Q4 2016 Earnings Call

Company Participants

- Denis Kessler, Chairman & Chief Executive Officer
- François de Varenne, Chief Executive Officer-SCOR Global Investments SE
- Frieder Knüpling, Chief Risk Officer
- Ian Kelly, Head-Investor Relations
- Mark Kociancic, Group Chief Financial Officer
- Paolo de Martin, Chief Executive Officer-SCOR Global Life SE
- Romain Launay, Chief Operating Officer
- Victor Peignet, Chief Executive Officer-SCOR Global P&C SE

Other Participants

- Anasuya Iyer, Analyst
- Frank Kopfinger, Analyst
- In-Yong Hwang, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- Xin Mei Wang, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group 2016 Q4 results conference call. Today's call is being recorded. There will be an opportunity to ask questions after the presentation. In order to give all participants a chance to ask questions, we kindly ask you to limit the number of your questions to two.

At this time, I would now like to hand the call over to Mr. Ian Kelly, Head of Investor Relations. Please go ahead, sir.

Ian Kelly {BIO 19976646 <GO>}

Good morning, everybody, and thank you for joining the SCOR Group's 2016 results call. Before we start, I please ask you as usual to consider the disclaimer on page 2 of the presentation, which indicates that the 2016 financial information is audited and that the group solvency, final results are to be filed with the supervisory authorities by June 2017 and may differ from the estimates expressed or implied in this report.

And with that, we can commence the call and I give the floor to Mr. Denis Kessler, CEO and Chairman of the SCOR Group who is joined on this call by the entire committee (01:20).

Denis Kessler {BIO 1498477 <GO>}

Thank you, Ian, and good morning, everyone. We have some exciting news to give you today but let's first recap on the year. The 2016 was another outstanding year for SCOR. It was marked in particular with a successful launch of a new three-year strategic plan, Vision in Action. Shortly after launch, that was last September, the strength of the new plan was recognized through another upgrade from Moody's, which cements our position in the top tier as a global and highly-diversified market leader.

As part of the capital management policy, which is at the heart of Vision in Action, we successfully issued a new €300 million contingent capital facility to help safeguard, good solvency in case of extreme catastrophic events. We'll continue our development in the emerging markets both for Life and for P&C. SCOR has successfully been granted a license to operate the branch in India.

I'm also pleased to report that our internal model was approved by the regulator with all restrictions lifted. We also managed to issue debts under excellent conditions to support financing of the Vision in Action plan.

We continue to grow sustainably and profitably in both P&C and Life reinsurance. On the P&C side, the renewals demonstrated the strength of the franchise with selective growth and scuzzy – quasi-stable pricing. And as for Vision in Action, we're successfully expanding in the U.S. market. On the Life side, we confirmed a strong and growing position in the longevity reinsurance sector and in line with what we said; we're expanding the franchise in Asia-Pac.

SCOR is consistently delivers both of the targets set in the Vision in Action has been exceeded. The annualized return on equity stands at 9.5% in 2016. This is above the target of 800 basis points above the five-year risk-free rates. And as you can see on the slide, if we were to exclude the cost of reflecting the future French tax rate changes, by the way, during 2020 (sic) [2016] (03:52), net income would be at €660 million with a return on equity of 10.4%. In addition to exceeding the return on equity target, we have been able to generate significant Solvency II capital so that the solvency ratio now stands at 225%, exceeding the higher end of the optimal range.

Let's move to slide 4. SCOR has consistently delivered not just on achieving the strategic targets but also on delivering excellent shareholder returns. Today, I'm able to announce a proposed increase to regular dividend of €0.15 to €1.65 per share. By the way, it's an increase of 10% and a powerful testimony to the strong sustainable earnings of the group. A testimony to the consistent solvency capital generation of the underlying business and serve to the active shareholder remuneration, which we are pursuing. This increased dividend will be proposed at the next Annual General Meeting to be held on the 27th of April.

SCOR, we have distributed in excess of €2 billion in dividends over the last 10 years. A period during which the group's rating has risen to AA minus and shareholders' equity, as you can see, has risen to €6.7 billion. This translates in a book value per share of €35.94. Let's say almost €36 per share, which is a new record level since the first strategic plan back on track, for those who were shareholders at the time.

Let's move to slide 5. The strong capital generation that supports increased dividend also supports increase solvency. In Vision in Action, we described the solvency scale, which by the way has remained the same as in previous plans. Indeed, the consistency and continuity in management of capital is important and we describe the management actions as we move up through the solvency scale. Today the group can generate capital sustainably above the optimal range. And today I believe that the SCOR Group fundamentally enters a new era, not one where the solvency for just one point in time grows above the optimal range, but one where the longer term direction of the group solvency benefits from the strength of the underlying business fundamentals, the strength of excellent ratings, and the optimal use of leverage. As at the year end, our excess capital is at about €200 million or 5 points of solvency ratio, above the upper end of the optimal zone.

The solvency scale provides more specific management actions when we exceed the upper end of the optimal range. Out of those actions, we could consider accelerating growth provided it meets the Vision in Action claim targets. We could consider adopting a risk profile. We could consider increasing the dividend growth rate or buying back shares. At the moment, we don't focus on special dividends or acquisitions but these are of course, not excluded.

I would like to announce that today we introduce a framework for share buyback that allows the group to undertake across the next 24 months a specific share buyback program with the amount and timing to be settled by the board of directors in accordance with the group's growth performance.

Further to the share buyback program, a word on the merger plans of the companies that we head as group. This project remains on track, with work progressing well on dealing with business, regulatory and operational points. And we expect the project to be completed in early 2019. The merger of the three SE companies in France to provide the group with diversification benefits of up to €200 million of solvency capital upon its completion.

I will now hand over to Mark to give you more details on the 2016 financial performance. Mark, here's the floor.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Deni, and good morning, everyone. So, moving on to slide 6. I will walk you through the financial highlights of the 2016 results. SCOR wrote more than €13.8 billion of gross written premiums in 2016, representing a 5.3% increase over 2015 at constant exchange rates or 3% at current exchange rates.

