Q3 2019 Earnings Call

Company Participants

- Denis Kessler, Chairman of the Board and Chief Executive Officer
- Francois de Varenne, Chief Executive Officer of SCOR Global Investments
- Ian Kelly, Head of Investor Relations
- Jean-Paul Conoscente, Chief Executive Officer of SCOR Global P&C
- Knupling Frieder, Chief Risk Officer
- Laurent Rousseau, Deputy Chief Executive Officer of SCOR Global P&C
- Mark Kociancic, Chief Financial Officer
- Paolo De Martin, Chief Executive Officer of SCOR Global Life

Other Participants

- Andrew Ritchie, Analyst
- Avinash Goel, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Thomas Fossard, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group Q3 Results Conference Call. Today's call is being recorded. There will be an opportunity to ask questions after the presentation. To provide all participants an opportunity to place a question, please kindly limit your number of questions to two questions.

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

Ian Kelly {BIO 19976646 <GO>}

Good morning everybody and welcome to the SCOR Group 2019 third quarter results call. I please ask you to consider the disclaimer on Page 2 of the presentation, which indicates that the financial results for the third quarter 2019 included in the presentation are unaudited. With this, I would like to give the floor to Denis Kessler, CEO and Chairman of the SCOR Group, who is joined on our call today by the entire COMEX team. Denis?

Denis Kessler {BIO 1498477 <GO>}

Thank you, Ian, and good morning, everyone. The SCOR records a solid performance in the first nine months of 2019. On a year-to-date basis at the end of Q3 2019. SCOR is achieving the solvency target and outperforming the profitability target of its new strategic plan Quantum Leap, despite the challenging conditions of the insurance and reinsurance industry faced in the third quarter marked by three factors. First, an elevated natural catastrophe activity through this two major events, hurricane Dorian in the US and in the Bahamas and Typhoon Faxai or Faxai in Japan. I'll let you chose between the two way to pronounce it. Second a series of significant man-made P&C claims worldwide including notably satellite losses, refinery fires, a major travel group failure and 40 construction claims. Finally third factor, the low yield environment with interest rates even fell further in the United States in particular.

SCOR has successfully navigated through these headwinds, once again demonstrating the resilience of its business model and its shock-absorbing capacity. The beauty of our mission as a reinsurer is to provide security and to safeguard the resilience of economies and societies impacted by those shocks.

SCOR once again completed its mission while managing to deliver a good set of results. The strong performance bears witness of the relevance of the recipe, which will be consistently applied over the years. Needless to remind you, the four cornerstones that allow SCOR to absorb shocks and to create value. First a reactive risk management policy; second, strictly controlled risk appetite; third high diversification; and finally, a robust capital shield policy.

Lets move on to Slide 4, SCOR has consistently delivered strong P&C and Life technical profitability with low volatility over the years. You see on the left, the evolution of SCOR's quarterly P&C combined ratio and Life technical margin from Q1 2006 to Q3 2019 included, representing 55 quarters. Over these 55 quarters, the combined ratio has been strictly below 100% in 9 cases out of 10. The third quarter of 2019 falls in this category with a quarterly combined ratio of 99.4% in spite of the large series of catastrophe and the industrial events.

You see on the right the distribution of the reported quarterly return on equity on the same time period. As expected, the volatility of SCOR's profitability as a Group level is even lower than that of the P&C combined ratio, thanks to the additional diversification benefit with life underwriting risks and investment risks. The Natural volatility in the P&C combined ratio is mitigated by the higher stability of the Life technical result as well as return on invested assets. Thanks to this optimal diversification, SCOR consistently delivers results in line with the strategic objectives. Over the last 55 quarters, the ROE has exceeded 4% in 93% of the cases. Again, the third quarter of 2019 falls in this category with a quarterly ROE of 7.5%. I repeat quarterly ROE. These charts concretely illustrate how SCOR successfully manages to generate regularity from a raw material made of shocks and large risks.

