Q1 2021 Earnings Call

Company Participants

- Frieder Knupling, Chief Risk Officer
- Ian Kelly, Chief Financial Officer, Member of the Executive Board
- Olivier Armengaud, Senior Manager, Investor Relations

Other Participants

- Andrew Ritchie
- Ashik Musaddi
- James Shuck
- Kamran Hossain
- Michael Haid
- Paris Hadjiantonis
- Thomas Fossard
- Vikram Gandhi
- Vinit Malhotra
- Will Hardcastle

Presentation

Operator

Good Afternoon, ladies and gentlemen. And welcome to the SCOR Group Q1 2021 Results Conference Call. Today's call is being recorded. There will be an opportunity to ask a question after the presentation. (Operator Instructions).

At this time, I would now like to hand the call or to Mr.Olivier Armengaud. Please go ahead, Sir.

Olivier Armengaud {BIO 20892984 <GO>}

Good afternoon and welcome to SCOR Q1 2020 results call. My name is Olivier Armengaud, Senior Manager of Investor Relations team, and I'm joined on the call today by Denis Kessler, Chairman and CEO of SCOR; and the entire Executive Committee. Can I please ask you to consider disclaimer on page 2 of the presentation, which indicates that the financial results for Q1 2021 including the presentation unaudited. I would also ask you to note the statement in respect of COVID-19.

Before starting our Q&A session, I would like to hand over to Ian Kelly, CFO of SCOR.

Ian Kelly {BIO 19976646 <GO>}

Thank you, Olivier, and welcome everybody to the call today. Let's start on Slide 4. In a quarter marked by the continued expected development of COVID-19, and an extreme and severe winter storm in the U.S., SCOR clearly demonstrates once again its resilience and shock-absorbing capacity. COVID-19 continues to develop as we anticipated. It is manageable and tracks closely in line with what we communicated within our full year 2020 results.

On the life side, the COVID-19 impact stands at EUR162 million, of which EUR145 million comes from the U.S. mortality portfolio. While on the P&C side, the impact is stable compared with the end of 2020. Our solvency ratio at the end of Q1 is very high and stands at 232% above the optimal range and reflects all currently expected future COVID-19 impacts.

In addition, the industry you have to face the large natural catastrophe event of winter storm Uri in Texas, which had an impact of EUR98 million for SCOR, net of retrocession and before-tax. Whilst the combination of such events is extreme, it remains within the group's risk appetite and it is the duty of the group to anticipate these risks and to absorb them.

Moving on to Slide 5. In the first quarter of 2021, SCOR continued to successfully develop it's franchise. You can see on the slide, at constant exchange rates, gross written premiums stand at EUR4.4 billion, up 5.6% compared to Q1 2020, driven by P&C, up 10.3%, benefiting from the excellent renewals during the year, and steady life growth up 2.1% with continued franchise expansion in Asia.

Moving on to Slide 6. In the context of the pandemic and the natural catastrophes, SCOR delivers a net income of EUR45 million in Q1 of 2021 with strong underlying profitability. On the P&C side, the combined ratio stands at 97.1% with 12.6 percentage points from natural catastrophe. On a normalized basis, the combined ratio is extremely strong at 91.4%, better than the quantum leap assumption.

On the Life side, in line with what we had anticipated, the technical margin was impacted by COVID-19 claims in the U.S. in line with the communicated guidance and stands out 1.6%. Finally, SCOR global investments seized opportunities presented by the bond market on the back of the reflation dynamic and delivers a solid return on invested assets of 3.0%, driven by EUR77 million of realized gains.

Moving on to Slide 7. The solvency is very high at the end of Q1 2021, standing at 232%. This, as I said, is above the group's optimal solvency range of a 185% to 220%. The increase in solvency was mainly driven by the significant impact from market movements on the back of the sharp increase in U.S. interest rates, but also from the positive contribution from the operating performance of the portfolio. The solvency ratio at the end of Q1 continues to reflect all currently expected future COVID-19 impacts.

Let's move on to Slide 8. SCOR continues the digitization program we laid out in quantum leap and continues to deploy new technologies across the organization to improve our operational efficiency and productivity, but also to broaden our product and service offering to create long-term value. In the first quarter of 2021, we have been able to deliver several ambitious digital projects, notably on the P&C side and used satellite based pasture insurance tool in Brazil, a rating tool dedicated to inherent defect insurance and enhanced business-to-business pricing engine in trade, credit, insurance and an in-house pricing and risk scoring mobile app. On the life side, we launched Vitae, a cutting-edge artificial intelligence biometric risk calculator. And finally, on the group side, we moved our internal reinsurance software Omega into the cloud.

Let's move on to Slide 9. We have many reasons to be confident about the industry's prospects. On the life side, the acceleration of the vaccination rollout confirms that COVID-19 death track in line with our epidemiological modeling. Whilst some uncertainty, of course, remains around the magnitude and the duration of the pandemic, at this stage, we expect to be able to return to the quantum leap technical margin assumption range of 7.2% 7.4% by Q4 2021, translating into a full-year technical margin of around 5%.

On the P&C side, we believe that COVID-19 is one of the factors helping to create the conditions for stronger reinsurance growth combined with a positive pricing dynamic. We expect these positive trends to drive continued pricing and terms and conditions improvements in future renewals. For 2021, this translates into a P&C normalized combined ratio trending towards 95% and below.