This top line growth was fueled by the strong contribution of both business engines SCOR Global Life with an 8.3% rise at constant exchange rates and SCOR Global P&C with a 1.2% growth at constant exchange rates. SCOR achieved set of results for 2016 with a net income of €603 million generating a 9.5% return on equity, thereby exceeding the group profitability targets set at 800 basis points above the five-year risk-free rates.

It's worth mentioning that the 2016 net income was impacted by the passing of the Finance Bill 2017, which provides for the planned reduction of French corporate income tax rates from 34.43% to 28.92%. While the group acknowledges this is good news in the long-term, because it will reduce the tax charge. It also means an adjustment to the P&L, at the end of 2016 in the amount of €57 million. So, as Deni mentioned, excluding this non-cash impact accounting for the downward adjustment of deferred tax assets, the group would have recorded a 2016 net income of €660 million and a return on equity of 10.4%.

The P&C net combined ratio for the full year stood at 93.1%, while the Life technical margin reached 7%. Finally, SCOR Global Investments delivered a solid return on invested assets of 2.9%, benefiting from the execution of the Vision in Action asset management policy.

Moving to page 8. One of the more impressive value-creation metrics for our shareholders is shown by the 5.2% increase in shareholders' equity to €6.7 billion. This translates into a very strong book value per share of €35.94.

The shareholders' equity was boosted by the strong net income, the strong foreign exchange impact between the U.S. dollar and the euro while accounting for the €278 million in dividends that were paid out during the second quarter of 2016. The financial leverage ratio stands at 24.4%, under the 25% threshold indicated in Vision in Action.

On page 9, SCOR delivers excellent recurring cash flow for the year at €1 billion after normalizing for SCOR Global P&C return of funds withheld in the amount of €300 billion, which took place during the third quarter. Cash flow used in financing activities mainly reflects the dividend payment and the impact of our active liability management policies in 2016.

Total liquidity reached €2.3 billion at the end of 2016 compared to €2 billion in 2015 supported by the very strong operating cash flow generation, although the rebalancing of the invested assets has commenced. Liquidity is down from the first half of 2016 level of €2.9 billion and François will speak to this shortly.

I will now hand it over to Frieder to comment on the group's solvency ratio evolution.

Frieder Knüpling

Thank you, Mark. Slide 10 shows the development of the group's solvency position during 2016. In total, the solvency ratio has increased by 14 percentage points during the year to the level of 225% that means 5 percentage points above the upper end of the optimal range.

Economic variances, which are mainly driven by financial market movements, have led to a marginal decrease in the solvency ratio by 0.5 percentage point. We have fully reflected the change in French corporate tax rate. This has reduced the value of DTAs on existing tax losses and the loss absorbing capacity of future taxation. A combination of both effects has reduced the solvency ratio by 3.3 percentage points.

A number of areas of our internal model have been improved in 2016. The most significant change related to the operational risk module. The total impact on the solvency ratio, which also includes the effect of a number of minor changes to other areas, is an increase by 4 percentage points.

Operating earnings of the reinsurance portfolio have led to a growth of the solvency ratio by 11.9 percentage points. This includes a bit less than plus 1 percentage point of unwinding of estimates in the year end 2015 solvency ratio. The remainder of the increase has driven the value of new business written by the Life and P&C divisions during 2016 and the development of the existing business. As in the previous years, capital and solvency generated by our business divisions is well in excess of the proposed dividend.

Moving on to page 11, among the sensitivities to financial market parameters, the most significant ones relate to interest rate movements and to large natural catastrophes as in the past. All the potential events included in this list of sensitivities, however, would lead to a solvency ratio in the upper half or above the optimal range, and SCOR will continue to benefit from increases in the interest rate. As a reminder, SCOR does not use any long-term guarantee or transitional measures and its solvency position is not sensitive to the level of the ultimate forward rate.

As shown on page 12, SCOR's risk profile continues to be dominated by insurance underwriting risks in line with our stated risk appetite. In comparison, the contribution of market and credit risks to the total capital requirements is significantly smaller. The Life and P&C underwriting risks continue to be very well balanced.

The level of diversification at this level of aggregation has increased further to 49%, which is a clear indicator of the strength of SCOR's business model. It is built on a continuous maximizing of diversification, which in turn is the basis for optimizing the group's capital efficiency and profitability.

With this, let me hand over to Victor for his comments on the P&C portfolio.

Victor Peignet {BIO 6287211 <GO>}

Thank you, Frieder, and good morning.

As you can see on slide 13, this is another set of very good results and we are continuing on the basis of the metrics of optimal dynamics. As far as the activity is concerned, the Q4 of 2016 and the January 01, 2017 renewals have put us back on the growth trend assumed for optimal dynamics. That is at growth rates slightly above 5% at constant exchange rates, which is at the midpoint of the 3% to 8% range that we have indicated for Vision in Action.

This is in line with the comments that were made when our Q2 and Q3 2016 results were released showing reduced growth rates due to specific run-off one-off revisions of prior year premium estimates by Siemens (16:21). These revisions were more particularly related to the Aviation, Marine and Engineering lines of business.

As you would expect, knowing our plan, the distribution of the growth is very much weighted towards the Property and Casualty Treaty business in the U.S. market. Both the specialty lines and business solutions are impacted by the situation of the worldwide economy that mostly affects the Engineering and Marine & Energy lines of business.

We are already seeing prospects of improvement in the construction area starting with the U.S., possibly followed by Asian economies like China, India or Japan whether it be locally or through investments abroad mostly in infrastructure, power including renewable energy and water treatment and distribution.

We will see how the 2014 and 2017 renewals will go. And as we said during the 2016 IR day, we will come back around Monte Carlo with a narrowed range of assumed growth for the Vision in Action plan.