Let's move to Slide 5. SCOR continues to expand and deepen its franchise, in particular, both on P&C in the US, the largest market in the world; and on Life in Asia Pacific, writing altogether more than EUR12 billion of gross written premiums in the first nine months of 2019. This is an increase of 3.2% at constant exchange rates compared to last year, mainly driven by the strong growth of SCOR Global P&C of 11.5% resulting from successful renewals in an improving environment. The SCOR Global Life growth of minus 2.5% at constant exchange rates reflects Financial Solution deals renewing its fees as you know. If this renewed its premium on a like-for-like basis with last year, SCOR Global Life growth would stand at 3.8% and the Group overall growth would beat 7% at constant exchange rates again. The Group definitely expands its footprint.

The profitability is strong with a net income of EUR401 million year-to-date at the end of Q3 2019, translating into a return on equity of 8.8% or 816 basis points over the five year risk free rates slightly above the Quantum Leap profitability targets. The technical profitability of the business engines in the first nine months of 2019 is strong with a robust P&C net combined ratio of 95.7% in line with the 95% to 96% assumption of Quantum Leap, a strong Life technical margin of 7.2% and a return on invested assets of 3%. Meanwhile, the solvency ratio is in the optimal range standing at 203, 203% at the end of September.

The Group's capital generation has been strong, but unfortunately partially offset by the impact of market movements since the beginning of the year, particularly the decrease in interest rates, which is the main driver of the reduction in solvency. Hence SCOR successfully navigated a high level of claims in the third quarter combining disciplined growth, strong profitability and robust solvency.

I will now hand over to Mark for the detail of the third quarter financials. Mark, the floor is yours.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis, and good morning, everyone. So let's begin on Slide 5, and I will walk you through the main financial highlights of the quarter. In the first nine months of 2019, SCOR underwrote just over EUR12 billion of gross written premiums, representing a 6.3% increase over 2018 at current exchange rates, or 3.2% at constant exchange rates. SCOR Global P&C grew at 14.7%, while SCOR Global Life by 0.7%, both at current exchange rates. SCOR Global P&C delivers a net combined ratio of 95.7% in spite of heavy loss activity in the third quarter.

The combined ratio includes a cat ratio of 7.6%, just over the budget of 7%, and benefits from 1.4 percentage points of reserve release. The Life technical margin is strong at 7.2% in line with the Quantum Leap assumption and benefits from the positive impact from financial solution deals being renewed since the beginning of the year as fee business.

Finally SCOR Global Investments delivered a strong return on invested assets of 3% supported by recurring yield of 2.6% and realized gains of EUR43 million in the quarter largely coming from the real estate portfolio. Overall, SCOR's net income for the first nine months of 2019 stands at $401 million, up 17.3% compared to 2018. This translates into a return on equity of 8.8%, and this is above our Quantum Leap profitability target of 800 basis points above the five year risk free rates.

The solvency position stands at 203% at the end of the quarter, and in the optimal range of our solvency scale. The positive capital generation for the year, which is in line with our expectations, has been more than offset by significant market movement from the reduction in interest rates in an estimated 21 percentage points. Despite this, the solvency ratio remains in the upper part of the optimal range.

Moving on to Slide 8, SCOR has seen a strong growth in its book value over the first nine months of 2019. After dividend payment, our shareholders' equity increased by 11.3% compared to fiscal year 2018 to reach EUR6.5 billion. This is largely driven by net income of EUR401 million recorded in the first nine months of 2019, EUR374 million of positive impact from revaluation reserves and EUR249 million of positive impact from currency translation adjustment, largely due to the strengthening US dollar. Overall, this corresponds to a book value today of EUR34.71 per share, up from EUR31.53 at year-end, the financial leverage has decreased by 2.4 percentage points since the beginning of the year and stands at just above 25% in line with our Quantum Leap assumptions.

Let's move on to Page 9, SCOR generated EUR572 million of operating cash flow in Q3, 2019. SCOR Global P&C's cash flow is robust, despite the claims payments from the 2017 and 2018 cat events. SCOR Global Life cash flow reflects volatility of claims payments and seasonality in client and tax settlements as we noted last quarter. Overall, the total liquidity of the Group is very strong and stood at EUR2.1 billion at September 30th.

Let me now hand over to Jean-Paul who will present the results of SCOR Global P&C.