Finally, on the investment side, we continue to seize opportunities presented by the bond market on the back of the reflation dynamic particularly in the U.S. through realizing gains. The liquidity from this divestment is to be reinvested across the course of the year, as the market restabilizes. We confirm our return on invested assets assumption for the year in the range of 1.8% to 2.3%.

Briefly on a few other key financials, on Slide 12. The shareholders equity of the group remains strong at EUR6.3 billion, an increase on the year-end position, and this results in a book value of EUR33.61 per share.

And finally, on Slide 13, I would like to highlight the strong cash flow of the group, with net cash flow from operations exceeding EUR0.5 billion during the quarter, resulting in a strong liquidity position of EUR3.3 billion.

With that, I will hand back to Olivier, and we can go to the Q&A session. Thank you.

Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much, Ian. On Page 21, you will find the forthcoming schedule event. And with that, we can move to the Q&A station. Can I please remind you to limit yourself to two questions each. Thank you.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Our first question is coming from Vikram Gandhi from Societe Generale. Please go ahead, your line is open.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. Hello, everybody. It's Vik from SocGen. Hope all of you are doing fine. I've got a couple of questions. First one is on the Solvency II ratio. I acknowledge that 232% is quite strong, however, when I use the latest sensitivities and then overlay the fact that the Group has higher liquidity and lower corporate credit exposure, it appears a bit too low compared to what I would have expected, perhaps you can elaborate on some of the underlying movements there. And secondly, on the ordinary investment income where there is a drop of about EUR20 million quarter-over-quarter. I appreciate the Group were sitting on more liquidity about EUR1.3 billion, but even considering that the drop seems to be a bit too high. Can you shed some light on what is driving this? Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Frieder, on the first question.

A - Frieder Knupling {BIO 17247809 <GO>}

Yeah. Thank you and hello everybody. As Ian said, most significant drive of the increase in solvency ratio was the increase in yields, U.S. yield. So this accounted for the bulk of the upwards movement, there was also positive capital generation broadly in line with the average quarters in the past. So there was nothing unusual. We do allocate capital and deploy, it's the growing business, so that of course needs to be funded and we have also accrued for a quarter of regular dividend in line with previous practice, but there were no other significant movements beyond this and only very marginal impact from COVID during the quarter.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Frieder. Francois.

Operator

So maybe I think there is two question in your question. So the first one is linked to the liquidity and exposure to corporate bond and the second one is the impact on the (inaudible). So first of all, let me explain the technical positioning that took place at the beginning of the year. At the end of last year, we identify an increasing probability for U.S. interest rates to rise on the back of inflationary pressures which even transitory create a new dynamic for the inflation trade in the interest rate market.

So we took advantage early January of this positive environment and we managed to sell more than EUR1 billion equivalent of U.S. corporate bonds, just before the highs of the 10-year U.S. interest rates. So the timing was good. We do believe that there is further room of maneuver for a steepening of the U.S. yield curve and still on the theme of derivation, dynamism in the bucket and in the months to come. So that's why you see liquidity temporarily at 15%, so which means the proceeds of the sale program are still in cash and the exposure to corporate bond had significantly reduced to 36%. We intend to reinvest in the next few months this amount of liquidity and to come back to normal asset allocation, as soon as we will consider the interest rate market will stabilize.

So the impact on the income yield as you saw at previous quarter, our investment yield has rebounded after having reached low point in H2 2020. So that's explain the decrease of the income yield and also the fact that we have 15% of liquidity and only 30% of corporate bond today. As soon as we will reinvest and you see the good news is the significant increase during the quarter of the investment yield to 1.6% compared to 1.2% in December. So you should expect in the second part of the year rebound and an increase of the income yield again.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you next question, please.

Operator

Our next question is coming from Kamran Hossain from Royal Bank of Canada. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hey, good afternoon. Two questions, first was just on the, I guess, the underlying combined ratio, it looks like it is surprisingly strong, I guess, relative to your guidance for the year. How much of that 91.4% should we bank? And how much is simply kind of good luck [ph] on manmade has been loss in the quarter? And the second question is, I guess, all the focus has been on COVID in Q1, especially in the U.S., where it's been a horrible quarter for, I guess, everyone and yeah the U.S. everywhere. What's ex-COVID mortality look like? So if you give any examples or kind of ideas around that that'd be exceptionally helpful. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Jean-Paul, on the combined ratio.

Operator

Yes, thank you, Olivier. Hi. Kamran. On your question on the normalized net combined ratio, as you saw this quarter is the sum of the net attritional loss ratio and commission is overall 5 points lower than Q1 2020. So of those 5 points roughly 3 come from low activity -- a lower activity at manmade losses than in Q1 2020 and the rest is really the improvement of the portfolio. But going forward, we'll still have to wait for few quarters to confirm this, but we think that we're starting to see some of the pricing improvements flow through the portfolio. And then, we also benefit as I said from a very low level of manmade losses this quarter.

A - Olivier Armengaud {BIO 20892984 <GO>}

Okay. Thank you, Jean-Paul. Paolo.

