Q4 2016 Sales and Revenue Call - Renewals

Company Participants

- Ian Kelly, Head-Investor Relations
- Victor Peignet, Chief Executive Officer-SCOR Global P&C SE

FINAL

Other Participants

- Frank Kopfinger, Analyst
- In-Yong Hwang, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Thomas Fossard, Analyst
- Vinit Malhotra, Director
- Xin Mei Wang, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Global P&C January 2017 Renewals 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'd now like to hand the call over to Mr. Ian Kelly, Head of Investor Relations. Please go ahead, sir.

Ian Kelly {BIO 19976646 <GO>}

Good afternoon, everybody. And thank you for joining us on this call. Before we start, could I please ask you as usual to consider the disclaimer on page two of the presentation. And with that, we can commence the call. And I give the floor to Victor Peignet, the CEO of SCOR Global P&C.

Victor Peignet {BIO 6287211 <GO>}

Thank you, Ian and good afternoon. The 01/01/2017 renewals are no big surprises. But they did have some interesting color, which I'll try to describe. The outcome for us is satisfactory. We retained and reinforced our position on good business and progressed as planned towards Vision in Action.

Before I comment on the results of these renewals for SCOR Global P&C, I'd like to say a few general words about how they went. First of all, the renewals were very late compared to prior years. Even very late for certain markets and clients, and definitely further delayed than in prior years. This was a reflection of the higher levels of uncertainty and unpredictability that prevailed at the beginning of the season. And everyone was wondering, how long and how far the stock market could go.

It was also a direct consequence of pressure from top management across all the links of the value chain from risk to capital markets.

Everyone in its own way was attempting to control expenses, while it's taking all feasible steps to maximize the ROE and reduce the volatility. Second important feature is that the negotiations were more difficult than in prior years. As there was a lot of pressure on everyone going into the renewal. And there was resistance to go first among both reinsurers and clients, so it took longer to get to positions of sufficient consensus for the first rounds of the placements to be kicked off.

Ultimately, leading reinsurers were more solid in their views than buyers expected. Many lead reinsurers indicated early in the process that they were not prepared to go beyond certain limits in order to secure orders. (02:47) in prior renewals they stood firm on their initial stances, this increase of resistance from the most technical and best equipped reinsurers has been the most encouraging sign during these renewals.

The overall market situation has not changed in the sense that there are still too many mouths to feed and too many market participants in the reinsurance sector to prioritize access to business over profitability. But what is important is the cheap reinsurance capacity has less and less of an impact. Less of an impact on buyers will understand that it is often not worth squeezing the last penny out of their reinsurers in a market where softening is clearly coming to an end.

We see more buyers already anticipating the next market phase and remaining leading reinsurers of their partnership approach. There is also less of an impact on buyers who are not only price driven, but also have to comply with increasingly tough capital rooms in which the AA minus rating has a real value.

So, in the end, a greater discipline could prevail and has prevailed. This clear attitude of the lean reinsurers also explains why mature markets has done better than emerging markets. Number of cedents from emerging markets place less value on the quality of their reinsurance panels. Their renewal panels have weaker security and less longevity in exchange for cheaper capacity and looser terms and conditions.

The third point worth mentioning is that SCOR received a high number of requests from clients for specific case studies around alternative solutions. Clients wanted SCOR advice on solutions to improve earnings stability, to optimize the use of capital, or to free cash for financing the development of the business when not sourcing it. Only a few sophisticated reinsurers can satisfy this increasing demand for what I would call financial engineering services, and SCOR is one of them. Although not all of these studies lead to new business, they did strengthen and deepen the relationship between SCOR and our clients.

Moving from these three main points to the results of the 1/1 renewals for us, I started off by qualifying them as satisfactory for us overall and well in line with Vision in Action. We went in those renewals with a clear mandate which was to deliver in line with the targets and the assumptions of Vision in Action, and we have done that. This is summarized in the slide 4 and 6 of the presentation.