Jean-Paul Conoscente {BIO 20770277 <GO>}

Thank you, Mark. The third quarter of 2019 has been challenging for the market and for SCOR Global P&C. This quarter growth is still fueled by a strong second half 2018 renewals in the US as well as from the successful first half of the year 2019 renewals. On a year-to-date basis, our premium growth is 11.5% at constant rate of exchange. We expect the premium growth rate over the entire year 2019 to finish in around the same level. This reflects market opportunities we dynamically seized in the first half of 2019 with share increases both on programs where underlying metrics were improving, as well as opportunities following merger and acquisitions and other market movements.

And profitability, the SCOR Global P&C nine-month results remain robust despite three concurrent, but different phenomena affecting the global market in the third quarter. As Denis mentioned a heavy cat burden resulting in the cat ratio of 7.6% for the year-to-date, slightly above our 7% cat budget driven by the contribution from Typhoon Dorian and Faxai respectively EUR92 million and EUR89 million. We're the fifth largest reinsurer in the Caribbean and the fourth largest reinsurer in Japan and these impacts are consistent with our market share. Both the Caribbean and Japanese markets are known for their loyalty and short payback periods. We are, therefore, confident in our ability to recoup of these -- on these events.

Second phenomena is the heavy man-made losses with an above average number of man-made losses including credit & surety losses, involving the insolvency of Thomas Cook. A number of space claims, including the Falcon Eye satellite launch loss and a few unrelated number of sizable US casualty claims on the SCOR Business Solutions portfolio. There is also the impact of the Ogden rate change for EUR13 million pre-tax going from an interest rate of 0% to minus 0.5%.

The last phenomena is an adverse attritional environment. We're closely monitoring attritional loss ratio trends. A recent data released by the American P&C Insurance Association for the first half of 2019 show a trend of deteriorating results for the US market by 1.3% of combined ratio despite the price increases seen at the first half renewals.

We believe that this is the result of two factors. The price increases seen in 2018 and 2019 has not been sufficient to bring profitability to a sustainable level across most lines of business, and therefore more increases are required in 2020 and beyond. The second is the full impact of the price increases in '19 have not yet fully flown into the financial figures.

These trends drive essentially the increase of the attritional combined ratio from 79.2% in 2018 to 81.3 in 2019. Bearing in mind that reserve releases at the end of Q3, are similar to the ones at the end of Q3 2018. To partially balance these higher than usual cat and man-made losses, we have made reserve release of EUR60 million net. These reserve releases amount represent less than 0.5% of Global P&C's net technical reserves, which at the end of Q3 stand at EUR13..5 billion.

Year-to-date, our reported combined ratio stands at 95.7%, still within the vision and action in Quantum Leap assumptions. On a normalized basis our year-to-date combined ratio stands at 96.2% slightly above our 95% to 96% range.

And other metrics of technical cash flow remained strong, as mentioned by my Mark at EUR430 million this quarter and EUR586 million year-to-date. Overall this claim heavy quarter should remain a positive pressure on rating environment ahead of the January 1st renewals, during which we will be focused on improvement of our margins. As our business is largely proportional, we'll benefit from the continuous hardening primary insurance market, and we expect also improvements in the reinsurance pricing in terms of the same.

I'll now pass the floor on to Paolo for the Life.

Paolo De Martin {BIO 15930577 <GO>}

Thank you, Jean-Paul. Scor Global Life delivers a strong start to our Quantum Leap plan. In particular, we are successfully combining franchise development in Asia and strong profitability. We're deepening our impact and accelerating value creation, particularly in Asia where we're delivering on our strategy by addressing a large protection gap through innovation. The first nine months of 2009, as you've already heard from Denis and Mark, SCOR Global LIfe has recorded gross written premiums of EUR6.7 billion. This is an increase of 0.7% at current exchange rate and a slightly -- slight decline of 2.5% at constant exchange rates compared to the same period of last year. As in previous quarters, this variation is largely driven by certain Financial Solution transactions, which have been renewed as fee business rather than as premiums since the beginning of the year.

As you may remember, on these deals we're now recording similar amount of profits and no headline premiums. On Appendix page 29 of the presentation, you will find detailed numbers. Excluding these transactions, we have grown by 3.8% at constant exchange rates, driven by positive business development growth in Asia and North America. Overall, the premium growth is in line with our Quantum Leap assumptions of 3% to 6% over the cycle. And this translates for 2009 [ph] in an expected normalized growth rate of somewhere between 3% to 4%.