Operator

Yes. Hi, Kamran. In terms of what we're seeing ex-COVID globally, I would say outside the U.S. the business has been experienced relatively buoyant performance in Q1, so we're very happy of what we're seeing. In terms of the U.S. portfolio, which is our largest mortality book, we are seeing some increasing planes across the overall U.S. portfolio after we excluded that clearly reported is being due to COVID-19. The volatility similar in scale to volatility we observed in other periods in the past like the Q1 2020 experience for example. So it is too early to conclude whether this is connected to COVID-19 or just regular volatility.

We have seen the usual annual flu impact globally eliminated as a result of the COVID-19 containment measures. And we have to say that any long-term impact from COVID-19 will take some time to be determinant and to managing. We want to confirm the resurge continued to be very strong with the significant margin of prudence and we have a best-in-class experience study team based in the U.S., focused on constantly monitoring and further improving our understanding of the driving factors of the U.S. mortality. So I believe, as we do regularly, I think when we come to the Investor Day later in the year, that's a good time for us to give you more information on the overall evolution of mortality that we are observing in 2021.

Q - Kamran Hossain {BIO 17666412 <GO>}

That's great. Thanks, Paolo.

A - Olivier Armengaud {BIO 20892984 <GO>}

Next question please.

Operator

Our next question is coming from Andrew Ritchie from Autonomous. Please go ahead. Your line is open.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hello. Hi there. First question just on top line premium for the non-life business. I can see the effect of FX. And I guess, the effect of FX does seem a bit stronger than I would have judged just from observed market movements in FX other, there's something unusual about the FX mix of your premiums in Q1. And the second sort of related question, when I look at the effect of deduction of unearned and deduction of reinsurance or retro, it is bigger quite a lot bigger than Q1 last year. So it implies some mix shift or something different also about your Q1 non-life premiums, whether it's a lot, no longer dated business, there's a different earning pattern in it. Maybe could you just give us some color around that topic the top-line P&C and how we -- is there something odd about Q1 in particular?

My other question was I think the CAT load seems quite high. I can see the Texas effects and the Texas number looks about what I would have expected relative to the industry loss, but I'm surprised that you've picked up quite a lot of other CAT loses in a relatively benign quarter, where you surprised by that? And presumably these levels of losses are such that there are kind of low-level frequency type stuff you're not getting any benefit from retro? Thanks.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Andrew. Jean-Paul?

Operator

Yes. Thank you, Andrew. So, on your first question, the constant FX growth as you saw reinsurance is decreasing roughly fairly more than 6 -- it is growing at 6.7%. Most of the growth is following the 1-1 renewals for the current underwriting year is growing at 10% in line with renewals, while the prior year's is pretty flat. So that's where you see a difference in premium earnings. In addition, the growth in specialty premium insurance is very strong at the 22% and that tends to earn more quickly as well.

The impact of FX really comes from, I'd say, two phenomenas, one is the weakening of the dollar which has an effect when translated to euros, but also the strengthening of the euros compared to all currencies and so that affect not only premium in dollars, but premium all other currencies. But that's why we have a big effect this quarter.

On your second question on the CAT loss ratio, yes, we were affected by other CAT losses in addition to Storm Uri. The European storm phenomenon affected Spain and Southern France and that's roughly EUR15 million impact to SCOR, which is in line with our share of the treaties in France and Spain. And relative to the other CAT losses, the more significant ones is additional deterioration on Sally, and Laura, and this comes from the fact that the losses we had booked in Q3 and Q4 did not have complete information from our Cedents and the Q1 results incorporate additional information received from number Cedents, which shows these losses deteriorating further. So we were surprised a little bit by this deterioration on prior losses, but still the level of users right now makes us comfortable that it should be stable for the remaining quarters.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Sorry, can I just follow-up the growth of specialty insurance earns more quickly than I should -- surprised with the degree to which the amount of the transition from net written to earned seems lower this year, quite a lot lower than Q1 last year, which is especially France is growing faster wouldn't be the case.

Operator

Yeah. But it's only 25% of the overall premium. The bulk of the premium is reinsurance and the larger amount of premium earning is comprised underwriting years, which is flat more or less.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. I guess the point being done the earned pace will pick up significantly as the year goes on as we transition from as the prior year runs off as it were and the current year growing (Multiple Speakers) from the prior year.

Operator

That's right.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thank you. Thanks, that's great. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Andrew. Next question, please.

Operator

The next question is coming from Will Hardcastle from UBS. Please go ahead.

Q - Will Hardcastle {BIO 16346311 <GO>}

Good afternoon guys. Two quick ones from me. Can you just give us a bit of color on how the 1.6% reinvestment returns been achieved, it doesn't look to the being much re-risking within the quarter if I look at duration or asset classes you've touched on. I guess, just perhaps an outlook (inaudible) seems stay from here, is that the sort of level you'd be expecting, albeit you mentioned the expectation of U.S. pick-up. And perhaps voluntary de-risking how much year-on-year income yield compression should we expect for next year looking beyond, I guess?

And second one is on premium. You've kind of touched on the rationale and the drivers behind the FX, it doesn't sound like -- they have normal then, I guess just so we're clear. If I look at those, should we expect a further headwind for Q2 before it stabilizes for the remainder of the year, is that logic correct?

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Will. Francois?

