Q1 2014 Earnings Call

Company Participants

- Antonio Moretti, Director-Investor Relations
- Benjamin Gentsch, Deputy Chief Executive Officer of SCOR Global P&C SE
- Denis Kessler, Chairman & Chief Executive Officer
- François de Varenne, Chief Executive Officer, SCOR Global Investments SE
- Frieder Knüpling, Chief Risk Officer
- Mark Kociancic, Chief Financial Officer
- Paolo de Martin, Chief Executive Officer, SCOR Global Life SE
- Victor Peignet, Chief Executive Officer of SCOR Global P&C SE

Other Participants

- Andrew J. Ritchie, Analyst
- Kamran Hossain, Analyst
- Michael I. Huttner, Analyst
- Tom M. Dorner, Analyst
- Vinit Malhotra, Analyst
- William Hardcastle, Analyst
- William S. Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the SCOR Group 2014 First Quarter Results and SCOR Global Life 2013 Embedded Value Results Conference Call. Today's conference is being recorded. And at this time, I would like to turn the conference over to Mr. Antonio Moretti. Please go ahead, sir.

Antonio Moretti {BIO 17681290 <GO>}

Good afternoon, everyone, and thank you for joining the SCOR Group Q1 2014 results call. Before starting the presentation, please consider our disclaimer on page two, which indicates that the presented Q1 2014 financial information is unaudited.

Also note, as indicated on page three, that in this presentation, two sets of financial data are used. The first set is presented on an unaudited – on an audited published basis and includes Generali U.S. figures from the acquisition date of October 1, 2013. Obviously, prior year comparatives do not include Generali U.S. The second set of data is presented on an unaudited pro forma basis and includes Generali U.S. as if the acquisition has taken place on 1st of January 2013.

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

Denis Kessler {BIO 1498477 <GO>}

Thank you, Antonio, and hello, everyone.

With a net income of €135 million and ROE of 11.2%, the SCOR has achieved very successful Q1 2014 results which confirm the validity of our strategy and certainly the relevance of the target set in new plan launched last September called Optimal Dynamics.

Let me give you a few highlights of this quarter, two business engines are doing very well. SCOR Global P&C has delivered strong January and April renewals with an overall premium growth of 5% quietly stable prices at minus 0.4% because of slight erosion and broadly stable expected profitability on a net basis. We've also strengthened our London market presence with the launch of Lloyd's Managing Agency. This is certainly a key milestone of the Lloyd's initiatives in Optimal Dynamics.

On the Life side, we have finalized integration of Generali U.S. and we paid in advance $228 million bridge loan used to finance acquisition. Meanwhile, SCOR Global Life continues to enlarge its footprint into longevity and financial solution markets, in line again with the new plan, Optimal Dynamics.

To give only one example, our participation in the largest ever pension scheme longevity swap with Aviva clearly demonstrates the franchise in the longevity space. Moreover, the excellent MCEV figures that we have presented today validates the strengths for portfolio focused on biometric risks increasing by 29% compared to 2012 MCEV, which is €4.5 billion that's because of that €24.1 per share.

On the asset side, SCOR Global Investment pursues a prudent rebalancing of the investment portfolio in line with the Optimal Dynamics orientations whilst maintaining its overall credence. In addition to rigorous growth and good profitability, solvency ratio is at the upper end of the optimal range of 185% to 220%. Solvency is boosted by a policy of pooling in a capital shield of wide range of capital protection tools such as the Atlas X collateralized cycle that we successfully placed in December. As a result, we are in position to provide the shareholders with a dividend of €1.3 per share in cash up by 8% compared to 2012.

Let me now hand over to Mark, who will take you through the financial details of these results.

Mark?

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Danny.

Moving on to page five, I'll walk you through the financial highlights of the first quarter results of 2014. SCOR wrote more than €2.6 billion of gross written premiums in the first quarter of 2014, which represents an 11.8% increase at current exchange rates, and a 14.8% increase at constant exchange rates. This growth is driven by healthy SCOR Global P&C renewals since the beginning of the year and by the increased strength of the SCOR Global Life franchise, thanks to the Generali acquisition and to the growth in longevity, financial solutions and emerging markets in line with the Optimal Dynamics plan.

SCOR records a strong financial result during the first three months of 2014 by generating a net income of €135 million with an 11.2% return on equity. Both SCOR Global P&C and SCOR Global Life delivered an operational performance, well in line with Optimal Dynamics assumptions with an excellent 88.9% combined ratio and a solid 7.3% technical margin respectively.

Finally, SCOR Global Investments delivers a return on invested assets of 2.6%, while slight increasing the duration of the investment portfolio as indicated in Optimal Dynamics.