As far as the technical and management expenses ratio are concerned. Our net combined ratio continues to be very satisfactory at 93.1%. In addition, the activity continues to produce excellent cash flow. Our normalized net combined ratio is stable at 94.4%. Here, again, we stay in line with the optimal dynamics assumptions and you will recall that our January 01, 2017 renewals only show a much marginal deterioration of the expected profitability.

There are basically two one-off items to underline in the contents of the net combined ratio and I would like to qualify each of them. On one side, you will recall that we did reserve releases in Q2 that correspond to a reduction of 0.8% in the net combined ratio of 93.1% over the entire year. The position at the end of the year is that we are reserved our best estimate plus the margin that is of a size similar to what it was at the end of 2015.

On the other side, the commission ratio is loaded by one-off adjustments on large specific contracts that are subject to sliding scale. As the loss ratio for these contracts are landing more favorably than expected, there is a shift from lower losses that are reflected in the attritional ratio to higher commissions that are reflected in the commission ratio.

These one-off adjustments are neutral from a P&L standpoint. And net of those, the overall commission ratio is down to the level indicated in Vision in Action. That is within the range of 25% to 26%, which reflects the slightly increase weight of proportional in the overall portfolio.

I'll now hand over for Paolo for his presentation of the Life results.

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor.

In the Life division, we had an excellent year in 2016. The first quarter in particular has been our strongest quarter on record in terms of both volume and results. For the total year, gross written premiums have reached €8.2 billion with an increase at constant exchange rates of 8.3% or 6.4% at current exchanges.

The growth in 2016 has been very well diversified in terms of both geographical spread and product lines, with longevity driving the lion's share of growth in Q4 stand-alone.

On the result side, we're delivering €526 million of technical result with the margin of 7%. The strong level of profitability is reached through the combination of profitable new business and strong performance of our in-force book. We're very proud of our achievements over the last three years and of our contribution to SCOR twin-engine strategy. We've integrated the Generali with the acquisition, maintain our leadership in the U.S. and received three years in a row the Reactions Magazine Award in North America as best life insurer.

We have further energized our global organization with the new setup based on regional focus and global product lines which has driven a significant improvement of our competitive position. And we have successful demonstrated our team's ability to grow organically both in terms of footprint and in terms of product offering. Since 2013, we've added €2.1 billion of profitable premiums for a total growth of more than 30% over the last three years.

We're confident about our momentum going into 2017. We see growth being potentially higher - slightly higher than the Vision in Action assumption of 5% to 6% with the technical margin in line with the strategic plan assumption.

I'll now hand over to François for more details on our group Investments strategy.

François de Varenne

Thank you, Paolo.

Moving on to slide 15, SCOR's total investment portfolio which is €27.7 billion at the end of December 2016 with an invested asset portfolio of € 19.2 billion, compared to €18.8 billion at the end of June. During the second half of 2016, SCOR Global Investments has rebalanced its investment portfolio as announced in the Vision in Action plan. Liquidity was reduced by 3 points. The proportion of corporate bond increased by 5 points and duration of the fixed income portfolio was increase from 4 years to 4.5 years compared to June 2016 levels. The high quality of our fixed income portfolio has been maintained as well with a stable average rating of AA-.

Moreover, SCOR Global investments has maintained a very strict policy of avoiding any sovereign exposure for Eurozone peripheral countries and has currently no exposure to the French OATs.

At the end of December, expected cash flows from the fixed income portfolio over the next 24 months stands at €6.7 billion despite the rebalancing of the investment portfolio completed since the announcement of Vision in Action.

It will facilitate the dynamic management of our investment policy as market conditions permit. In spite of the prolonged (22:29) environment, SCOR Global Investments manages to deliver with strong and a recurring return on invested assets which stands at 2.9% for the full year 2016 well above of risk-free benchmark.

Moving on to slide 16. You will appreciate that the significant portion of Vision in Action rebalancing has been completed in the second half of 2016. Consistent with the group's risk appetite and our continued focus on the preservation of our asset value, we have tactically decided to pause the rebalancing strategy in November 2016 anticipating the market impact of the U.S. election and of the Italian referendum. And our asset allocation has remained broadly stable during that period.

This does not change our Vision in Action strategic objective and we have resumed our rebalancing strategy early 2017 taking advantage of a favorable market for U.S. corporate bonds. This enables us to lock a nice yield on this reinvestment program well above our recurring yield.

Recent financial market developments are overall positive by the execution of Vision in Action, as illustrated by our reinvestment yield increasing from 1.9% to 2.5% over the last quarter and above our current income yield. Looking forward, we will continue to redeploy opportunistically our investment portfolio toward Vision in Action strategic asset allocation in order to lock favorable market entry points.

Finally, I wanted to specify that I believe we are uniquely position to take advantage of the global context of rising interest rates and inflation through our asset management policy. We continue to benefit from our unique currency mix. 48% of our invested assets being denominated in U.S. dollar and only 30% in euro.

More importantly, you can notice that the rebalancing of our investment portfolio completed since the announcement of Vision in Action will not impair our ability to take advantage of improving reinvestment condition. We keep a high degree of flexibility with €6.7 billion of assets that will be reinvested in the next 24-month period without selling any assets we currently hold in our portfolio. Excluding cash, more than 30% of our investment portfolio will be available for reinvestment in the next two years just taking into account redemption and coupon and thus benefiting from improved investment rates.

In a reflationary environment, it should be noted that a significant portion of our portfolio, 43%, is also protected from an increase in inflation or will benefit from an increase of interest rates as illustrated in the chart on the bottom left of this page.

Let me finish this presentation with my expectation of the return on invested assets for the full year 2017. This year should be as market conditions are low an inflection point for our income yield, which should increase on average, thanks to a rebalancing strategy and increasing investments rate.

We also expect some recurring capital gain to be generated at some point in the year mainly coming from non-yielding asset classes. Having this in mind, I believe our return on invested assets should be in the range between 2.7% and 3.2% for the full year.