On the profitability side, the technical result is strong and stands at EUR453 million for the first nine months. The new business underwritten continues to be above the Group ROE target and the in-force performance is solid with US mortality claims roughly EUR110 million higher at constant exchange rate and pre-tax than in the same period in 2018, balanced by active portfolio management and strong reserve position. This has improved slightly from EUR130 million we disclosed in the first half of 2019.

The technical margin stands at 7.2% for the first nine months of 2019, the renewal of Financial Solution deals as fee business adds about 40 basis points to this metric. As mentioned in the beginning of my presentation, on these deals, we're now recording similar level of profit on lower headline premiums.

I will now hand it over to Francois for detail on our investment performance.

Francois de Varenne {BIO 7447858 <GO>}

Thank you, Paolo. SCOR's Total Investment portfolio reaches EUR28.5 billion at the end of September with an invested asset portfolio of EUR20.3 billion compared to EUR19.5 billion at the end of June. The Portfolio positioning reflects the current level of uncertainty and financial market and asset allocation choices defined for the Quantum Leap plan. Liquidity stands temporarily at 9% of the invested assets above the 5% that we would target to invest in [ph] certain market conditions. The share of corporate bonds is stable compared to last quarter at 44%, about 4 points below allocation at the end of 2018.

And the fixed income portfolio remains at very high quality with a stable average rating of A+ and the duration of 3.6 years, and highly liquid with financial cash flows of EUR7.1 billion expected to emerge from the investment portfolio over the next two years. Since the beginning of the year, our income yield stand at 2.6% of a period of theoretical reinvestment rate, excluding future capital gains, stand at 2% at the end of September in a lower interest rate environment.

As announced previously SCOR Global Investment has initiated the disposal program of mature real estate assets. Two buildings were sold during the third quarter, generating capital gain of EUR34 million. This brings our income on invested assets to EUR434 million since the beginning of the year, corresponding to a return on invested assets of 3%. And our market -- and our current market condition, we maintain our expectation of an annualized return on invested assets in the 2.7% to 3% range for the full year 2019.

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

Ian Kelly {BIO 19976646 <GO>}

Thank you very much, Francois. On page 13, you will all find the forthcoming events scheduled for February next year, including the P&C January renewals call and the SCOR Group 2019 full year results presentation. Also you can see the upcoming conferences, which we are planning to attend during the remainder of this year and the start of next year.

So with that, we can start the Q&A session. Thank you.

Questions And Answers

Operator

Thank you, Mr. Kelly. (Operator Instructions) Our first question today comes from Jonny Urwin from UBS. Please go ahead, your line is open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there, morning. Thanks for taking my questions. So one on the man-made, one on that cat, please. So on the man-made losses, so the normalized combined ratio is a bit elevated in Q3, so 97.5%. Can you quantify how much of that is driven by man-made, please? And then on the net cat, so based on your loss estimates for both Faxai and Dorian, it looks like you pointing to about EUR6 billion sort of market share losses for each. Is that a fair, or has the retro already kicked in which lowers your net loss and is there any retro protection for Q4? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

On your first question, so the attritional loss ratio for this -- for year-to-date is about 2 points higher than last year. On a quarterly basis, we have a normalized combined ratio slightly higher than our 96%. This has happened three times in the past and we still managed to bring the combined ratio within the expected range. We think this will be a similar story for this year. The relative to the cat ratio, this is an average over the last 10 years of cat. '17, '18 have been heavy, '19 third quarter has been heavy, but the beginning of the year was relatively light. So again, we believe our 7% cat ratio is solid. And as a reminder, we increased it from 6% to 7% at the beginning of 2019.

And on the attritional side, we don't expect this level of man-made losses to occur every quarter. So again, we believe our target normalized combined ratio of 95% to 96% still holds. The second question...

Q - Jonny Urwin {BIO 17445508 <GO>}

And that was two points higher in the quarter, right and not year-to-date?

A - Mark Kociancic {BIO 17852409 <GO>}

Two points higher in the quarter, yeah, at the year-end.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah. Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Relative to the cat events, in terms of market loss, we -- I think we paid Dorian slightly lower than your number and same for Faxai. On both we have some retro that is playing for us. We have some proportional retro in Japan, which provide some relief and a limited amount of retro on the Caribbean loss.