Moving on to page seven, as of the 31st of March, the shareholders equity reaches €5.16 billion. The book value per share is well above €27 at €27.49 and the financial leverage stands at 20.8%, which is well below the 25% ceiling indicated within Optimal Dynamics.

On page eight, the operational cash flow was negative €101 million for the quarter and that was affected by several non-recurring items, including an anticipated €96 million tax payment relating to the restructuring of the recently acquired Generali block of business.

On a normalized basis, the net cash flows from operations would be approximately €200 million. Additionally during the quarters, SCOR repaid in full, the $228 million bridge loan facility that was used to help finance the Generali U.S. transaction. Overall, the total liquidity position decreases to $1.8 billion in line with previous indications.

Now, I'll turn it over to Victor for the P&C results.

Victor Peignet {BIO 6287211 <GO>}

Good afternoon. Looking first at the results of the first quarter, the results of this first quarter are perfectly in line with the performance, expectations and assumptions, which was set in Optimal Dynamics. I will therefore quickly run through the key performance indicators and just make a few comments about each of them.

Starting with premium, gross premium written increases by 0.4% with 3.2% impact of foreign exchange rates; at constant exchange rates, the gross is 3.6%.

At the end of Q1, 2014, the division achieves 24% of the 2014 indication provided previously and based on the full year estimate of about €5 billion of written premiums. Despite this is normal seasonality effect on the first quarter, the gross expectation over the full year remains in line with the assumptions previously disclosed.

Treaty portfolio in particular on proportional in Asia business solution booked mainly in engineering and Lloyd's continues to contribute positively to the gross in written premiums, which is partially neutralized in the specialty books by the reduction of the aviation business (08:29) and by the seasonality impact on agriculture.

The net combined ratio comes out at 88.9%. Whilst there are limits in doing a normalization exercise at the level of a given quarter, its net combined ratio would fit very well with Optimal Dynamics objectives if such normalization were to be done. The attritional loss ratio is 57.1% versus 60.2% in Q1 2013, and it stands currently at the low end of the Optimal Dynamics assumptions.

The main items of interest for the quarter are the following: few man made losses, on the P&C treaty portfolio a strong contribution from property proportional as well as non-proportional working segments, a good performance from the specialties book of business mainly driven by loss in marine and offshore and energy and U.S. cat portfolios.

On the other hand, the aviation activity from (09:24) has been negatively impacted by the marines and airline loss. Business solution loss ratios stand at a very good level at the end of the quarter driven by very good results on engineering and property books of business. Cat ratio for the quarter stands at 2.1% with the flowing main cat events impact in Q1 updated information received from cedents leading to an increase by about €6 million net on late November 2013 South African hailstorms and development on unrealized hailstorm for about €5 million.

Second impact, 2014 UK floods and Japan snowstorm for which a preliminary assessment loss estimate has led to reflect €10 million in Q1 gross and net for the various events. Charges ratio is at 23.1%; it is also at the low end of Optimal Dynamics assumption and it is slightly higher than in Q1 2013, where it was spanning at 22.3%.

This increase is mainly linked to the increasing weight of Lloyd's business with a higher charge ratio compared to the average of the division on the assumed side combined with the growing part of the large Asian (10:42) account quota share contracts and to a lesser extent with the impact of the cancellation of MDU business, which had no commission. Lastly, reserves are maintained globally at best estimate level and there has not been any release as part of the quarter closing.

Moving on to the 1st of April renewals, the key takeaways are the following. The division records a premium growth of 8.5% at constant exchange rates with regard to the €318 million of premiums up for renewal at 1st of April. The premiums up for renewal represent around 10% of the total annual volume of 3G premiums with the main countries renewing being Japan, India and the USA.

The division confirms its leading position in key markets such as Japan and India, achieving a strong premium growth with an overall expected profitability well within targets. Premium growth confirms the depth and the breadth of SCOR franchise in Asia Pacific both in mature and emerging economies and globally across treaty P&C business and treaty specialty lines.

In Japan, the division manages to maintain the stability of its P&C treaty book in an otherwise shrinking reinsurance market characterized by reduced session levels and unification of reinsurance programs following the Generali acquisition. In India, the division is reaping the fruits of a long standing consistent and both commitment to the Indian market providing full ranges of services and engaging in genuine partnerships with cedents. This enables the division to seize meaningful opportunities generally speaking and more specifically in specialty lines basically in Agriculture and Credit & Surety.