Operator

On the first question, so that's true that our current reinvestment yield stand at 1.6%. Again I remind you the definition of the reinvestment yield, that's the market yield of the fixed income and loan portfolio, the last day of the of the quarter and we see an increase of 40 basis points compared to the 31 of December last year. And that's mainly due to the increase of U.S. interest rate. So you should expect that increase of the reinvestment yield to continue with the steepening of the yield curve. And we should see a higher reinvestment yield in the quarters to come. And as a consequence, as soon as we balance the 15% of liquidity into mostly U.S. corporate bonds, we will look a new level of interest rate. And that will conflate into a higher income contribution compared to this quarter.

So we confirm the range for the return on equity -- on invested assets for 2021, so between 1.8% and 2.3%. At this stage, it's impossible to give you guidance or an expectation or an objective for 2022. It's too early, and it's too difficult to predict such in advance, what central bankers are going to do and what could be the level of inflation in the next quarter. But my sole conviction is that you should see an increase of the income yield, again as soon as we rebalance the portfolio and that will mostly done on U.S. corporate bonds. So you should expect by the end of the year to come back to an allocation between 43%, 45% to corporate bond within our portfolio and liquidity between 5% and 7%.

A - Olivier Armengaud {BIO 20892984 <GO>}

Jean-Paul on the second question.

Operator

Yeah. Thank you. On the second question relative to FX, the comparison to Q1 is comparing Q1 2020 with Q1 2021. I think as we've progressed throughout the year and compare Q2 versus Q2 or the half year of 2021 versus the half year 2020, the FX should be more stabilized everything else being equal, the big change in the currency happen with COVID, so probably more in Q2 2020, so that effect should be much less going forward. In addition, we have a large amount of premium that was and growth at 1-1-2021 which would the earning through in Q2 and the remaining quarters and that is also should have the effect of the rate of exchange. So we expect it to be more stable throughout the year.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Jean-Paul. Next question, please.

Operator

The next question is coming from Vinit Malhotra from Mediobanca, please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon, everybody. Thank you for my two questions. First is for Paolo on the life technical margin, so Paolo, I've been watching this, I'm impressed how the modeling of the projections of mortality in the U.S. have? I think for the first time in at least a few attempts made in the last year, this time they have been kind of grinding to the chart that we have been seeing, so below 1,000 deaths by March end and maybe 750 now moving average and then moving towards something 600-700 by the end of June. So, what I'm trying to understand is that because obviously, in the past these models had an error. So and this time now they are tracking nicely. Would you say that there is some upside potential for the 5% for the 2021 technical margin? So that's my first question on life.

Second question is for Francois on the ROI target? Given this liquidity rebalancing and also potentially some gains in the year, I mean, if you look at even the top end the 2.3 and already being achieved 3% in the first quarter implies (inaudible) for the rather low 2% odd in the remaining three quarters, how should we -- I mean, are you just being conservative or you think there could be some upside to that 2.3 if you don't want to quantify it at this stage. So I just want to get any thoughts on these two topics. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Vinit. Paolo, for the first question.

Operator

Yeah. Hi Vinit. Yeah, as you mentioned for us, what we're seeing in Q1 is pretty much what we had projected at the Q4 disclosures in February. So we stay by the 5% -- our projections and not materially changed from what we presented to all of you in February. I think the only change we are observing is our weighted scenario we show and narrowing of potential outcomes would probably a shift of casualties from COVID-19 being brought into Q2 and lesser amount in Q3 that's kind of the change that our models would indicate.

As said, that arrow you were talking about beneath that is always being the challenge that any modeling as that to capture human behaviors effectively. First of all human behaviors in terms of respecting certain restrictions whether distancing or masking, and I think the next big challenge is vaccine as you can see overall that is also a human behavior. So that is what we're tracking very closely. We're also tracking very closely the emergence of potentially versions of new variants and the behavior of current variants, particularly in terms of vaccine resistance.

So overall, I think we feel -- we reiterate the 5% assumption we have for the overall year we still think that's a good number right now in terms of where we're seeing our results ending for the year. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you Paolo. Francois?

Operator

So on your question, Vinit, so, first of on the capital gain what you should expect for this year, so we took EUR74 million of capital gain on the fixed income portfolio. I cannot benchmark Q1, but if I benchmark what our peer at least in Europe did in 2020, we are in the low band of the contribution of fixed income capital gain to the return on invested assets. We are at low 7% of contribution compared to our peer distance between 0.6 to 0.9. So I would say, we are quite conservative on this side. You should not expect additional material contribution from the fixed income portfolio to capital gain this year. We are awaiting now the steepening of the various yield curve, especially the U.S. one, we have, let's say a kind of target or expectation of an entry point at 1.9% and we are at 1.6% to the -- on the 10-year U.S. rate.

On the real estate side, that's true. That's also a contribution that you see here each year. Given still the lockdown measures in France today, it's a little bit too earlier at this stage to have a firm view on our ability to dispose real estate assets this year, the current environment is too uncertain. Having said this, we all the save all real estate assets, which are mature and that we could sell if the market is there. And again, if the market is there, you could expect one sale before the end of the year. But I don't have yet the full visibility given the lockdown to confirm this. I remind you that we have EUR122 million of unrealized gain on the real estate portfolio that will flow into the P&L in the next few quarters and year.