And then for your question regarding the rest of the year, we haven't effected our excess of loss retrocession, which remains intact and the proportional retro we have in place remains intact as well.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Brilliant. Thank you.

A - Laurent Rousseau {BIO 19524847 <GO>}

Jonny, just one -- just one word on -- it's Laurent on the man-made, while we've guided so far is that our man-made experience was pretty close to the cat budget. If you look at sort of 7%, if you look on the nine months 2019, we're not far off. Q3 was an (Multiple Speakers) but on nine months is closed.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. Thanks very much, Jonny. Let's move to the next question.

Operator

Thank you. Our next question comes from Andrew Ritchie from Autonomous. Please go ahead, your line is open.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. I wonder if you could just give us some color as to your exposure to some of the particularly pressured areas in the US casualty right now? I appreciate SCOR is a small player in the US casualty market, but you have grown that book from a small base fairly significantly. And I think some of the claims issues you've seen have been on casualty related areas. So maybe just give us some color on, yeah, is there a further rethink, I mean, the impression you're giving is that you're not very happy with the attritional experience and some of is man-made, but some of it might be other [ph], maybe you are saying some of these casualty effects coming through.

And my only other question related to the SCOR Business Solutions, there has been some commentary in the trade press in France apparently SCOR has been communicating the trade press indicating a change of strategy for channel, particularly purchasing of reinsurance for legacy books, closing down legacy books. Can you give us some color on what has been decided? It sounds like you've moved on in thinking from the investor day. Thanks.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Yes. I'll start with the question on US casualty and I'll let Laurent reply on the SBS and channel. On the US casualty, we have two portfolios. One is a treaty portfolio, the other one is SCOR Business Solution portfolio. The larger portfolio we have is on the treaty side. We write a large number of segments on casualty on the treaty basis, man-made D&O, E&O, general liability. Two lines of business that we don't write at all. One is commercial auto. The second one is workers' compensation. These are the two lines of business that experience most of the difficulties for our competitors and our clients over the past years. So these are two lines that we've avoided.

On the other lines, we're seeing similar trends than the rest of the reinsurers and our clients. But the big difference is, we've been very cautious in growing our casualty book. We still predominantly property driven in the US and so even though we see these effects on our portfolio, the effects from a reserve point of view is -- has been negligible, and we are -- feel we're still adequately reserved from the US casualty point of view.

From a pricing point of view of the business going forward, we see that the price increases achieved in '18, '19 are just keeping up with the loss trends. And this warrants additional price increases in 2020 both on the insurance side and the lowering of commissions on the reinsurance side.

Laurent, do you want to take the insurance cat [ph] question.

A - Laurent Rousseau {BIO 19524847 <GO>}

Sure. There are actually a few questions. So let me take them one by one. On SBS, so the large commercial lines insurance and fact [ph] book. Here there is an acceleration of the rate increases led by property, led by onshore energy and here the growth is very satisfactory. We are taking advantage of that to prune the portfolio. So we as well reduced some pockets, but all in all, the SBS story is indeed in line with what we presented in September.

I would say it is the same for channel. And here there are few points. The reinsurance to close deal which is not an announcement we've made, but which was reported by trade press, refer [ph] I think is very consistent with our view on the profitability of the book and that we need to concentrate our resources, capital and management attention on the Life book and the future growth. So here, I think it's a focus on profitability, which has always been the case for channel over the past 18 months with a number of actions that we took. That's point 1.

The point 2 on channel is, yes for the business planning exercise. While here we have a slight decrease for 2020 and this is mixed between the single risk insurance, political risk, environmental liability, which are similar trends than SBS. So pretty positive trends and we're doing very well there. We are leading in those lines and where clearly we are taking a more prudent stance on the property lines at Lloyd's, whether it is single risk GNF [ph] or the binders. But all in all, I would say that the story is very similar to what we've presented at the Investor Day, where we refocused channel on profitability and on another business, our specialty and where we can need it.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

And just one final comment on the attritional is, it's primarily driven by man-made losses and not by deterioration necessarily of the rest of the portfolio, especially in the US casualty part.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thank you.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks very much, Andrew. We go to the next question please.