With this, I will hand it over to Denis Kessler for the conclusion of this presentation.

Denis Kessler {BIO 1498477 <GO>}

Thank you, François. As you can see, 2016 was marked by some key events with Brexit, U.S. election, the Italian referendum. And SCOR has been able to navigate these events successfully. We have an excellent start to the Vision in Action plan.

In 2017, we are well-placed to continue to deliver on our plans. Overall, and it has been said again by François, interest rate increases are positive for the group and we continue to execute upon our investment strategies with redeployment of our assets to take advantage of increasing rates.

We see positive prospects in the reinsurance market. The SCOR Global P&C has underwritten excellent January 01, 2017 renewals and expand successfully in the U.S. In SCOR Global Life, deepens in franchise in Asia-Pac and continues to successfully grow the longevity business.

The group is well-positioned to leverage changes in legislation with restrictions on our internal model entirely lifted, potential benefits from the U.S./EU collateral agreements that would reduce the need for LOCs. And we are likely, I repeat likely to as a burden of being classified as globally systematically important.

Finally, the group has a stable, secure, yet tangible capital base with more than 97% of its capital held in advanced economies and currencies.

And on the final slide, I leave you with the picture of our successes in 2016. Under the new Vision in Action plan during H2 of 2016, the group achieved an ROE of 10.6%, above our minimum target and a solvency ratio of 225%, above the optimal range. Well, we are positioned to continue our success story and execute upon our plans in 2017.

Thank you very much for your attention. And Ian, we can now start the Q&A session.

Ian Kelly {BIO 19976646 <GO>}

Thank you, Denis. Before moving to the Q&A session quickly, please just note on page 20, the next scheduled events, which are the Q1 2017 results and the Annual General Meeting both taking place on April 27. And also the investor conferences I noted here that we currently plan to attend in 2017.

So, with that, we can now start Q&A. And I would like to remind you as ever to limit your questions to two each.

Q&A

Operator

Now we come to our first question. It's from Kamran Hossain from RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning, everyone. Two questions. First of all, on the buyback, can I just ask, if interest rates do come back down, obviously your ratio is 2.25, it's above the 2.20 but it's not enormously above and you've been above before. If rates do come back down, do that change your thinking on that? So, that's the first question.

And the second question is just about economic capital generation, I really appreciate this page out here. It's fantastic that you're giving that. If I ask about the 11.9% operation experience this year, tell us what might that look like on what you consider it to be like a normal or planned basis, just so we get an idea about how the ratio should move over time? Any color on that would be really helpful. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

On the first question, Kamran, on the buyback, so, there's many factors that come into play. It's not I think we can isolate it for one. During the Investor Day, last year, we outlined the framework for how we view buybacks or excess capital and how we would deploy it. So, taking into account our solvency level, making sure that's secure, making sure that we can fund future accretive growth and so on, and the regular dividend, we would then make decisions on the excess capital.

Right now, we're in a position today, to tell the market that we have strong underlying fundamentals both in the technical aspects of the business. I think we're on a positive trend for the investment side and probably more importantly, the 225% that you're looking at today is not based on some volatility of – favorable volatility of market conditions, but rather what I've just spoken to which is the solid underlying fundamentals of the business.

A - Frieder Knüpling

I can take the second question. So, as I mentioned, in the 11.9%, there's a bit of a positive effect which results from the unwinding of estimates of prior years. That's where it's a bit less than 1 percentage points. So, if you allow for this or strip this out, the capital generated in 2016 is a bit closer to 11 percentage points. That is actually quite close to what we published for 2015.

This is – there's nothing – there's no particular one-off in this, either positive or negative which would have a significant impact either way, model changes we've shown separately. So this is sensitive obviously to claims experience and sensitive to the profitability of new business. That means renewals and new business written on the Life side, both volume and profitability will drive this up or down. But as of today, as I said, there's nothing unusual in this which would lead us to think that this is either much higher or much lower than what you should expect.

Q - Kamran Hossain {BIO 17666412 <GO>}

Sorry to follow up, is there an easier – is there like an easy rule of thumb to get from your ROE to what that number looks like, or is that just one for the actuary?

A - Frieder Knüpling

I'm afraid it's the latter. The accounting mechanisms between IFRS and Solvency II are very different particularly on the Life sides. I mean, this is the same story as under MCV – under Solvency II, profitability of the new business is fully recognized as value in the year when the business is written. And then you have very different mechanics of unwinding of discounting compared to IFRS where the profitability of the business is really spread out over the lifetime of opportunities.

So, I'm afraid that there's no such easy reconciliation. It's probably easier to compare it to MCV on – particularly on the Life side where we pretty much use the Solvency II methodology already.

Q - Kamran Hossain {BIO 17666412 <GO>}

That's great. I really appreciate on the disclosure and Solvency II. It's fantastic. Thank you.

Operator

Our next question comes from Xin Mei Wang from Morgan Stanley. Please go ahead, ma'am.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Hi. Thanks. It's Xin Mei Wang from Morgan Stanley. Two questions please. So, first is on the extra solvency release from the legal entity restructuring. Can you just remind us of how you think about the use for that in terms of the priorities for acceleration growth, that from a risk profile and then thinking about use for the dividend and the potential buyback? That's my first question.

My second question is on the reserve. So, you mentioned that the margin above best estimate on reserve on a similar level to 2016, is that on absolute basis or on a percentage term basis? And then, just considering the release of reserves in 2Q, can you just talk through what actions replenish the buffer to remain the same? Was it due to the continued loan session in the year or were there other actions as well? Okay. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you very much. I will ask Mark maybe to talk about the consequences of the merger of the three SEs.

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. Just to give you a status update on where we are. So, the project itself is on track. It's definitely very complex. We're dealing with 48 jurisdictions at the present time and the creation of 10 branches. So, this is taking a significant time to go through.

Obviously, we are trying to protect and maintain the business franchise and the continuity for our clients throughout this process. So, we envision a completion of the projects, probably something around early 2019.