The premiums up for renewal at one four are distributed between P&C treaties was 68% and specialty treaties was 32%. The three geographic areas distribution is Asia for 61%, Americas for 30% and EMEA for 9%. The main business line developments at the 1st of April renewals are the following: was specialty treaties, gross premiums have increased by 23% at constant exchange rate up to €109 million mainly driven by positive business developments in the agriculture and credit segments, thanks to the opening of the markets in India and in China.

For P&C treaties, gross premiums increased by 3% at constant exchange rates up to €236 million. Thanks to a strong franchise in Japan and despite the challenging reinsurance market environment at this renewal, SCOR Global P&C was able to maintain the size of its book and to improve its position as a core reinsurer with its key clients. Overall, net of the positive development in agriculture in India, the premium increase stands at 12% for the Specialty Treaties and at 5.3% for the Specialty and P&C Treaty book which is totally in line with Optimal Dynamics premium growth assumptions.

The division benefits from its well diversified book of business with 72% of the premium renewed in April relating to proportional business, which itself benefits from sound and generally improving primary insurance trends.

The risk adjusted price reduction is contained at minus 2.7% overall with positive valuation in proportional reinsurance placement by plus 0.3%. However, this overall positive price movement on the proportional contract is not sufficient to compensate for the deterioration of non-proportional reinsurance prices, reflected by the minus 8.3% price reduction on non-proportional segment especially in property cat.

Excluding the price reductions affecting the non-proportional property cat segments, the overall price level is broadly stable. The expected technical performance measured in terms of underwriting ratio deteriorates by just under 2 percentage points compared to April 2013 while the return on allocated capital deteriorates by just under 3 percentage points. This is largely driven by the Japanese market, where non-proportional prices in property cat segment have returned to their pre-Tōhoku earthquake levels, which is basically 2011 levels.

Excluding Japan, the division gross underwriting ratio would have increased by a moderate 1.2 percentage point while the return on allocated capital would have decreased by around 1.5 percentage point. The expected profitability of the overall book renewed in April remains nonetheless well within SGPC targets and like in prior years contributes to improve the 2014 year-to-date profitability expectancy as it is shown on the fourth slide that we are presenting today.

Looking at the January to April 2014 period versus the same period last year, the expected gross underwriting ratio increases by 1 percentage point, while the return on allocated capital reduces only by 0.5 percentage point. In relation to the slight deteriorations of the expected growth underwriting ratio on a year-to-date basis, it is worth mentioning that it is also expected to be largely compensated on a net basis by the improved aggregate coverage and cost efficiency of the retro program.

As a conclusion, we see the first quarter very much in continuity of 2013 and as a very good start of the new thee year plan. On this, I'll pass on to Paolo for his comments on the Life division performance.

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor.

Moving on to page 13 of the presentation, SCOR Global Life delivers a healthy growth and a strong technical performance in the first quarter of 2014. Our gross written premiums reached €1.5 billion which translates into pro forma growth of 6.9% at constant exchange rates, at the high end of our expectations for the full year as a comparison benefits from a relatively low quarter in 2013.

The Generali U.S. acquisition completed in October 2013 contributes €204 million in gross written premium in the first quarter of 2014, pretty much in line with the business volume experienced in the first quarter of 2013. Our growth has followed the Optimal Dynamics plan, focusing on longevity, financial solution and growth in emerging markets. As far as the key commercial highlights of the quarter, I would like to mention a few points.

First of all, we have two landmark transactions in the quarter, the longevity contract signed with Aviva in March and the VIF Monetization transaction concluded with Mediterráneo Vida. Both transactions highlight the ability of our teams to work with our clients in the developing of innovative solutions.

In addition, we registered double-digit growth in Asia driven by the financial solution business. And we have had satisfactory renewals of our short-term business in Southern Europe and the Middle East.

From the profitability perspective, we recorded strong technical margin of 7.3%, down slightly from last year, confirming the ongoing evolution in the underlying mix as we increase our writings in longevity and financial solutions.

Moving on now to page 14, in today disclosure, we are also publishing the 2013 Market Consistent Embedded Value for SCOR Global Life. The MCEV reaches €4.5 billion or €24.1 per share. Over the last seven years, the value of our in-force business has tripled showing yearly growth of 16%. This further validates the long-term strength of our biometric portfolio and confirms the strategic orientation set out in Optimal Dynamics.

With this, I will hand over to Frieder Knüpling, our Chief Risk Officer for some more technical details on the MCEV disclosures on page 15.

Frieder Knüpling

Thank you, Paolo.

Moving on to page 15, the MCEV results for 2013 have been very strong driven by the gain on purchase of Generali US and the excellent performance of the existing portfolio.