Operator

Our next question comes from Kamran Hossain from RBC. Please go ahead, your line is open.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning. One question, probably with a couple of thoughts, when I look at, I guess, full-year consensus of EUR572 million, what you've achieved year-to-date was EUR401 million, (inaudible) a pretty strong Q4. Could you maybe talk a little bit in that respect, just around the outlook for realized gains in the fourth quarter?

And then secondly on, I guess, some thinking around Typhoon Hagibis, and you know what impact this might have, If it is just and look like a normal quarter or to that like still bit worse. So just some thoughts on how we bridge the kind of EUR401 million to EUR572 million for the full year. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Mark.

A - Mark Kociancic {BIO 17852409 <GO>}

So our -- that might be a consensus figure in the market side. I mean, our goal is clearly the 800 basis points over the five year risk free rates. In terms of the Q4 figures that we see right now, I think it's too early to comment on Hagibis, that's something that is still very much in its early stages. I think we have a solid pipeline of potential gains in our investment portfolio and the remainder of the business is solidly on track. I think what we experienced, heard Jean-Paul's comments, in Q3 with some volatility on the man-made, in particular, and the nat-cat side is something that evolves without any warning. So I think we're on track to achieve our profitability expectations for the year and we'll see how we do relative to the market consensus.

Q - Kamran Hossain {BIO 17666412 <GO>}

So and on the realized gain side, do you think we are done for the year?

A - Denis Kessler {BIO 1498477 <GO>}

So on the realized gains side, so as I told you, we have sold two buildings in Q3 on the real estate portfolio. Another building should be sold in Q4 with a positive contribution to the investment income. Keep in mind that with EUR164 million of unrealized gain on the real estate portfolio, we still have a strong capital gain generation, but I am sure, and we aim at selling mature assets, which mean when the value creation cycle has been completed and you should expect a positive contribution again in 2020 from the real estate portfolio, to both in Q4 and next year.

Q - Kamran Hossain {BIO 17666412 <GO>}

Brilliant. Thanks very much.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks, Kamran. Let us go to next question, please.

Operator

Thank you. Our next question comes from Vinit Malhotra from Mediobanca. Please go ahead, your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning, sir. On my two questions, one is that the -- there were reserves released of EUR60 million. I think very similar to last year 3Q and then we obviously have another storm in Japan and potentially there could be some more in 4Q. Could you just comment on how you view the reserve position or spend, also given two successive or even more years of some reserve movements, please?

And the second question is, I just noticed that the P&C expense ratio for the -- at the management expense ratio, suddenly very low in 3Q, just above 6.2 -- 6.3 points [ph] and you have attributed some of that to growth. Is there some exceptional to point out there? That when -- and sorry, I do have a clarification, that when you said that the 2.5 points --

sorry, 2 points of worth -- mix in attrition was all man-made. That is the correct understanding or not? Thank you very much.

A - Denis Kessler {BIO 1498477 <GO>}

Paolo, second question.

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

Yes, on the attritional, the 2.1 points of additional attritional combined ratio is -- so it's the sum of the attritional loss ratio plus the commissions and this includes the impact of man-made losses, as well as Ogden, as well as the overall attritional performance of the book.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Update to reserve releases in Q3 haven't been in anyway unusual. That's part of our long-term reserving strategy. You've seen similar reserve releases in situations like this in the past. We manage our reserve buffer on a long-term basis. So there is nothing particular about what we did in Q3. And now, when it comes to Q4, there is -- our reserving policy is unchanged. And if there is significant claims activity, there is going to be the same type of consideration as in Q3. When it comes to estimating the Q4 claims and the losses from the cat as Jean-Paul has said, this is a bit early to say. So I don't think we can speculate about the impact at this point.

A - Mark Kociancic {BIO 17852409 <GO>}

On the management expense question. If you look at page 10, the management expense ratio went from 7.3 to 6.8 and the majority of the decrease has been just a scaling up of the portfolio. We haven't necessarily grown the management expenses very much, but we're riding bigger shares of existing treaties and therefore lowering our management expenses.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. And fee [ph] -- if I can quickly follow-up, the reserve strength would you say about unchanged as well as the reserve for the fees unchanged?