So now to your final question, am I conservative by maintaining the range 1.8%, 2.3%, maybe it's a little bit too early. It will really depend on the speed of the steepening of the U.S. interest rate and the timing of the redeployment of the massive amount of liquidity that we have. I think we will have more visibility in July or during the Investor Day after the summer to confirm or to revise upward at the range.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Vinit. Next question, please.

Operator

The next question is coming Ashik Musaddi from JPMorgan London. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you and good afternoon. And just I have couple of questions if you can help me, sorry, going back to the ROI topic. I mean, clearly, you are saying that the entry point that you will have on the reinvesting that cash or temporary liquidity into corporate bond is 1.9% versus we are at 1.6% at the moment. So, how long will you wait for that entry point of 1.9% to be achieved? I mean, let's say rates start move for next three to six months. So how long will you wait for that? And as long as you don't reinvest at a higher yield, I mean, is it fair to say that you will be hitting this year's recurring ROI at more at the lower end of the range, which is 1.8% rather than 2.3%. So some color on that would be helpful.

The reason why I'm asking is, I agree that interest rate should be trending higher this is what all the pundits are saying as well. But never say, never with interest rates, it goes down forever. So, that's one thing I have noticed for past 25 years. So that's the first question.

The second question is in terms of combined ratio improvement, thanks a lot for giving some additional color about 5% lower attritional as of now. You mentioned that it is partly because of lower activity and partly because of portfolio improvement. Is it possible for you to give a bit more light on how much is that lower activity and how much is that portfolio improvement? I'm just trying to think a bit more for next three quarters, how it might pan out from a lower activity perspective? Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Francois on the first question.

Operator

So, on the first question maybe let me give you our economic scenario. What we think today is that with central bank's committee to stay behind the curve and governments to spend more money through budget for fiscal deficit. We think that steepening pressure should continue to affect the different interest rates curve and notably in the U.S. Come back to full economic activity and (inaudible) seems I think to be a prerequisite to any action by central bank against the potential strike inflation. And acceleration of the pace of vaccination, easing of lockdown measures coupled with tension on supply chains that we see makes me a believe that there is still potential for further inflation dynamism in the months to come and my conviction is that it should happen by the end of the summer or beginning of the fall. So that's the scenario we are playing today, so that's why I said and that's my conviction. You should see a full rebalancing of the portfolio by the end of the year.

The opportunity cost, of course, there is a cost we need any strategy. So the opportunity cost to maintain 1 billion of corporate bond -- U.S. corporate bond in cash, which means remunerated almost at zero today. On the full-year basis, it's a cost of 20 basis points on the income yield, again 20 basis point if we maintain EUR1 billion in cash 12 months.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, that's very clear. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Francois. Jean-Paul on the combined ratio.

Operator

Yeah, on the combined ratio, so again comparing Q1 2021 with Q1 2020, there's a 5 points improvement, of those 5 points 3 are coming from a lower manmade loss activity. It's a -- we're not really sure where -- why it's such a benign quarter this quarter, part of it could be explained by lower industrial activity because of COVID. And part of it could be explained just improvement in terms of conditions on the insurance side. So we'll have to wait few more quarters to confirm whether this is an anomaly or a new trend. On the two remaining points is really improvement in possibility that we're seeing in this quarter. So if there was a normal level of manmade activities this quarter, the normalized would be instead of the 91 point something it is this quarter it would be more like a 94.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. But just to be clear on this one is basically, it feels like so far what you're seeing in terms of net pricing feeding into the combined ratio is 2%, which could be a function of your portfolio change or the pricing improvement, so that's a fair comment yeah. It's not 1% that you were driving at the beginning of the year is 2% at the moment.

Operator

Yeah. Right. At this quarter it's 2% that's right.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Okay, that's clear. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Ashik. Next question, please.

Operator

The next question is coming from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon everyone. First question would be for Paolo, regarding management actions taken in -- portfolio management actions taken in Q1. I think that adjusted for the COVID-19 claim in Q1, actually, we can compute a pretty high or higher technical margin at 9.4 implying delta to your long-term assumptions of EUR44 million. So maybe Paolo could explain us where this EUR44 million are coming from? And if at the end of the day you are expecting portfolio actions to be a bit higher than what you were potentially guiding to at the end of the year?

Second question would be related to P&C. Actually we are seeing very, very strong results coming from the credit insurers, it looks like expected bankruptcy claims are far to pick up at this point in time. Could you quantify how much COVID-19 trade credit losses you've taken at the end of the year and what the prospect for this COVID-19 losses on credit, I mean, should we expect some form of release in the coming quarters? And very last one to squeeze also, on the P&C. Can you say is the Swiss -- the Suez Canal blockage for you was a Q1 plan or Q2 plan? Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Tom. Paolo.

Operator

Yeah, Hi Tom. I think as I just mentioned before, for Q1, we saw very good underlying performance in the business and ex-COVID we have seen the business performing definitely above our Quantum Leap assumption of 7.2, 7.4. I just like to remind you, we're constantly working with our clients and our retro partners on treaties that are not performing as expected to optimize structures. And as part of reinforce management we're regularly reviewing globally the portfolio and take actions where appropriate.