The MCEV of Generali US is €438 million higher than the purchased price, which represents the discount of 42% on the value. This is a bit higher than what we had estimated at the time of the acquisition. In addition, both operating profits and earnings on an MCEV basis have been very strong. Honestly this has resulted in an increase of the embedded value by €1 billion to €4,465 million.

Turning to page 16; operating profits were largely driven by the value of new business written during 2013 which almost tripled to €340 million. This was mainly due to large financial solutions and longevity deals, which has also led to an increase in the new business margin from 3.6% to 5.4%.

Operating profits have also benefited from positive experience variances of €67 million, which are mainly driven by a number of management actions on parts of the portfolio. Economic variances were significantly positive at €166 million and that's partly because the rise in interest rate levels has reduced the present value of cost of capital, which we are deducting from the value and partly because of market value gains on the underlying investment portfolio confirming our strategy of holding relatively short assets during the year of 2013.

Embedded value not recognized in IFRS has grown strongly from €1.1 billion to almost €1.6 billion. This was driven by the gain on purchase of the Generali U.S. business, which on an MCEV basis is about €250 million higher than on an IFRS basis, and by the value of new business which under IFRS is only recognized over the term of the contract in contrast to MCEV.

Moving on to page 17, the free cash at SGL has grown from €625 million to €713 million. The in-force business has delivered €154 million, which is the net effect of the expected free cash generation, claims and economic variances and a number of modeling improvements. The capital consumption of the new business has grown only moderately by less than 30%, far less than the value of the new business itself as a consequence of more efficient structuring and mix of the new business.

And finally, the purchase price for Generali U.S. was partly financed by capital of €364 million provided by the group, partly by internal resources of SCOR Global Life. However, after restructuring the business post closing and allowing for all capital close, the impact of SGL's free surplus of the acquired – on SGL's free surplus of the acquired Generali U.S. business as of the end of 2013 is strongly positive and the closing free surplus of SGL was significantly higher than at the beginning of 2013.

As in the past, there are more details on the MCEV 2013 and the full presentation and the technical documents which are available on the website and which are consistent with the past year's disclosures.

With this, I hand over to François for the investment section.

François de Varenne

Thank you, Frieder.

Moving on to slide 18, SCOR total investment portfolio reached €22.7 billion at the end of March 2014 with an invested assets portfolio of €14.5 billion compared to €14.9 billion at the end of December 2013. This decrease is mainly explained by one-off items, mentioned by Mark at the beginning of the presentation.

In a slightly improved economic and financial context, SCOR Global Investment continued its policy of progressively reallocating its liquidity in the first quarter of 2014 while selectively increasing the duration of the fixed income portfolio in line with the Optimal Dynamics strategic plan.

Thus, cash and short-term investments represent 12% of assets at March 2014 excluding funds withheld by cedents, down two points compared December 2013. The duration of the fixed income portfolio reached 3.8 years excluding cash in March 2014, compared to 3.4 years at the end of December 2013 and three years, one year ago. This increase in duration is mainly on GBP and USD denominated portfolios.

The quality of the fixed income portfolio has been maintained with the stable average rating of AA minus. At the end of Q1 2014, expected cash flows on the fixed income portfolio over the next 24 months stands at €5.1 billion, including cash and short-term investments, facilitating dynamic management of the Generali investment policy.

In the first three months of 2014, the invested assets portfolio generated a financial contribution of €96 million. The active management policy employed by SCOR Global Investments has enabled the group to record capital gains of €22 million. The return on invested assets is well in line with Optimal Dynamics expectation and further 2.6% for the first quarter of 2014.

And now, I will hand over the presentation to Antonio Moretti for the conclusion.

Antonio Moretti {BIO 17681290 <GO>}

Thank you, François.

Before we moving on to the Q&A session, please note on page 19 the next scheduled event, which is the H1 2014 results on July 31 as well as the conferences, which were planned to attend over the remainder of 2014. With this, we can start the Q&A session and I remind you to please keep it a two questions maximum per person. Thank you.

Q&A

Operator

Thank you. We will now take our first question from Kamran Hossain of RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good afternoon. Just couple of questions both from the life side; just be really interested to get your thoughts on the longevity market in the UK. It was an area that you had highlighted for potential growth at your Optimal Dynamics and late last year and kind what you think will happen following the announcements of the recent budget there?

And then second question, just on Generali U.S. and kind of integration there, I know you suggested that you achieved a similar kind of premium level to that which was achieved last year by Generali. But are you seeing any attrition in terms of business and kind of what are cedent strategies to the combined entity? Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

So Kamran, let me turn to Paolo for questions on longevity market and the question on attrition in U.S.