One of the constraints that's come out of this is that essentially, you would need to have a fiscal year beginning after a merger effective January 1st of the given year. So, I would expect this to crystallize or finalize in early 2019.

I do confirm the €200 million that we spoke about last IR Day. Those are the projected solvency capital benefits. But given the fact that this is a prospective transaction, we would still go through the decision tree that we outlined on IR Day with respect to excess capital. So, can we redeploy it in the business, given that it's a one-time, I don't think it would enter the discussion of the regular dividend. We could certainly discuss the share buyback question that we raised during IR Day with respect to this.

A - Denis Kessler {BIO 1498477 <GO>}

Now, the second question was the margin above the estimates, Victor?

A - Victor Peignet {BIO 6287211 <GO>}

I think the total amount of technical reserves has increased slightly but not in proportion that really changes. So, I would say it is both valid in absolute and in relative to your question.

As far as the measures, there's not particular measures. This is just showing that the prior years are showing positive development and that there is a kind of regeneration of margin which is like a natural mechanism. We start with very prudent reserving in general and our underwriting years of developing favorably and recreating margin which means that it naturally well replenishes.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Okay. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Almost magic. Next question.

Operator

Next question comes from Goldman Sachs and we have In-Yong Hwang on the line.

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

Thank you for taking my question. Hi, In-Yong from Goldman Sachs. Yeah. So, two questions. So firstly on the buyback again, and just thinking about the timing. I think – obviously, that's up to the board of directors but, Victor, you mentioned that kind of Monte Carlo is the time where you have a clearer view of where the growth trajectory is going. So, is that the time where we should expect the more clearer view of what the buyback is going to look like? That's my first question.

And my second question is on the running yield. There was a strong pickup in the fourth quarter, 2.2% from 1.8% the quarter before. Appreciate the interest rate environment is more favorable and you had a much higher reinvestment rate, but I'm just wondering if there's any one-off in the 2.2%? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

The share buyback again, Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

So, on the buyback, with respect to the timing, we gave guidance today through the next 24 months. It could happen at any time. I think there's a couple of variables that we're waiting to clarify. Victor mentioned one of them in his speech, which is the growth possibilities for the P&C division. We referenced the 3%, 8% scenarios and everything in between last IR Day. So, this is something where we said that we probably need a year to sort that out and clarify it.

As I mentioned before, one of the decision-tree points is to try obviously produce accretive growth in the group and we want to self-finance that where possible. But, the excess capital decision is something that could happen at any point in time and I would not exclude IR Day.

A - Victor Peignet {BIO 6287211 <GO>}

(40:14-40:20). On the running yield, the answer to your question, so the published running yield in Q3 was 1.8% and that there is one in Q4 which is 2.2%. So, that's an increase of 30 basis points. If I take into account one-offs in Q3, that's almost 8 basis points. So, the normalized earning yield in Q3 was close to 1.9%.

If I look at Q4, we have positive one-off linked to inflation and some dividend for 11 basis points. And the effect of the reinvestment program we started since the launch of Vision in Action for the summer. I think the full effect of Q3 is equal to 12 basis points that is recurring in the recurring (41:12). So the normalized yield excluding one-off and they are positive in Q4, this was 0.1%. That's why we increased our expectation for the income yield or the running yield for the full year 2017 at between 2.1% and 2.3%.

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

Great. Thank you very much.

Operator

Our next question comes from Frank Kopfinger from Deutsche Bank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Hello. It's Frank from Deutsche Bank. I have two questions. My first question is on the 12 percentage points again capital generation. Can you break it further down into the underlying drivers. So obviously, there have been effects new business value but also this affect the – from the growth overall within your portfolio and could you also separate the unwinding of the existing business?

And my second question is on potential benefit which you pointed to from the collateral agreement. Could you give us some more information on this, please?

A - Mark Kociancic {BIO 17852409 <GO>}

Maybe this time, Frieder.

A - Frieder Knüpling

Okay. On the operating experience, new business is a significant share in this and let's say, in the range of about half maybe a bit more and then unwinding and claims experience and assumption changes and so on, at the remainder. We don't disclose the exact split at this point, but in line with developing good practice in the market, we might do this in the future then hopefully give us standardize categories which are comparable to our peers. The growth of the underlying business is shown separately. The SCR increase of about €200 million is reflective of the growth of the business during 2016 and the increase in the risk exposure.

A - Denis Kessler {BIO 1498477 <GO>}

Maybe, Mark, on the benefit of the recent U.S./EU agreement.

A - Mark Kociancic {BIO 17852409 <GO>}

Well, the new agreement that come about in the last days of the Obama administration is certainly a welcome development for SCOR for the industry but we don't expect any meaningful benefits at least in the short run. There's numerous administrative or legislative hurdles that have to be overcome in the United States, both at a state level and congressional level. Some of this will clarify itself as the Trump administration makes it clear what they wish to pursue with this agreement.

The agreement's perspective, so it doesn't impact our existing collateral arrangements that we have on the business which are primarily on the Life side. But if it does come into play, it would have some benefits for us on a going forward basis and the timeframe that we would estimate is - could be anywhere from three years to five years assuming this gets all of the legislative approval that you would anticipate in a best case scenario.

A - Denis Kessler {BIO 1498477 <GO>}

It's a positive development and as SCOR reports this agreement. We've been fighting for years and years and years. And so, even it's late, it's very welcome. Next question.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thank you.

Operator

Next question comes from Vinit Malhotra from Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hello? Should I go ahead? Yes. This is Vinit from Mediobanca. Sorry. But just one question on the 2.5% reinvestment yield, François. Is it a fair understanding that even though there was a pause of rebalancing in November, this pick up has happened because of some of the rebalancing actions taken in the third quarter itself? Is that how we should perceive it? Because I remember you have gone - you had invested about €1 billion or so into U.S. corporate tax already in the end of 3Q. So, if you could just clarify a little bit more about this 2.5%.?