Let's first have a look at the various performance indicators for the overall portfolio on slide 4. On the left side of the slide, premium growth is at the midpoint of the 3% to 8% range assumed in Vision in Action. It was a good balance between property and casualty and specialty line. The growth in property and casualty is U.S. (06:01) while the growth in specialty lines comes from credit, U.S. Cat, and agriculture.

The expected technical profitability of the portfolio is quasi stable, and the risk adjusted price valuation confirm that the reinsurance terms and conditions are firming up and the price decreases on the non-proportional and the proportional portfolio being both limited and equivalent.

Now, let's move to slide 6, and see the walk from the €3 billion premium that were up for renewal to the renewed premiums of nearly €2.3 billion. Main takeaway from this slide is the robustness of our portfolio, which is illustrated by the volumes of cancelled new business with existing clients and new clients, each of them are representing either portfolio management actions or business development.

The rest of the presentation follows the same format as our usual communication, and gives very detailed figures by line of business and by market. It is thus through the conclusion that is laid down on slide 16, which is that we do feel that we are on the right tracks to successfully implement the P&C part of Vision in Action.

During the Q&A session, we'll be happy to address any question you may have on these renewals and the presentation that has just been delivered to you.

Q&A

Operator

We will take our first question from In-Yong Hwang from Goldman Sachs. Please go ahead.

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

Good evening. Thank you for taking my question. My first question is around your kind of growth target for Vision in Action obviously is quite wide range 3% to 8%. Just wondering from, obviously, it's still very early days, do you have a sense of whether the market is living closer to the 3% or the 8% and then the synergy you outlined at the Investor Day last year?

Second question is around the U.S. large deals, which drove a lot of the growth there. Could you talk a bit more detail about the motivation behind that? I think you mentioned this is going to stabilizing earnings, capital optimization. But I was just wondering if there's anything U.S.-specific related to growth? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, regarding the range, well, the range represented the uncertainty in the market going forward. I think that the uncertainty is now shifted. But as you can see we are in the middle of it, which we feel that in current circumstances is a pretty good performance. I repeat goals is not a target, it's an assumption. And we have taken this assumption of 3% to 8%. We have also said that while towards the end of this year, we would hopefully be in a better position to narrow the range. At the moment, I would only say that, come out of the renewal with bit more than 5% growth, and with that sort of performance indicators on an expected basis, is satisfactory, definitely.

Regarding the large deals, while it's a combination of a determined effort that our organization has been putting into market towards clients on a very focused basis. And while basically either of consolidation of programs, reshaping of programs or I mean new placements, I mean those large deals things that come and go, difficult to predict them, it take quite a bit of time to get to the level of comfort that is necessary to sign them and negotiate them. I think we told you that in Q2 and Q3 of 2016, and our growth rate was below what we expected. But we were confident that they were in the pipeline and they would come. Obvious to see that, see it happen at 1/1 and it happened also in November, that is not in the 1/1.

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

Thank you very much.

Operator

We will take our next question from Thomas Fossard from HSBC Bank.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good evening, Victor, two questions. The first question from me will be on the Cat appetite of the group in 2016, has this changed compared to 2015 and can you be a bit more precise in how much offshore capital would like to deploy in Cat in 2016?

And the second question would be, with the type of price changes that you're reporting tonight and with the business consult which I guess is not fully - were not fully profitable, what kind of impact do you expect on the 2017 full-year combined ratio reported? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think assuming that the rest of the year would have the same behavior for us, and again, I insist on the fact that, well, this is thanks to quite a bit of portfolio management and client relationship management, so you can appreciate that we have been through 2016 at what we call the normalized combined ratio a bit above 94%. That sort of very limited deterioration in the expected technical profitability, you could consider or we consider ourselves and the portfolio today stays basically where it has been; marginally deteriorating, but very marginally.

So I think (12:28) for the moment, we are in a way ahead of the assumption of Vision in Action. But that's what we can say after the 1/1, and the 1/1 is about 65% of what we do in a year.