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

Yeah, on the longevity market, I think it's fairly straight forward for us. The change in the UK budget we don't see it having an impact in the medium term and the long term on the bulk annuity market that we have been participating in with longevity swaps. It will have an impact potentially on areas like impaired annuities as you've seen on some of the stocks of the company involved there, but it will not have an impact on our writings as the amount of existing annuities; that's where we are operating with longevity swaps, where we are focusing on the UK. So, we don't see an impact there around the - on what we had in the Optimal Dynamics plan.

On the U.S. integration, integration is progressing extremely well. We have fully integrated sales team going to market. And so far, we had no client attrition and no loss of business due to the integration.

Q - Kamran Hossain {BIO 17666412 <GO>}

Perfect. Thanks very much.

Operator

Our next question comes from Tom Dorner of Citigroup.

Q - Tom M. Dorner {BIO 15847486 <GO>}

Hi, quick two questions, please. The first on the P&C reinsurance business in general, so you sort of on an adjusted underlying basis pretty comfortably within the range you guided to in Optimal Dynamics. So, my question is do you think that given the commentary about market pricing that we are close to sort of peak margins or do you still think there is more improvement to come from your portfolio steering?

And the second question I had was on the Lloyd's business that you've been growing and managing agency you setup. Can you just give us a sense of what market conditions are like there and how you sort of reconcile your growth with some of the more traditional Lloyd's names perhaps going back a little bit more? Maybe, it's just a question of different business mixes. Any comment there would be helpful. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, Tom. Victor, on the first question on P&C trend.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think what we are proving by these renewals in the first quarter is that by managing the portfolio, we are able to continue to extract the margin at the level we needed to be. I would not talk about peak margins or I think we have an objective to keep the combined ratio between 93, 94. And I think that the results as well as the renewals well are proving basically that we are there on the run rate basis. And the market conditions today are still allowing us to renew business with a certain growth, which is basically in line with the plan, and that conditions that are as well in line with the plan; how is it going to be in the future, while we are predicting that the cap market will continue to be competitive. But we are not essentially a cap writer. We are client writer. And I think that the diversification in the book is still giving us the possibility to further manage and go on certain segments, where we are continuing to catch-up basically.

Regarding Lloyd's, well, I think the syndicate is operating on five lines of business. This is a syndicate that is not heavily cap prone. I think that has been one of the conditions that was stipulated in the development plan of the syndicate to try to avoid high volatility. That's what we've been doing. So I think again and it reflects – I think the performance of the syndicate and the way it has been growing reflects first the attraction of SCOR name factored by what we feel is a strong Lloyd's franchise and the strong teams in the syndicate.

And secondly, well, the fact that the business that it writes while it's not heavily cap prone and well, I think that's basically the combination of the two that has allowed it to develop profitably and to reach a point, where we feel that it's now getting to a pretty much a normalized sort of situation.

Maybe Benjamin, you want to add something on it?

A - Benjamin Gentsch {BIO 5633839 <GO>}

Maybe just one additional remark; already when we paid (31:05) for 2014 we were reducing our expectations for the syndicate. We knew that the market has been challenging last year and that is continuing to be about as challenging as we anticipated. It's, I think, worthwhile to note that we are not competing with the very large Lloyd's syndicates. We are rather focusing also on certain niches, where we can really leave a mark with our limited capacity that we have. You might recall that the capacity that we can put down is limited to 10% of the spend. So at our side, we are not able and not willing to compete with the very large ones. And therefore I think this niche is that we are focusing on offer us still returns attractive and really make the figures that we have in our plan.

Q - Tom M. Dorner {BIO 15847486 <GO>}

Thank you very much.

Operator

Our next question comes from Michael Huttner of JPMorgan.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Thank you very much and I had two questions. The first is on Generali Life for U.S., I was just wondering if you could clarify all the cash flows or the increase in free surplus. I know it's different accounting and maybe I'm more confused than I should be. I had in mind that there was more cash flows coming, but I don't know where the numbers are basically now and I was bit confused by the comments on free surplus and because I'm not (32:30) and I couldn't follow it. But any help on Generali Life for U.S. and how much more to come will be great.

And the second is – sorry about the noise – is on – how much more decline in pricing have you got from your assumptions (32:45).

A - Antonio Moretti {BIO 17681290 <GO>}

Michael, can you repeat the second question please?

Q - Michael I. Huttner {BIO 1556863 <GO>}

Yes. So the question is very simply, how much more decline in pricing you are assuming?

A - Denis Kessler {BIO 1498477 <GO>}

Life, P&C or what, Michael?

Q - Michael I. Huttner {BIO 1556863 <GO>}

In non-life - in not life and P&C; yeah, so one question on life and one question, non-life. Sorry about the noise, I am really sorry.