I will say that in Q1 consistent with prior quarters, we have taken step to increase premium rates in certain underperforming contracts and these actions are similar to what we have done in the past. As we mentioned in February, when we did the 2020 full-year results presentation, the P&L impact and solvency ratio impact of each action it really depends on contract terms in the mixture of business covered in each contract and the claim experience in the contract and other factors. So it's very difficult for us to forecast exactly how much is happening one quarter the other.

And in 2021, we are continuing our strategy of optimizing overall our reinforce portfolio. So overall, again, as I said, we feel comfortable with the 5%. We think it gives us a -- yeah, it gives us good comfort as we go through 2021. I would also like to note that, our overall research continue to have very significant margin of prudence and that makes us feeling comfortable as we move into the rest of 2021. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Paolo. Jean-Paul on the two P&C questions.

Operator

Yes. So, first one on the credit and surety, what you're saying, Thomas, we see the same thing that I think the fears of additional losses coming in COVID to the credit and surety portfolio is not -- has not been happening. We've seen reassuring results from some of our cadence in Q4, and from what we hear Q1 is a similar trend actually I think a lot of the underwriting actions have been taken has actually improved the portfolio compared to maybe where it was before. So there's been a lot of underwriting actions taken by these companies and the performance has been very good.

So, we have some IBNR that were taken for credit and surety and that we keep holding that Q1 and we'll review those as we receive additional information throughout the year. I think going forward it's going to be very difficult for us unproportional business to really separate what is COVID and what is not COVID from those board roads. So we just look at the overall loss ratio. But the overall loss ratio right now, aims to hold steady compared to pre COVID conditions.

On the Suez Canal, we did take some charge in Q1, a very small charge of EUR1.5 million. That's really related to whole and some whole loss. What's uncertain is the sort of the contingent VI both from the canal itself and then from suppliers, as you know the company managing the Suez Canal has filed a significant claim of the order of $1 billion, but the justification for the claim remains very unclear. And so, I think those -- that information will take time to make its way through the marketplace. So right now, Q1 we've taken the effect that we know for sure on the whole and the rest we're waiting to see how this develops.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you Jean-Paul. Next question please.

Operator

(Operator Instructions) Our next question is coming from Michael Haid from Commerzbank. Please go ahead. Your line is open.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon to everyone. Two questions, first on the Texas Winter Storm and freeze the EUR98 million net loss to -- or net claim you incurred from that. Obviously, it's quite a complex loss, first of all, can you give us a cross figure and how much the reinsurance recoverable is? And naively one could think it comes from one treaty, but that is definitely not the case, it comes from many treaties and also many signs of business. Can you shed more light on the composition of this loss? How many treaties? How many lines of business? Second question, the obvious question capital position is very strong. What do you think about capital repatriation? Do you feel you need a buffer against your optimal solvency range? These are my two questions.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Michael, Jean-Paul on Texas.

Operator

Yeah. On Texas, so the market was estimated for the storm is about $15 billion. Our estimates are really coming from property treaties primarily and this is primarily for risk and proportional treaties. There's some CAT excel contribution, but very little most of these losses would be in the retention of the larger programs. The CAT excel with some small companies that are affected and we have a few clients from specialty insurance, but it's very limited. So the bulk of it is coming from relatively large number of risk and proportional property treaties.

Q - Michael Haid {BIO 1971310 <GO>}

And can you say the cross amount? What do you expect for yourself?

Operator

Yeah. The amount of recoveries is very limited, I'd say it's more or less gross and that's because of the composition of the loss. And the fact that it also happened early in the year.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Jean-Paul. Ian on the capital question.

A - Ian Kelly {BIO 19976646 <GO>}

Yeah. Sure, and hi, Michael. And obviously we're very happy that the solvency of the group is in a very strong position. But let's be clear that that's partly due to the movement in the interest rates in the quarter. On top of that, I would add we are still in the pandemic. It really is too early to be thinking about capital management actions such as additional capital return at this stage. I would say on top of that, we remain in a positive market environment in particular on the P&C side. So you've seen strong renewals from the group and given the market opportunities that we have with that hardening market environment, which we think will be sustained that will carry on into 2022 that represents good value for shareholders in terms of accretive growth. So given all of those factors, it's a bit early to be thinking about capital return with the solvency ratio where it stands.

Q - Michael Haid {BIO 1971310 <GO>}

Okay, thank you very much.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Michael. Next question please.

Operator

Our next question is coming from James Shuck from Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi, good afternoon, everybody. So a couple things. The reduction in corporate exposure -- corporate bond exposure Q4 to now 43 down to 36, obviously, you're rebating that up by year end let's say close to 45%. What's the drag on solvency that we should expect from that, benefit in Q1, from moving the other way but just came to know what the drive will be as the year goes on?

Second question, on the combined ratio on P&C. So 91% is your normalized number, but you're normalizing for 7 points of net CAT and Q1 is normally very light year for net CAT. So are we normalizing more 3% or 4% based on history, which you can be shown in the appendix? So that implies the kind of number of sub 94%, which is the number that you indicated normalized for manmade, so maybe writing about 91. So, perhaps you could shed a little bit more light on that absolute number. And what's driving that strong absolute number into Q1, please? Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, James. Frieder on the first question.