Then I have one clarification, please on the legal entity merger, €200 million benefit if I may. I seem to think that to really get that money deployed, the criteria was not really the completion but was more understanding with the regulator or agreement with regulators. Has there been any change to that philosophy or is it still the same, and at 2019 is when we should really look for it? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

de Varenne?

A - François de Varenne

We need to come back on your question two. Our definition of the reinvestment rate is consistent quarter-after-quarter. So, this is the marginal reinvestment phase, i.e. the marginal market yield on all yielding asset classes, so mostly fixed income, loan, and real estate, and that's taken the last day of the quarter according to the asset allocation in our portfolio. So, it means if we reinvest the last day of December, €1 or $1 in the portfolio is the same asset allocation. We reinvested a 2.5%. So this is a really good news.

The second good news is that this reinvestment rate is well above the book yield and that's why we are optimistic on the fact that the running yield or the income yield will improve in the future.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And is this pick-up from the 3Q simply – I mean, I'm sure some of it is market move, but is it at large market-driven or larger part from asset reallocation?

A - François de Varenne

You have two effects, of course, in the move. The fact that market condition are much better and the fact that we slightly changed the asset allocation. If you compare these factors between Q3 and Q4, so the 1.9% reinvestment rate at the end of Q3 and the 2.5%. The asset allocation effect is almost marginal due to the pause we put in place in rebalancing strategy in November and December. So, most of the effects here that you see between Q3 and Q4 is linked to the improvement of the market condition.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So as you release more, this should further pick up then presumably if market is flat?

A - François de Varenne

If we continue to release or to rebalance the portfolio, especially in favor of credit as illustrated in Vision in Action. At constant market environment, this kind of investment rate should increase...

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you.

A - François de Varenne

...due to this balancing effect.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah.

A - Denis Kessler {BIO 1498477 <GO>}

Again, on question of the merger.

A - Mark Kociancic {BIO 17852409 <GO>}

Vinit, on the legal entity merger, this is something, as I mentioned before that's very complex on a regulatory basis. So the international nature of the restructuring requires many countries to sign off and it requires not just to sign off on posing legal entities, but creating new branches to make sure that we do not impact the business. That is fundamental to provide a continuity for the clients of both Life and P&C. So that is something that is very complex and is subject to regulatory approval.

Once we have that certainty, and I think it's something that is likely to be a lot more clear later in 2018, then we'll be able to give you a more firm update. But I do expect this thing to complete in early 2019.

The only difference, I would say, from the discussion we had at the IR Day last year is really the increasing complexity of transferring the portfolios or creating the branches and the numerous jurisdictions that are affected. That's probably a little bit more than what we had expected last September.

Q - Vinit Malhotra {BIO 16184491 <GO>}

But these uncertainties now are well in this today, I presume?

A - Mark Kociancic {BIO 17852409 <GO>}

I'm sorry. Could you repeat that?

Q - Vinit Malhotra {BIO 16184491 <GO>}

As in the fact that, it became slightly more complex in the last three months, four months.

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah, I do expect that to happen, the feasibility is clear. It's more of a timing issue because there are so many incremental steps that need to happen with the transferring of portfolios, creation of new legal entities, I can't see why anyone would be against this on a local country level. It's more processed. It takes time.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Thank you, Mark.

Operator

Our next question comes from Anasuya Iyer from Jefferies. Please go ahead. You might have to unmute your line please.

Q - Anasuya Iyer {BIO 18981555 <GO>}

Hi. It's Anasuya. Sorry. I was on mute. Thanks for taking my question. My first one is just a follow-up actually on the investment return. Could you remind us where you want to take the duration to? And with more rebalancing, could you get to the 3.2% even if interest rates were to stay where they are today?

And the second was going back to €200 million potential from the excess capital, not from the internal restructuring but from the solvency ratio, sorry to come back to it. But I just want to try to understand a bit more about what could attract you to the alternative? For example, where could you increase your risk profile and where it looks attractive at this point in time? And is there any M&A you might consider? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Mark, you want to get the last question?

A - Mark Kociancic {BIO 17852409 <GO>}

Sure. So, on the excess capital question, we do have different growth scenarios in P&C, 3%, 8%, that's quite a wide range. So, the principle use of potential capital would come from the P&C division. We're fairly stable with the Life plans that's coming along very nicely. And then on the asset side, we do have some room still to redeploy resources to increase the capital intensity. But clearly the major part is on the P&C side.

With respect to M&A, there's – and there's nothing on the horizon right. We did state to you during the IR Day that that's an option for us but it's not something – our plan is purely organic. It's not something that we are actively pursuing at this time.

A - Denis Kessler {BIO 1498477 <GO>}

I can add one point? I mean, due to the change of risk appetite – the risk profile, we have no intention to change the risk profile of the group. It has been set. It has been announced at the IR Day. We have all the risk drivers, the risk limit and it's absolutely the frameworks that we respect. So, the idea is different. It's within the framework. Of course, we can saturate certain limits on that. So, it's the situation where we have no intention to change the risk profile but we allocate resources of course, within this framework that could sometimes reach the limit of the risk appetite as set.

So, it would be important to state that when we see the risk profile of the group, it's for three years, when announced, it's measured and we stick to it during the period as planned. And within this framework, we navigate always with respect to the limit.

A - François de Varenne

And to the question on the investment. So, the first one on duration. So, we are still relatively shocked on the asset side compared to the liabilities which is good, again, in the context of increasing interest rate. We are more open today to take duration and to reduce duration gap within the USD-denominated portfolio where interest rates are increasing.

So, we do it very progressively. You have a next question of what we did. When we re-invest today, we re-invest at longer maturities. The average duration of the program we implemented in the first few days of January in U.S. corporate bonds an average duration of close to 8 years and we look an average yield of 3.6%. The current duration of our USD-denominated portfolio is 5.1 years.