A - Denis Kessler {BIO 1498477 <GO>}

No, no it's fine, next time you can express yourself in French if you wish. So, why don't we ask Paolo first on the - first question is on the cash flow and then Victor again on the - Victor, why don't you take the floor on the P&C cat rate evaluation?

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

Yes, Michael, I will - this is Paolo. I will try on the MCEV if my explanation would make sense to you. If you look on page 17 that's what Frieder was referring, we have a little schematic on the right side of the page. We had a purchase price for the Generali business of €587 million transaction cost for 2014. Then we received capital from the group of €364 million. And the difference was the funds that actually we had to provide from the Life division directly. You subtract that from the free surplus that we acquired and that's where you get to €364 million. So including everything that we received from the group, the cash that we provided ourselves, the free surplus we acquired that leaves you with the net-net free surplus for the acquisition of €364 million.

On top of that this all happening 2013, I think on top of that we referred in prior conversations with your about the additional cash that we were going to free up in the transaction that is actually not included in this chart as this was 2013 that will be included in our 2014 MCEV. And I'll pass it over to Mark for final comments.

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. So Michael, just to continue that discussion on Generali 2014 expectations, there is two sources primary sources that we expect from the transaction. One, we basically consummated, which was the liquidation of the Bermuda legal entity that we had acquired from Generali, which was approximately $150 million of surplus that we would expect to extract. We've taken most of it; the rest should come during May. And that should complete the liquidation of that legal entity.

The second piece is excess cash and surplus that we've identified in the main operating entity and that's something that we're working for regulatory approval this summer. And we should expect some sort of decision later on in the summer, difficult to say exactly how much it is, but we do consider it material. And we'll certainly identify it when it happens.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Well, thank you.

Operator

Our next question comes from Andrew Ritchie of Autonomous.

(36:21) to future of the cap rates?

A - Denis Kessler {BIO 1498477 <GO>}

To the contrary, I was thinking that the second chance to escape and keeping quiet. I don't see why the market should change radically between now and July. So, I think we'll probably see a continued trend. But what is important is for us is that the trend is not uniform even within U.S. stat, you've got certain types of risks, certain types of clients, which are basically enjoying larger rate reductions than others. So, I think we'll continue our pick and choose basis. We'll continue our global approach of clients. And I am optimistic that, yeah, we can continue to manage the book and we'll take the business when it's huge and we'll let it go when it doesn't. So, as it shows on the last of the four slides, we are showing a trend for the first half of the year, which is very consistent to previous years and we don't see why it should not continue for the rest of the year.

Q - Operator

Thank you very much.

Apologies. Our question from Andrew Ritchie from Autonomous now.

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

Hello. Hi. Two short questions, please. Just one technical question I wonder if you could help with; on the P&C business, I appreciate there is a big currency headwind and you identify when you discuss gross written premiums, which on a headline level were flat on a constant currency basis were up 4%. I am looking more of the net earned premium evolution. Net earn premiums in P&C were down 4% year-on-year, and if the level of net earned premium is the lowest has been for many quarters, I guess, I am just trying to understand why that should be, because you've been growing the gross for quite several quarters. I would expect bit more of an answer - I appreciate the currency headwinds, but is there something else going on, for example has there been sort of longer duration business written is taking longer to translate from written to earned. Just help me out as to why that has shrunk much more than even currency adjusted, that will be very helpful.

And the second area of questioning, the usual question for François just give us an update on reinvestment rate that you think you're seeing given the - obviously you're going slightly longer duration. But also since you last talk to us, we've actually seen quite a mark full in reinvestment rates again in the market.

And I think maybe to make this simple also, you told us - you talked about 2.4% to 2.9% expected kind of range of return, investment return for 2014. What's your kind of updated thoughts on that? Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Great, Andrew. The first question about the rate of growth of the P&C business, Victor.

A - Victor Peignet {BIO 6287211 <GO>}

I think on the earned premium, probably you've got combination of two things, 2013 was pretty buoyant and there is a seasonality effect on 2014. So, I think the reduction in the earned premium will be compensated later on during the year with the overall business being renewed and being put in the book. I think most of it we identified as a resultant of delayed negotiation in our agriculture area.

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

Okay. So there's a slightly more delayed earn through them what has been the case in the past then?

A - Victor Peignet {BIO 6287211 <GO>}

Yeah, I think there is a behavior on the agro business that it's fluctuating from one year to another with the rhythm of negotiations. And I think we have a slight delay this year. And you can see that almost also in the renewal statistics, where we are not really showing in agro the real growth that we have because some of it is still in the pipeline. I think we are not the only one by the way commenting about that.

