, the longevity is picking up especially before we wrote at the end of last year. So, the reduction is the pure effect of the longevity business like growing. As we said in the past, despite the margin being lower, we're writing at a very healthy ROEs, much above the group target actually.

A - Denis Kessler {BIO 1498477 <GO>}

All right. Victor, maybe on the floods of China?

A - Victor Peignet {BIO 6287211 <GO>}

Yeah. I think you are talking of the typhoon that first hit Taiwan and then went into China.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Yes, please.

A - Victor Peignet {BIO 6287211 <GO>}

(52:10).

Q - In-Yong Hwang {BIO 18784369 <GO>}

Yeah. I think there was some flooding before that as well. But, I think it's all kind of – yeah.

A - Victor Peignet {BIO 6287211 <GO>}

Well, we don't see that. For ourselves, no, we don't see that as a material event, no.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Okay. Sure.

Operator

Thank you. We'll take our next question from Philip Kett from Macquarie. Please go ahead. Your line is open.

Q - Philip Kett {BIO 19507232 <GO>}

Thank you very much. Just two questions, please. Firstly, on the P&C reserve release of 3.1%, I was wondering if you could give us a bit more color on where that came from and which business lines. And secondly, we recently saw the result of the court case involving CCR. I was wondering if you could talk a little bit further about that situation. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Well, it's €40 million. It's distributed across long-tail lines; basically, Motor Non-Proportional, Aviation, Liability and Inherent Defect Insurance. I would say almost equally between the four lines and it relates to underwriting years that are either old for the Liability or relatively mature for the three others.

Q - Philip Kett {BIO 19507232 <GO>}

Thank you very much.

Operator

Thank you. We'll take our next question from Thomas Fossard...

A - Denis Kessler {BIO 1498477 <GO>}

Wait. Wait. We have a CCR question. So, Romain Launay, who is the Chief Operating Officer in charge of Legal, will give some light on the case.

A - Romain Launay {BIO 18747770 <GO>}

Regarding the decision from the Paris administrative court and that's obviously a decision that (53:59) analysis, the Paris administrative court has established that there was a (54:06) state aid that was provided to the CCR, and it's exactly what we've been saying for the past few years. So now, the file will go to the European Commission. The state will have to notify this state aid. And we're confident that our analysis will prevail.

In that respect, just keep in mind that, for us, it's more a question of principle than a question of gaining another business. We think that private reinsurers should be able to do their job in every market and, especially here in France, and that's what's behind the complaint that we had filed with the Paris administrative court. In a nutshell, we're very happy with the decision. And now, we're expecting the final decision from the European Commission.

Q - Philip Kett {BIO 19507232 <GO>}

Thank you very much.

Operator

Thank you. Now, we'll take our next question from Thomas Fossard from HSBC. Please go ahead. Your line is open.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning, all. I got two questions for Victor. The first question will be on the €65 million of claims coming from the Canada wildfire. Just wanted to better understand what has been the main exposure triggering this pretty high number within a SCOR Group context. And also, if you could mention if you were surprised or there were anything wrong in terms of exposure or you've been surprised by the magnitude of the losses on that side.

And the second question would be on the renewals you're pointing (56:08) development on the alternative solution side. Could you comment (56:12) I would say new opportunities coming in or what is the type of, I would say, request you're getting from your clients at this point in time on the Alternative Solutions product? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, as far as Fort McMurray, it's in the history of Canada, it's for sure, the most devastating fire, but it's not the first one. That is the third city that has been badly affected by fires of the same nature. And there are a lot of studies being done at the moment in Canada by government bodies regarding the risk of fires, and how to basically make sure that the building codes and the way of protecting cities against fire is getting improved. So, I think this is something that is really considered, not only by us, by our clients, but also by the Canadian government, and there is even scoring of cities that are being developed at the moment in order to try to assess the risk.

So, whether it was a surprise or not, but it took quite a bit of time because, as you saw, the fire developed over several weeks and the flow of information was quite slow. I think we have a pretty good grasp at the moment of where we are. Most of the loss, almost the entire loss is coming from our Treaty business in Canada with local companies. Again, not surprisingly, I think, fortunately our business solution business on Synthetic Fuel in particular in the Fort McMurray area doesn't seem to be producing heavy losses, at least at the moment on the BI side, in particular. Contingent business interruption, we do not seem to have worried too much about that. So, that's where we are.