A - Mark Kociancic {BIO 17852409 <GO>}

Sorry, just to make sure I understood, did you ask about the reserve trend?

Q - Vinit Malhotra {BIO 16184491 <GO>}

No. Strength. Sorry, the adequacy or more -- however, like (inaudible) just because there's been reserved (Multiple Speakers).

A - Mark Kociancic {BIO 17852409 <GO>}

Our policy is unchanged, we wouldn't have made the release if we didn't have the buffer. So there is no fundamental change to our reserve strengths compared to previous quarters.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Right. Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

And again, and just as a reminder, this release is less than 0.5% of the total P&C reserve. So it's a very small percentage.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks very much, Vinit. Let's go to the next question please.

Operator

Our next question comes from Michael Haid from Commerzbank. Please go ahead, your line is open.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good morning. Two questions, first pricing in Japan, apparently you and the industry faced some higher losses from Japan. From my perspective, it seems that the price increases that were achieved in the renewals in this year were not sufficient and possibly even by far not sufficient. What are your expectations for pricing in Asia for the 2020 renewals?

Second question on the Solvency II ratio, apparently it fell from 215%, yes, in 2018% to 203%, still within the optimal range. But at -- is this current level, is this a concern for you at this stage. Are you considering any management action to protect this level or do you say, it just that it cannot fall any lower given the interest rate environment at the moment?

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

So, this is Jean-Paul. I'll start with the Japanese question. As you know, the Japanese market, the mentality of the companies there is to payback reinsurers over time. As a reminder after the 2011 earthquake losses we suffered in Japan, the payback for those losses was four years. So following the losses of last year and this year, we -- last year the price increases on the cat ex were about 25% on average, some higher, some lower. We expect price increases to continue in 2020, but again the mentality of the Japanese clients is not just to give payback on the specific programs that were impacted. But across the whole portfolio. This is what was achieved after the 2011 losses, and we expect a very similar trend to happen this renewal.

A - Denis Kessler {BIO 1498477 <GO>}

If you, Jean-Paul or Frieder, on the solvency level?

A - Knupling Frieder

So as Mark said, solvency is well in the optimal range, where we'd like it to be. We've managed it at the upper end of the solvency range in the past years to provide a buffer of market movements, like what we've seen in the first half of the year. So this was well provided for. We have strong operating capital generation, which is close to the first six months analysis of change of those solvency ratio just a month ago, showing that there is strong support from the operating business, which has partially offset the effect of the interest rate decline. The best course of action, we believe is implementing Quantum Leap accelerating the generation of value and solvency capital from our business activities. And that is going to provide continued support to our solvency position going forward. There is still buffer of further adverse market movements. But as I said, the best protection we have is the strong operating capital generation, which we've demonstrated over the past six months and which we planned also for Quantum Leap.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. Thank you very much.

A - Ian Kelly {BIO 19976646 <GO>}

Thank you, Michael. Let us go to next question please.

Operator

Thank you. (Operator Instructions) Our next question comes from Avinash Goel from Societe Generale. Please go ahead, your line is open.

Q - Avinash Goel {BIO 19750562 <GO>}

Hi. This is Avinash from Socgen. I just have one question. What is a normalized capital generation for nine months given low Solvency II at 203%?

A - Denis Kessler {BIO 1498477 <GO>}

Hello.

Q - Avinash Goel {BIO 19750562 <GO>}

Hello.

A - Knupling Frieder

Sorry, was the question what the normalized Solvency II capital...

Q - Avinash Goel {BIO 19750562 <GO>}

Capital generation, right.

A - Knupling Frieder

Yeah. So we've been publishing a breakdown of our solvency ratio movements over the past few years. You will have seen that a typical operating capital generation in solvency ratio terms was maybe in the range of 10 to 12 percentage points, but there is volatility caused by new business seasonality claims experience and so on around this. It's not a target and normalization is something, which requires a good discussion. So we don't really look at it this way, but that's been the trend of operating capital generation, and this has then been overlaid by market movements, by, of course, capital management actions, and a bit of model changes and things like that.

But If you look at our past solvency disclosures and also the half year disclosure, which we added for the first time in September this year. I think that gives you a good picture of what we are currently producing.