Regarding the Cat appetite, well, I think we still growing a bit our Cat book in the U.S., but it's not really a Cat appetite, it's just the client approach, whereby if you approach a client on a global basis, as we look at the Cat program, as we look at the casualty program, as we look at some of the specialty lines. So I think, yes, our Cat commitments in the U.S. are increasing, because our portfolio is increasing. But if you look at the net appetite of the company, I mean we have adjusted our requisition accordingly. So I would believe that we are still in kind of the medium appetite for Cat, and most probably, with a lower exposure in relation to basically the lead venturers in the market.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. (13:40).

Operator

We'll take our next question from Mr. Frank Kopfinger from Deutsche Bank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes, good evening, everybody. I have two questions. My first question is on, again, on U.S. growth, can you shed some more light into this? And whether you see yourself being significantly ahead of your original targets? And related to this, on the casualty business, can you comment a little bit more on the lines of casualty that you'd take up with this casualty growth?

A - Victor Peignet {BIO 6287211 <GO>}

Well, half of the growth that we are showing coming from the U.S. is due to the large deals, the rest is due to the deepening of the portfolio. We have already explained that we have about 200, 200-plus clients as a target list. Well, our team is working with those clients, and basically, the response of those clients to the sort of global approach that we are proposing and was basically to the quality of the services that we are providing, has been extremely encouraging. But we are on track with Vision in Action.

We are very pleased with the response, in general, of the clients. But we also are confused that, I mean we need to be patient and we need to be determined and we need to prove ourselves. And I think that's what we're doing. So, nothing, not behind, not ahead, but right on track, and very satisfied the way it has developed. And quite confident that it's going to continue to develop along the same way.

Regarding casualty, I mean it's important for us while we build the portfolio, so we need - it's like a ship, you don't put weight above the water unless and until you have sufficient balance. So, we are building the portfolio with that consciousness that we need balance. We need solid business with relatively low volatility and we need a mass of that, and at the same time, you can accept more volatile business in proportion, so that you keep the balance within the casualty. And you also keep balance overall in the book we know that even well priced casualty was expected on the writing ratio at good levels. As we know that the reserving policy and the pattern of release of the profits will be slower. And what it is for short tail business having exactly the same expected profitability.

So, we need to combine the two and we need to make our portfolio of short tail profitably grow at the same time as we grow casualty. So, that we are not unbalancing, basically the cash flow pattern, the release of the profits. And so, it means that our growth in casualty is in a way depending on our growth short tail end (17:10) of business in the U.S. and globally.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Could you name some specific lines that you take with this, or if is this a highly diversified U.S. casualty portfolio?

A - Victor Peignet {BIO 6287211 <GO>}

It is diversified, because first of all a lot of clients now are bulking their general liability and their professional liability into the same program and within professional liability, yes we want to have a good diversification. So, it's not a particular casualty line, but its casualty spread across the different sub-segments.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thank you.

Operator

And we'll take our next question from Kamran Hossain from RBC Capital Markets.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Evening, everyone. Just one question on I guess the Vision in Action combined ratio assumption. Obviously it's 95% to 96% and you've reaffirmed that today. But only based on what you said at the Investor Day that some of that was around awaiting in the, I guess, in the proportionate business from long-tail lines. If I do really rough kind of calculation on your treaty business at the 1/1 renewals, it seems like actually short-tails increased, longer-tails shrunk. Is that still - is it still the aim to grow longer-tail lines relative to shorter-tail? Any color around that would be really helpful. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I would disagree with the statement that short-tail increased and long-tail shrunk, I don't think so. But we'll show you some pictures when we publish 2016, and you will see that yes the long-tail gradually increases, but at the moderate pace in relative when we are growing long-tail.

Even though we are not growing long-tail, well out of reason, and we are growing long-tail with all the constraints that we have imposed onto ourselves to keep the combined ratio within the range, overall.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay. Yeah. Maybe I'll follow-up offline with IR, it's probably my math, victor. But I just wanted to look at the treaty business, it seems like property and (19:41) service, I'll follow up offline.