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

So, we should see the year-on-year rate and premium growth pick up-

A - Victor Peignet {BIO 6287211 <GO>}

Yes.

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

As the year progresses.

A - Victor Peignet {BIO 6287211 <GO>}

Yeah. Normalizes as the year goes on, yeah.

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

Okay. Thanks. And on-

A - François de Varenne

So, on the investment side, so you (40:52) questions. So the first one on the reinvestment side, you remember in the Q4 presentation, I mentioned that there are assumption based on the (41:03) at the beginning of the year was of roughly 2.6% for the full year 2014. That's true that since then, we observed a slight decrease of interest rate on the market. But the type of asset classes in which we are reinvesting today and the choice of the currency and that's mainly done on the dollar and GBP-denominated portfolios, protect us from the recent decrease in interest rates.

So, based on the (41:36) at the end of March, we've completed the reinvestment rate for the full year; and in practice, we just observed a decreased of one basis points, that's why still maintain the target of an average reinvestment rate for the full year 2014 in the range of 2.5% to 2.6%. So which mean at this stage, I don't change the expectation for the full year 2014 for the reinvestment – for the full return on the invested assets that will still – that is still at this stage, given current market level and given our current investment strategy is still in the range of 2.4%, 2.5%.

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

Okay. Thank you very much.

Operator

Our next question comes from William Hawkins of KBW.

Q - William S. Hawkins {BIO 1822411 <GO>}

Hello, thank you very much. Just a couple of questions please on the embedded value disclosure, you guys highlighted on slide 16 the incredibly strong value of new business. Could you try to give us an indication of what might be a clean base line for thinking about future performance, so – I mean it looks like you had a spike in the volume of new business and also in the margin. Is there any way you can kind of give us an indication of what we should be thinking about as a baseline? That would be kind.

And then secondly, again sorry if I've missed something, but the new business value was strong, but the run off of old business fell from the previous year, I know that yields have come down, but the embedded value is significantly bigger. So, I was a bit surprised the expected return on in-force was the €90 million shown in the reports down from €110 million or something in the previous year. So, can you just remind me why the expected return has fallen and what we should be expecting from that in the future? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks William. Freider, do you want to answer?

A - Frieder Knüpling

Yeah, okay. The new business probably is very volatile from one year to the other, and it was strongly impacted by particular financial solutions deals, which we have done in 2013. We don't usually provide guidance on that. I think you need to extrapolate it out but using past year's or over several years I think one can say that 2013 was unusual and it was exceptionally good in terms of new business. And I don't know Paolo, whether you want to add to that.

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

Yeah, roughly if you would try to normalize it, you probably are closer to the 2012 number probably about say 10% higher than 2012 number, but it's really rough. As Frieder said, the number is volatile in nature and it's not a number that we target particularly; as we go through Optimal Dynamics, this is not a metric to use to define our business mix.

Q - William S. Hawkins {BIO 1822411 <GO>}

Sure.

A - Frieder Knüpling

Okay. On expected free surplus production, as you said, the interest rate-

Q - William S. Hawkins {BIO 1822411 <GO>}

Sorry, Not the free surplus, the embedded value.

A - Frieder Knüpling

I am sorry. Okay, so the unwind itself you mean, the expected increase in a better – okay, I am sorry. That is really an affect of the difference of interest rates between end of 2011 and end of 2012. So the starting year interest rate levels the basis, the computing – the expected increase in a better value?

Q - William S. Hawkins {BIO 1822411 <GO>}

Okay, maybe I'll come back offline. I can see why the return percentage will be down, but the absolute figure being down so much is strange to me. But I'll come back offline. Thank you.

A - Frieder Knüpling

Okay.

Operator

Our next question comes from Will Hardcastle of Bank of America.

Q - William Hardcastle {BIO 16346311 <GO>}

Hi guys. You mentioned the made losses were also a bit like than normal. Could you give us an indication of how much likes than normal it were or perhaps there were a year-on-year versus Q1 last year? And also just as a memory jog, could you give us what the targeted effective duration is to get to – and was that changed at all in recent quarters?

A - Benjamin Gentsch {BIO 5633839 <GO>}

On the effective duration, we disclosed the effective duration, the target duration of the entire invested asset portfolio in the last September presentation for the – presentation of the Optimal Dynamics plans. So, the global target based on the economic balance sheet at the end of 2012 is 4.2 years. Today for the fixed income portfolio, we're at 3.8 years. So, keep in mind that the effective target duration is for the entire invested asset portfolio, so which mainly excludes cash and non-interest rate-sensitive asset, so which mean that given the current asset allocation the target, the practical target duration for this fixed income portfolio is more in the range of 5.5 years. So, we have still a lot of room of maneuver to increase the duration over the next few months and quarters.