A - Frieder Knupling {BIO 17247809 <GO>}

Yeah. Thanks, Olivier. You should expect a relatively small impact of the reduction in recurring income. This is going to be much smaller than the effect of the interest rate movements themselves, which affect the overall bond portfolio at the whole balance sheet and our SCR. So, compared to the dynamics of interest rate movements on our solvency position, the impact of holding a share of the portfolio momentarily in cash is quite smart and can actually be favorable if interest rates continue to increase. It will dampen the loss in market value of existing fixed income portfolio and industry overall favorable for SCOR's position.

Operator

If I may add to what Frieder said, and we benefit also in the internal model from a significant diversification benefit on the investment portfolio. So, in any case any re-risking of the portfolio, especially with investment grade corporate bonds would have let's say non-material impact on this current situation.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you. Jean-Paul on the second question.

Operator

Yeah. I'm not sure I understand your question, but if I go back to the CAT activity, some normalized using a 7% CAT ratio or net combined ratio would stand at 91.4, as I describe compared to Q1 2020, that's 5 points lower with (Multiple Speakers) coming from -- yes, please, James.

Q - James Shuck {BIO 3680082 <GO>}

Yeah. So it's just like 7 points nat cat across the whole year makes sense, but Q1 is normally very light for nat cat. So would 7 points to normalize in Q1, so, if I take your 94%, which is a normalized number of mandates and then assume 3 or 4 points of nat cat in Q1. I'm getting a number more like 91 and my question is what's the driver of that being so good?

Operator

You mean the normalized or the cap, I don't understand your question. On the -- the normalized what we do is we take 7% cap -- with 7% cap ratio regardless of the quarter. Whether it's Q1, Q2, Q3 we take 7% so that the rest is really an indication of the performance of the portfolio ex-caps. And here what we see is it's improving compared to last year.

Q - James Shuck {BIO 3680082 <GO>}

Maybe we can take it offline, the question is, more than 7% nat cat, makes sense across the full year, but Q1 is not a normal. Q1 is normally in lower number for natural catastrophe. So only normalizing at 7 normalizing at lower number, which means your underlying (Multiple Speakers) much better.

Operator

Right. Yeah. I understand your point. So we -- this is not the way we've been doing it or we don't have a normalization for cap that's relative to the let's say the activity throughout the year. We just applied the same number of course the same quarters, but you're right, Q1 is typically been a very low activity quarter. For the U.S. we see for the industry overall the Q1 this year is 4 times higher than the 10-year average.

It's a reflection of the unusual nature of the Storm Uri. But throughout the year Q2 is typically also a relatively low activity quarter. So we'll have to see what the rest of the year has installed for us. But in the meantime the 7% is a normalization we use across the entire year and every quarter.

Q - James Shuck {BIO 3680082 <GO>}

Yeah. Okay. Thank you very much.

Operator

(inaudible) time with you.

Q - James Shuck {BIO 3680082 <GO>}

Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, James. Next question, please.

Operator

The next question is coming from Paris Hadjiantonis from Exane BNP Paribas. Please go ahead, your line is open.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes, hi and good afternoon, everyone. Couple of remaining questions from me. Firstly, on renewals. Now we've seen the results of your revenue there is some market commentary about the slowdown in pricing momentum as we go into June-July and given June-July it's a bit more U.S. focused. I mean, if I look at your rate revenues you have been quite busy and you have been stating that in certain cases prices were not very compelling. So, if you can give us some kind of commentary or expectations going into June-July that would be helpful.

Now secondly again on the P&C side, and it relates more to the development of the COVID loss. I'm wondering how IBNR reserves essentially have been developing over the quarter as you have been getting more claims notifications and whether now you have additional data points that make you confident that the current level of the reserves is adequate. I remember most time we heard you on the phone saying something along the lines that up to EUR20 million of losses on the P&C side for 2021 relating to COVID, is that still the case or has anything changed there? Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Paris. Jean-Paul, on the two questions.

Operator

Yeah, thank you. On the first question, so going into the reinsurance renewals, we did see at April 1st especially in the U.S. sort of a more difficult market for reinsurers. But it's also a reflection of the fact that it's a relatively small renewal in terms of number of clients and treaties renewing. And as well the treaties renewing we're mostly not lost affected. So on the property side, you saw in our disclosures, 4% rate increases on the U.S. cat, which is smaller than we achieved in 1-1 and smaller than we anticipate the going forward. But I think it's just a reflection of the program renewing difficulty in that date or for the CAT excel going into June-July, we expect to go back to rate increases year-over-year of high single digit to low double digits on the cat side.

On the casualty side, we also saw in the U.S. a different dynamic than expecting were a number of markets have been satisfied with the level of rate increases achieved on the insurance and therefore happy to keep commissions -- reinsurance commissions either stable or actually increasing them in favor of the insurance companies. In those cases, we've reduced or come off those programs. So going into the renewals in June-July, we expect more of that dynamic to take place. To question mark of say the casualty renewals were affected by some of the new markets, either new companies or companies that were not active in casualty becoming active in casualty reinsurance again and those markets affected the outcomes. The question is whether they will remain to the same level of activity in June-July or will that sort of level off. So we remain cautious on the U.S., more optimistic on the CAT going into June-July, and on the rest of the regions renewing still very bullish in terms of market trends and price increases achieved.