Operator

Our next question comes from Vinit Malhotra from Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. Thank you. Good evening, everybody. Just so on the slide number 9, I see motor non-proportionate pricing up 3% and from the traffic light slide, I can see that it's mostly U.S., which you consider to be the green light. So, if it is a fair assumption that, I mean, my question really is that in the U.S. we are seeing a lot of claims inflation in motor, because of distracted driving, et cetera, et cetera. Is this 3%, you're happy with it? You're happy with the claims inflation and (20:24) U.S. to start with even that is driving some of this price change? That's the first question.

Second is just a quick clarification, Victor, slide 4, and I'm sure I'm missing something here, but when I read slide 4, I see the technical profitability to decline by minus 0.3 percentage points. But then on the right hand side I see a minus 0.7 percentage point improvement. Are you trying to say that that's because of the portfolio action? Maybe I'm misreading it? Sorry.

A - Victor Peignet {BIO 6287211 <GO>}

On the right side you don't see minus 0.7 percentage points, you see 0.7 percentage points. Let me explain you. I mean, overall, at the end of the renewal, the business that has been renewed shows an expected profitability, technical profitability that is 0.3 percentage points worse than what was the expected profitability of that business when it came for renewal. So, take an example, if the loss ratio plus commission ratio of that business was 89%, it would be 89.3%, right?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah.

A - Victor Peignet {BIO 6287211 <GO>}

Okay. But now in order to achieve that we have managed the portfolio. And thanks to the management of the portfolio, we have avoided a further deterioration of 0.7 percentage points.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. That's very clear (21:54).

A - Victor Peignet {BIO 6287211 <GO>}

And if we did not have managed the portfolio, we would have (22:01) deterioration of 1 percentage points, yeah. And we only have deterioration of 0.3 percentage points.

Q - Vinit Malhotra {BIO 16184491 <GO>}

That's very clear. Thanks.

A - Victor Peignet {BIO 6287211 <GO>}

Yeah. We have introduced, well, we have been logging those portfolio management actions for the past few years, and we have even refined a bit now the way we keep track of those. So that's why we're able to produce that sort of figure directly from the pricing.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And then on the U.S. side?

A - Victor Peignet {BIO 6287211 <GO>}

Regarding the motor, we're not a writer of tracking business in the U.S., not at all. So that - this non-proportional motor is basically coming from European peers, again for the book that we have renewed, which is relatively small. But nothing to do with the U.S. in there.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. All right. Thank you very much.

Operator

We will take our next question from Xin Mei Wang from Morgan Stanley. Please go ahead. Please go ahead, your line is open.

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

Hello, can you hear me?

Operator

Yes, we can.

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

[Technical Difficulty] (23:28 – 23 33). Just on that, how long is the lead time for that business that you have the visibility up from the pipeline there? And how much of the book is made up of that? And then my second question is quite a general one on the renewals. So I think you can talked about [Technical Difficulty] (23:52), just wondering coming after the renewal season, how are you thinking about the shape of pricing going forward? Is it sort of end of [Technical Difficulty] (24:05) or it will stay more positive in terms of thinking about possible price increases in the near term? So just comment on the general trend. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, the line was pretty bad, but I figure out that you were talking of lead time of large deals in the first part of your question. Well, it all depends what – if it is a consolidation of portfolio, which means that the client had different reinsurance programs, and they consolidate into one, and they make it in some cases multi-year for whatever reason. But then (24:45) this is a relatively short say few months and depending on now the complexity of the overall, but it requires certain amount of due diligence, so I think we have a few months.

If it is capital management or if it is basically freeing cash flow from the balance sheet, so if it has got to deal with cleaning of the balance sheet and improvement of the overall, while this can be much longer. It can be nearly a year, I would say, that's part of the strategic thinking process within the company. So it takes longer and it can be – it can even die and revive a bit later. So, yeah, (25:40) longer time. And you are talking in that case of (25:43) ratio which are relatively low.

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

Okay. Thank you. And the second question about the comment on the softening coming to an end, I mean, how do you see that? Is that a slowdown in softening or do you see potential for prices increasing in the near-term?