A - Denis Kessler {BIO 1498477 <GO>}

And William, I am not quite sure I have gotten your first question.

Q - William S. Hawkins {BIO 1822411 <GO>}

I was looking at the manmade losses, just really trying to get an idea of how much lower this was year-on-year or versus the normal level?

A - Denis Kessler {BIO 1498477 <GO>}

Okay, sorry, I got it now. I think Victor is certainly the guy to answer that type of question of manmade losses.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think that this quarter we had no man made above basically €10 million for our share gross and net. It means that well, if you consider how much our net is, it means basically that is – it is probably lower than normal well by I would say couple of tens of millions from a net basis. I don't think it's fundamentally lower, I don't think there is a trend in there. But basically, I mean it's an observation that this quarter is showing in manmade losses relatively low frequency. Whether you can derive any conclusion on that on the quarter basis, I don't think so, but I mean (48:19)

Q - William Hardcastle {BIO 16346311 <GO>}

Okay. That's great.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks William.

Operator

And now we'll take our next question from Vinit Malhotra of Goldman Sachs.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi, good afternoon. Thank you. Just one question on the April renewals; when the press release was sent out couple of weeks ago lastly, there was a mention that the gross underwriting ratio for April deteriorated by two points, just under two points, but the return on capital deteriorated by three points. And I am wondering why this is the case, and I appreciate it's a small 10% portion of the book. But just to get a sense of the trend in the data here, because I would have imagined that the net underwriting would be even smaller and so the return on allocated capital, given also that business mix and money should be on the other side of two rather than the – on the other side. That's the first question on renewals.

Second thing is just back to François maybe, the 2.5% to 2.6%, you have maintained, could you maybe take a step further into next year because as the reinvestment is progressing through the year as per your plan and continues to progress, for the next year just as a running income and I appreciate you don't like that much, but just helps us model, just the running the running income, what would you be comfortable within that line because if you are re-investing for the whole year 2.6% and then for 2015 as well, you've got some more assets on the 2.5%, 2.6%, then should we not be looking at an uptick for now, 2.2% levels? Any sense will be very appreciated. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, Vinit. On the renewals, Victor and-

A - Victor Peignet {BIO 6287211 <GO>}

Yes. Well, on the renewals, the comment is or the answer is that capital intensity because of the business mix while the capital intensity has increased and because of the increase in the capital intensity, which brings – which comes from basically the volatility of the business that has been renewed. We have growth in Credit & Surety for instance, which is very capital intensive. So we have the capital intensity that has increased by about bit more than 10% from the renewals. So that explains the higher deterioration of the return on the allocated capital.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. And shouldn't this have been managed to ensure this is less impacting or that's-

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think the problem – we are here commenting and communicating on reduction. Now the reduction doesn't mean that you go below your target. We are still well above target for April renewals. So we can actually tolerate the three percentage point reduction on allocated capital. It doesn't bring us as I said on the year-to-date basis, which was one of the comments I made in my speech. On the year-to-date basis, our return on allocated capital where you see is only 0.5% points on the growth basis. So I think on the net, we have almost no reduction.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure.

A - Victor Peignet {BIO 6287211 <GO>}

I think as we manage globally the business to the rate in April something which is overall year-to-date was well within what we want to achieve.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you.

A - François de Varenne

On the investment side to answer to your question, we don't provide any assumption or figure for 2014 – 2015, so just for 2014 my expectation. And as we said, we still maintain the target disclosing Optimal Dynamics for 2016, which is a return on invested assets above 3%. So, that's true that we have two different effects this year.

We have the lag effect due to the decrease of interest rate over the last few years, and the effect of the fact that we are losing all coupons on the fixed income portfolio invested three, four, five years ago, but on the positive side, as mentioned during this call and in the Q4 presentation, for the first time, we are reinvesting at higher reinvestment rate compared to the portfolio.

So which means that 2014 – in the course of 2014, we should see the positive effect of the increase, the recent increase of interest rate and the fact that we – our current reinvestment rate is above the running year. So, you should expect an increase by – end of 2014 and 2015. And again, we maintain the target of something above 3% in 2016 by the end of Optimal Dynamics plan.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you very much.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks Vinit. Kristine, another question?

No? In that case, may I thank you all for taking part in this conf call? We enjoy this opportunity to answer your questions and to sometimes explain some of the figures or development and don't hesitate to call us in case you need additional information. So thank you very much and have a nice afternoon; bye, bye.

Operator

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