As far as the euro-denominated portfolio is concerned today, we are waiting a little bit. The duration is much lower and we tend to privilege loans, which is a valuable rate (55:06) asset classes so, which will benefit in the future when the euro rates are going to shrink.

For your second point, is the 3.2% achievable? I would say yes, and that's the discussion on slide 17. With the improvement of the income yield, we have a flow of good news here that are sustainable. And if non-yielding asset classes such as the real estate with the investments of (55:40) equities do perform well. We can maintain our budget of realized gains in 2017. And we could be in the upper part of the 2.7% to 3.2% range for 2017, but also I think this is sustainable. In the current improved market conditions, it could be sustainable as well for 2018 and 2019.

Q - Anasuya Iyer {BIO 18981555 <GO>}

All right. Great. Thank you very much.

Operator

Our next question comes from Jonny Urwin from UBS.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, there. Jonny Urwin from UBS here. Just two questions from me. Thank you. So, firstly on the redeployment of liquidity in the investment portfolio. Just how should we be thinking about the pace of that? Because, I mean, you paused in November given the uncertainty around the U.S. election. Obviously, we've got few important elections in Europe coming up, and so how are you thinking about navigating that environment?

Secondly, just on the Solvency II ratio and the target range. I mean, just the optimal target range is 185% to 220%. I mean you're obviously now above that and has bit of excess capital over above the 220%. But I mean should we really be thinking about the target range is just being 220%? I mean because obviously, you could have done a share buyback today, the €200 million especially giving a line of sight on the SE structure sort of surplus and that would have – you still would have been well towards the top end of that range and relatively insensitive to certain macroeconomic fluctuations. So, how should we think about that? Thank you.

A - Frieder Knüpling

The implement of liquidity was as you mentioned it, we halted for two weeks the rebalancing strategy. That was very strong in Q3. And that was halted end of November and December. In the first two days of the January, we invested 1.7% of the portfolio so which means that liquidity today has reduced to 9 points. And you should still expect this level of liquidity to reduce to the target level of 5 points over the next few months and quarter and the end of the year.

What is key again is, also ability to have recurring financial cash flows on the portfolio on top of positive operating cash flows coming from the two divisions. This is illustrated on slide 17. We are almost 2% or 3% of the portfolio that is maturing each quarter over the next two years, so which means that we can capture all the increase if the market conditions are improving in the future.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay.

A - Mark Kociancic {BIO 17852409 <GO>}

On the optimal zone. So, we do have the optimal zone of 185% to 220%. And we do say that when we're inside there, exactly where we want to be, 185%, I think is not something you're going to see us pursue at something that is there in case of a shock event or extreme volatility from external factors. The 220%, I think that's probably a little bit too conservative. We would certainly want to be above 200% with respect to the solvency ratio and it could be anywhere between the 200% and the 220%.

You have to remember there is volatility that can occur on a quarterly basis, on an annual basis, and we've seen swings even from something like credit spreads from a year ago where we had a movement of 10 solvency ratio points within one quarter. That number manifested itself in the March 31 figures because the market corrected itself, but that type of volatility is quite apparent.

More importantly, we do view capital management, I think, on a longer view than just one quarter. So, we look at the growth potential of the franchises in Life and P&C over a longer term period, a three- to five-year period even in many respects. So, it's a nice place to be. I think the key message today is the underlying fundamentals of the group solvency and its profitability are very strong and that's why we're envisioning share buybacks in the near future.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

Operator

Our next question comes...

A - Denis Kessler {BIO 1498477 <GO>}

Sorry, I would like to just add – the objective is not to be at 220%. We say that we are above 220%, we'll redeploy capital. The objective is to be within the optimal range. So, 185% to 220% and we feel comfortable we're above 200%. So, it's just to say that we can measure the excess capital, the difference between 225% and 220% is €200 million. The objective is not to be at 220%. I mean, we're fine if it's at 210% or 215% or whatever. So, it's just an important statement just to say that we – just marginally (01:01:10). Very important point, which is said twice by Mark. Even three times now. We want to self-finance the growth as a group. It's very important for us.

I mean, – and therefore, there are some question marks about the growth rates, just because the markets are developing right now. We said it last September, and we're extremely blunt. We could see an acceleration of the P&C business. But we have margin to finance the development of the acceleration of the P&C business and do share buybacks. So, it's not a question about like it is or we can do both.

Now the timing, which is independent – we have more information about the, let's say, development of the P&C business in the coming months. So, what Mark has said is extremely important to understand how we do capital management. And we're in a good position because we can make arbitrage.

Next question please.

Operator

And we have Thomas Fossard from HSBC on the line.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning. I've got two questions. The first one is Life & Health rebusiness. Paolo, could you comment a bit more on the 2017 outlook? Obviously, 2016 has been very strong in terms of premium and margins. Maybe could you shed some light on how new business margins have trended into 2016 and what's the outlook for 2017 and basically what's you're expecting in terms of business trends?

Second question will be maybe for Mark. Have you made your mind regarding what is the kind of additional disclosure we're going to get with SFCR and QRTs in the coming months, anything that you would like to draw our attention to? And maybe one last question on the SIFI regulation. Any specific not explicit but implicit capital buffer, I mean, left in case of SIFI implementation, which potentially could be removed at some stage? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

See, what I said is the probability for SCOR to be qualified as systematically relevant or important is extremely remote. That's a good news, because if you are considered as potentially systemic, you will have to post additional reserves. You might have much more reporting to do and some sort of – so, it's an extreme positive news, which is not yet confirmed but it seems that the probability for SCOR to belong into this category is extremely remote to extremely weak today.

So, for those who wrote what we say, we've been arguing for years about the fact that the reinsurance industry is not systemic but anyway SCOR is not systemic. So, according to the news that we have and the information that we gather, it seems that this debate is lacking fuel right now and to the hot issue a few years ago, it seems that the regulatory pendulum is swinging in the other direction right now. We've been waiting for four years to receive the list of systemic reinsurers and the list has not been yet released.