A - Victor Peignet {BIO 6287211 <GO>}

I think what I've tried to explain is that these renewals have demonstrated that there is a stabilization of the market, whenever the clients are keen to keep quality in the reinsurance panel, and are keen to be the leaders that are among the lead reinsurers and this is demonstrated in the figures. That stability today doesn't exist in a number of emerging markets. We have one client or less in a way driven by the security of the reinsurance panels or by the services that they can get from their lead reinsurers.

What I would hope first is, well that it we would go from further stabilization in metro markets, we did that. And secondly, what I also hope is that in a number of those emerging markets, the situation would get back to normal. I mean, a number of those markets today are technically not profitable and I think that those are situations that cannot survive forever.

So, I hope that the discipline that the leaders in the markets have demonstrated during their renewals will lead to, yes, first stabilization and then while improvements in markets that deserve to really be re-priced and to have terms and conditions more in line with technical requirements.

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

Okay. Great. Thanks very much.

Operator

We'll take our next question from Mr. Michael Haid from Commerzbank.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much, good evening. Just one question regarding financial engineering, the large quota share transactions, which presumably comes at a lower margin. I try to find out how much of your premium growth of 5.4% actually comes from these financial engineering contract.

So can you give us some light on how much of the €3 billion up for renewal contained premiums from financial engineering contract, and how much of the €3.2 billion outcome are from the large financial engineering contracts?

A - Victor Peignet {BIO 6287211 <GO>}

Well, let's be clear about what I call financial engineering contracts. We are – I'm not speaking here of quota share with very low margin.

Q - Michael Haid {BIO 1971310 <GO>}

Okay.

A - Victor Peignet {BIO 6287211 <GO>}

That's not what I'm talking about. So if you're referring to that sort of quota share that used to be the picture of certain markets, well that's almost I would say none of it is coming from that.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. And those as surplus relief contracts or whatever else multiyear contract, they have – in your case a very good margin on the premiums, and I know that they have – if they come at low margin that the risk capital which you have to put aside for this contract are also very low. So to this financial engineering contract, asking differently, do they destroy your margin?

A - Victor Peignet {BIO 6287211 <GO>}

No. Not at all.

Q - Michael Haid {BIO 1971310 <GO>}

Okay.

A - Victor Peignet {BIO 6287211 <GO>}

I think when I said financial engineering, I want to address cases where our clients are interested to look at certain lines of business or certain parts of their portfolio, in order to see whether why we're putting up reinsurance contracts while they can basically improve the way they manage their capital and enhance their ROEs, while this is not a regulatory arbitrage, it's basically improvements of the capital utilization, which is totally different.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. Fantastic. Thank you very much.

Operator

And we'll take our next question from Thomas Fossard.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yeah. Thanks. Just one question, two question related to brokerage. One is, have you noticed any change in the level of commissions you have to pay to brokers this time around? And the second question related to your previous comments regarding, I would say matured markets moving to stabilization mode. Are you seeing as well a change in tactics here from brokers compared to the past? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think as we said in one of the slides, there is definitely a stabilization of the commission. We are not seeing the commission increasing at this renewal (31:30), basically coming out of the renewal at the level of commission we had when we went in.

Q - Thomas Fossard {BIO 1941215 <GO>}

But, Victor, you are talking of the commissions on the proportional contract?

A - Victor Peignet {BIO 6287211 <GO>}

Yes. But on the non-proportional (31:49).

Q - Thomas Fossard {BIO 1941215 <GO>}

No, no, no. I was saying there more, but your distribution cost are easy, the commissions of the fees you are paying to your brokers to get the business, to access the business?

A - Victor Peignet {BIO 6287211 <GO>}

Don't see any - don't see any real - don't see any movement in there.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Okay.

A - Victor Peignet {BIO 6287211 <GO>}

I think, it was mentioned.

Operator

That concludes today's question-and-answer session. Mr. Kelly at this time, I'll turn the conference back to you for any additional or closing remark.

A - Ian Kelly {BIO 19976646 <GO>}

So thank you very much for attending this call. Our next event will be the presentation of the 2016 full year results on the 22nd of February. And it just remains for me to wish you all a very pleasant evening.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.