Relative to your question on -- and maybe before we go to COVID, maybe Laurent, you can give an overview of what we're seeing on the specialty insurance side.

Sure. I mean our specialty insurance, so what we mean here is largely the large commercial lines insurance and CAT business, rate increases still remain extremely strong in particular on the casualty side where the momentum remains the same. On the property lines in energy, occupancies and heavy industries, we have been seeing rate on rate increases of two digits for almost three years now. And we are seeing a deceleration, I would say of the increases. So still positive increases, but clearly there has been a deceleration.

In terms of rate adequacy, we are in very positive territory on property lines, and clear do casualty given social inflation, given interest rates, we still have some way to go before getting good rate adequacy. But by and large, we are currently in a hot market for insurance that we haven't been in for several years. So it's the profitability has been pretty strong.

On your second question regarding COVID, at the end of Q4, and again in Q1, we had booked EUR284 million for COVID at the end of Q1, we have paid EUR39 million for claims. So, even though we're starting to receive some information from Cedents has been still very slow coming in especially on the Property BI, I think insurance companies are also trying to get a hold of the information themselves, whether it's one wave, two wave, three waves or is it one event or several events. And so I think these -- this information is still ongoing and will probably take another quarter or two you to get better clarity.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Jean-Paul. Next question, please.

Operator

The next question is coming from Vikram Gandhi from Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, thank you for the opportunity. I've got two more left. One is on the forex impact on top-line, which I'm aware we discussed early in the call where Francois I think you suggested that it was dollar depreciating against the euro and euro also appreciating most other currencies. Now, when I see how the shareholders equity has developed in Q1. There is a decent positive impact from Forex translation. Now, I know it isn't impossible to have the sort of divergence. But I would have thought it's pretty rare. So perhaps you can explain what is driving this difference, the positive impact on balance sheet and a negative on P&L.

And the second question was really trying to understand the movement in unrealized gains on real estate. And this is on Slide 45. I see there is a small drop in unrealized gains from EUR125 million to EUR111 million, whereas there hasn't been any realized gains from real estate over the course of the quarter. So I'm just trying to understand what's the right way to look at these figures? So any explanation there would be helpful. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Vikram. Ian on the first question.

A - Ian Kelly {BIO 19976646 <GO>}

Yeah, sure. So the dynamic -- the FX dynamic that you're seeing there I think is that Q1, sorry the top line premium that's an average rate comparison, Q1 2021 against Q1 2020.

And what we see there is Q1 20 the dollar/euro rate was about 0.9, in Q1 2021 it's about 0.8 and that's driving the impacts there those average rates across those periods. And to give you some sense on premium, we've got about 44% is U.S. dollar denominated, 19% euro, 10% GBP and then we're into other currencies.

And then on the CTA that you see in the balance sheet that is a -- that's a closing rate impact, that's closing rate Q1 against closing rate Q4 2020. And there you do see a slight reverse in fact, so I think Q4 '20 and the dollar/euro rate was 0.82, now 0.85 broadly, so that gives you the dynamics that the reason you see the top line coming down, but a positive impact in CTA. Okay?

Q - Vikram Gandhi {BIO 18019785 <GO>}

Yes. That's a clear. Yes, thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Francois?

Operator

So, on the real estate portfolio that's just a mechanical effect due to the fact that we have invested on some assets. So it increases the book value of some assets and we have an external valuation of real estate portfolio by an independent tax payer that is done at the end of June and at the end of December. So market's value have not been reviewed, it will be done in Q2 as previous years, but we have increased the book value due to investments on some assets. So, that just the technical effect that should disappear soon.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, fantastic. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Vikram, Next question please.

Operator

Our final question is coming from to Thomas Fossard from HSBC. Please go ahead. Your line is open.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thanks. Very quick modeling question. You reported 36% tax rate in Q1. Can you shed some light on what we should expect on a normalized basis for -- not a normalized basis but on a reported basis for 2021, should we work with the normalized 20% or should we factor in the 36 reported in Q1? Thank you.

A - Ian Kelly {BIO 19976646 <GO>}

Yeah. Hi. So, it's Ian here, Thomas. On the tax, and this is distorted a little by a couple of effects. Firstly, we were experiencing a geographic rate mix and that had losses in the low tax rate jurisdictions, principally COVID losses. So, that was appearing in Ireland and then coming -- sorry, appearing in the U.S. and then coming through into Ireland. And then we had the profits coming through more in the higher rate, tax jurisdictions, particularly in France. So the losses on the P&C side, they were principally retained in the U.S. some did come through to France, but the very strong underlying profitability that we've been talking about in the call on the P&C side that more than offset that. So that's distorted the group ETR in a quarter where the overall net income is low. So we would expect to normalize back to towards the 24% Quantum Leap numbers by the end of the year as we progress and through the following quarters.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you. Ian. Is there a next question?

Operator

We have no further question over the phone, sir. So that does conclude the question session on sir. And at this time, I would like to hand the call back to the speakers for any additional or closing remarks. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much for attending this conference call. The Investor Relation team remains available to pick you up on any further questions you may have. So please don't hesitate to give us a call. I wish you a good afternoon. Thank you.

Operator

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