So, then you'll see also that in U.S. there's, I would say an, important debate about systemicity for instance declaration of the new NAIC chairman against systemicity in insurance is certainly something to note. So, what I'm saying, we didn't put any reserves systemicity because we don't believe in the story. But in the meantime, I'm surprised that we are not likely to be considered as systemic. It means that we keep all the degrees of freedom we have, especially because we would not have to post additional reserves or to have additional reporting requirements. So it's for us, it's pretty good news, pretty good news. It's not a news by the way. It's a pretty good development, I would say, at this stage. Did I answer your question or...

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, you did.

A - Mark Kociancic {BIO 17852409 <GO>}

On Life, we have - Paolo is still happy to have a question on Life.

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

Yeah. Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

He is smiling and big (01:06:21).

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

Thomas, we had a very good 2016. As I said, both geographies and product lines. Protection market, on the protection line of business, we were up overall 6%. A very good underlying trend, some of our key core franchises that we're investing in Asia-Pacific, Mainland China is up 19%. If you look at Northern Asia, Japan and Korea were up 10%. Outside Asia, also, we had good successes in the Americas. We had Canada up 16%. Latin America made a big jump, got to around €200 million in premium, up over 50%. And even some traditional markets like Iberia, where we have a smaller protection business that was up about 13%.

So, the growth from the protection side was very well spread globally. Obviously, longevity was up significant. We ended up the year at around €700 million on a constant exchange rate that was about adding about €200 million with a strong Q4.

So, finished the year, very happy where we are and very happy with the trends we're seeing. I think we're going into 2017 with a strong level of comfort. We keep deploying resources in Asia-Pacific. The market keeps - it's being very buoyant in the region for Life protection business. We still see a good trend on the longevity market particularly in the UK, and I think we'll keep benefiting by the diversifying footprint that we have on smaller markets like in 2016.

In terms of margin, we're writing well above our RoE assumptions. So, we have business coming in well above the old 10% RoE assumptions that we have in our pricing models. So, we're very comfortable where we see the margins coming in. And on top of that, the in-force business has been doing very well in terms of results. So, overall, we feel confident going into 2017.

Q - Thomas Fossard {BIO 1941215 <GO>}

Anymore precise number in terms of gross premium expectations for 2017? And anything you have in mind regarding the change in the business mix regarding the technical margins of 7.0% for 2017?

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

Yeah. At this point, we don't expect the need to alter that number unless we find some sizeable transactions that are very profitable per se, but at this point, we have nothing in the pipeline. So, we don't see mix impact in that.

In terms of growth expectations, the assumption that we made on Vision in Action was a 5% to 6%, the way we're looking now in the outlook, we think we're going to beat that – we're going to be above that said assumption in 2017. But since it's the beginning of the year, it's tough to say by how much, but we definitely are going to be either at the higher end of that range or slightly above that.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thanks.

Operator

Our next question comes from Vikram Gandhi from Société Générale. Please go ahead, sir.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello. Can you hear me?

A - Denis Kessler {BIO 1498477 <GO>}

Yes, sir.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello. Yeah. Okay. Thank you very much. Congratulations on a good set of results. I've got two questions. First is on the sensitivity of Solvency II ratio with respect to interest rate movements. I see that has gone up to about 20 percentage points versus 15 percentage points last year. And maybe that is largely attributable to redeployment of liquidity. So the question is, would this increased sensitivity act as an impediment to further relooking the balance sheet? That's the first question. The second is really on the development around the issue with the CCR. Can you update us with your latest thought around that? Thank you.

A - Frieder Knüpling

On the sensitivity to interest rates, this is a function of both the sensitivity of our SCR and our own funds, because this is obviously ratio sensitivity, and mechanically because, you're looking at a ratio of 2:1 and the SCR has denominated the leverage from the SCR sensitivity is quite bigger. And also the SCR in itself is more sensitive to interest rates than our own funds.

So, the bulk of the interest rate sensitivity actually comes from our capital requirements and it's gone up because of a number of independent factors. Some of the model changes which we've made had consequential impact on interest rate sensitivities. We've improved the methodology to compute these sensitivities in itself and then there have been also a few secondary impacts of financial market movements. In particular, strengthening of the U.S. dollar and so forth.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

May I ask Romain Launay to say where we are with CCR?

A - Romain Launay {BIO 18747770 <GO>}

Hey, sir. Regarding CCR, you may have seen that CCR has spun off its commercial activities in a new entity called CCRE and you may also have observed that contrary to the CCRE per se tales, CCRE was not benefited from the same rating as the sovereign rating of France. So, we think that this development is a positive development for fair competition between reinsurers. The other side of this case was the opening up of the French net debt reinsurance markets. But, on that topic we are about to file a recourse before the Court of First Instance of the European Union with a view to obtaining opening up of this market.

But I would like to mention the fact that in our strategic plan, Vision in Action, there is no assumption that this market would open up. So, it can only be a plus if it does, but it's not at all factored in our strategic plan.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Romain Launay (01:13:32).

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you very much for the color.

A - Denis Kessler {BIO 1498477 <GO>}

It's a question of principle. CCR is a question of principle. Although, I say it, you want to operate in the market you have to do that in a fairway. That's it. It's a principle. This is not only for France; it's through around the world. And we belong to a few associations such as the Global Reinsurance Firm and we're at the same position, if the government wants to intervene on the market, it has to do that in a fairway.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Right.

A - Denis Kessler {BIO 1498477 <GO>}

Are there still some additional questions?

Operator

No. This will conclude today's Q&A session. I would now like to turn the call back to Mr. Ian Kelly for any additional or closing remarks.

A - Ian Kelly {BIO 19976646 <GO>}

Thank you. Just reminds me to say thank you very much for joining the call and good seeing you.

A - Denis Kessler {BIO 1498477 <GO>}

Bye-bye.

Operator

Thank you. This will conclude the call. You might now disconnect your lines.