Regarding Alternative Solutions, I think it's a combination of three things. It's a combination of, first, companies that have gone through capital studies, whether driven by Solvency II or around Solvency II. And through those studies, we believe that they can improve basically their capital situation. So, that's the first. And those are almost prospective studies, you enter into the study and you try to analyze and propose. Well, the second is companies that are affected by capital events. It can be because of their operations. It can be because of the regulations in the countries where they operate. So, that's the second, capital events that are specific to certain companies.

And there are capital events that are not specific to certain companies, but that are created by transition regulations in certain countries. And, we are – well, in that case, you can be approached by several clients, I think, basically the same issue to deal with. So, it's a variety of approaches. It's mainly EMEA and when I say EMEA, it's Europe plus certain sophisticated market outside Europe within the EMEA region.

You can think of countries like South Africa and think like countries like Israel, countries that have pretty developed, pretty mature markets within the EMEA region, outside of the EU.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you.

Operator

Thank you. And now, we are taking our next question from Vikram Gandhi from Societe Generale. Please go ahead. Your line is open.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. Good morning, everyone. Just two quick questions from my side, the first being, can you please provide your individual loss estimates for the Ecuador earthquake and the Sri Lankan plants?

And, secondly, if I look at the pricing trend for the non-proportional business, the one that you've reported for this particular July renewals is down 1.7 percentage pricing (01:00:39) versus minus 5 percentage July last year. So, can you just provide some color as to which particular geographies or which particular business lines are contributing to the Y-o-Y improvement? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

The Ecuador earthquake is a bit below 20 (01:01:06). Which was the second one? (01:01:10)

Q - Vikram Gandhi {BIO 18019785 <GO>}

The Sri Lankan floods?

A - Victor Peignet {BIO 6287211 <GO>}

Sri Lankan, below 10 (01:01:14).

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

And then the pricing, I think, the most – probably, the most marked difference is U.S. Cat business definitely. That's where the price decline has slowed down most. And, I mean, again, I mean June, July renewal is a very specific renewal. It's a lot of U.S., it's a bit of Europe, and it's almost nothing in Asia-Pac, I mean Asia-Pac, is a bit of Australia and a bit of Malaysia but Asia-Pac is really very small.

So, out of the €500 million that we had to renew, a bit less than €100 million was coming from Europe, then less than €50 million coming from APAC, and all the rest U.S. related. So, whatever price movement indication, it's very, very weighted on the U.S. side of course.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay.

A - Victor Peignet {BIO 6287211 <GO>}

And EMEA in there is a lot of South African business in June, July.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you very much.

Operator

Thank you. We'll take our next question from Thomas Fossard from HSBC. Please go ahead. Your line is open.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. So just a quick follow-up on prices. So, since the start of the year, year-to-date 0.8% price decline overall on average, Victor, can you comment on how this compare to your initial expectation at the start of the year? Is that fully in line or if it's slightly better than your hopes at the start of the year? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

I would say it's in line. We are – I would say we are sticking to our plan and we had a plan, we had a target, profitability, and we are sticking to that. And the amount of portfolio management, if you look at slide 12, if you look at – you start at the June-July renewal, but you would look at the previous one, would not be different, you start with almost €500 million. Then, you look at the amount of cancelled premium and you look at the negative amount within the restructured and you can see portfolio changes. I think that, even though in the cancelled there are some cancellation, which are basically cancellation by my clients, but not many clients reshuffling their programs. So, I think though I would say it's certainly not better than what we expected, but I mean we managed to keep the gate and that's the most important.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you.

Operator

Thank you. As there are no further questions at this time, I would like to now hand the call back to Denis Kessler.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you. Thank you very much for attending this con-call this morning. And of course, if you have additional questions, don't hesitate to call us and we will be glad to provide additional information. I would like to wish everyone a good summer break, at least for those who are taking some vacation. As said, we're finalizing the slides for the new strategic plan that will be presented and unveiled September 7, during our I-Day. We hope that you will all attend it. It's at 9:00 AM. And you will get (01:05:02). Have a nice summer break, and see you in September. Bye-bye.

Operator

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