Q - Avinash Goel {BIO 19750562 <GO>}

Thank you.

A - Ian Kelly {BIO 19976646 <GO>}

Thanks Avinash. Let us go to the next question, please.

Operator

Thank you. Our next question comes from Thomas Fossard from HSBC. Please go ahead, your line is open.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning, everyone. Two questions. First one would be just to come back on the man-made exposure. I think, it's now a couple of quarters that you've been facing higher elevated level of man-made, probably running at both your normalized level on a quarterly basis. So I was wondering if you were starting to be a bit concerned on by anything, though deteriorating trends across your book over, you were still seeing that the random combination and accumulation of different losses?

And also on -- or related to this question, can you be a bit more specific on the surety loss, coming to your book on Thomas Cook and potentially what has been the initial loss estimates you have provisioned for the Lubrizol explosion plant?

The second question would be relative to your retrocession program. Usually you're very early in renewing your program in the market. I guess, it's now probably, for a large extent, done. So you could -- could you tell us how you've been going through maybe a retrocession market, which has been a bit tighter over the past couple of months. And if there is a big change in terms of traction and in terms of pricing for you? Thank you.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Okay. Going back to the first set of questions around man-made losses. So your statement is incorrect. We haven't seen an unusual level of man-made losses over the first half of the year. It's really been in the third quarter. And if you look at our normalized combined ratio in Q1 and Q2, you will see that actually we're below our 95% to 96% target combined ratio. So, and the level of man-made, we've seen in this quarter is not unusual compared to prior years. And are just very volatile and on average, we see this year, year-to-date has been a bit heavy but unusual compared to the past.

On your second question, still on man-made, Thomas Cook, so the losses there come from the -- this is mainly a surety loss to the market. Again this is affecting our treaty portfolio across about 15 clients, both the European insurers and US insurers and the cost is the repatriation of stranded travellers and by some accounts is the largest peace time repatriation operations since World War II. And as well as the cover of events payments of travelers that did not yet consumed their trips. So as I mentioned, the loss for us right now is estimated about EUR23 million.

On Lubrizol, we're exposed mainly -- we only write at the property of the risks. We have no exposure on the casualty side. And our exposure on the property is very limited. It's a single digit loss we estimate currently.

Your second question related to -- on the retro. So we started, as we do every year, we start discussions over the summer, this year that the market is much more difficult than in the past years, has been a retrenchment of some types of covers especially on aggregate covers, but many of our expiring retrocession areas are continuing to provide us quotes and capacity, because of our approach to retrocession, which has been kind of a long-term mentality and not opportunistic. We feel we have a strong support and we're currently placing our retro and expect to be completed in the next couple of weeks on the main programs.

A - Laurent Rousseau {BIO 19524847 <GO>}

Then a couple of points -- this is Laurent, that the Q3 and man-made is actually very close to the Q2 that we had last year. So it's not unheard off. It's on the -- it's a bit above the average that we have, but it's really not above. So and significantly, and as Jean-Paul said, the first half was lower. On casualty man-made that we saw, we've had three claims for SBS on casualty, completely unrelated. I mean, this is -- one of them is product liability and other one is PA. So we have some casualty man-made, more than usual, but again, no pattern, no trend there. And there is a fourth claim man-made that is above EUR10 million for SBS in the quarter. And that's the space one.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you. Just to come back on the retro, so, Jean-Paul, if I'd understood you well, actually no big chance to be expected either in terms of protection or cost of the firm.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

No. We've adapted our program slightly, because we were buying recovers and as I said, the supply in the marketplace has decreased from that product. So we did that with this structure slightly, but overall will be very similar to what we have today with more or less the same players.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you.

A - Jean-Paul Conoscente {BIO 20770277 <GO>}

Thanks. Thank you very much.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. And so that's the end of the questions. So thank you very much for attending this conference call. Please don't hesitate to give us a call should you require any further information. And just a quick reminder that is usual we have the sell side analyst roundtable held in our Paris, London and Zurich offices this evening as usual at 5:00 PM UK time, 6:00 PM European time. So if you can attend that we'll see there. Otherwise, thank you very much and have a nice day.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you all.

Operator

This will conclude today's conference. Thank you all for your participation. You may now disconnect.