Q1 2018 Earnings Call

Company Participants

- François de Varenne, Chief Executive Officer-SCOR Global Investments
- Ian Kelly, Head-Investor Relations
- Mark Kociancic, Chief Financial Officer
- Paolo de Martin, Chief Executive Officer, SCOR Global Life
- Victor Peignet, Chief Executive Officer-SCOR Global P&C

Other Participants

- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- Guilhem Horvath, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group Q1 2018 Results Conference Call. This 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 limit the number of your questions to two.

At this time, I would 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 welcome to the SCOR Group 2018 first 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 first quarter of 2018 included in the presentation are unaudited.

With this, I would like to give the floor to Mark Kociancic, Chief Financial Officer of SCOR Group, who is joined on this call by Victor Peignet, Laurent Rousseau, Paolo De Martin, Simon Pearson, and François de Varenne.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Ian, and good morning, everyone. Denis sends his regards today as he's unable to join us due to the SCOR Board and AGM obligation, so let's begin.

SCOR delivers an excellent start for the year both in terms of franchise expansion, profitability, and solvency position. SCOR wrote more than €3.7 billion of premium in Q1 2018, representing a 10.2% increase over Q1 2017 at constant exchange rates or approximately 1% at current exchange rates. This top line growth was fueled by the strong contribution of both business engines. In P&C, we've been able to leverage on successful and disciplined renewals, in January and April, with improved profitability and price increases. SCOR Global P&C continues to expand its franchise in the U.S., the largest P&C market in the world, where we have a unique position to gain market share.

In Life, we continue to expand the franchise, in particular, in Asia-Pacific, both in protection and in Financial Solutions, building on our strong foundations as per the Vision in Action strategic plan. Overall, SCOR delivered strong profitability in Q1. The P&C net combined ratio for Q1 stands at 91.8% with a nat cat ratio of 4.1%.

Normalized net combined ratio stands at 93.7%, below the assumption made for Vision in Action as a result of the underlying performance of the P&C book. The Life technical margin reached 6.8%, in line with Vision in Action assumptions of 6.8% to 7%. And finally, SCOR Global investments delivered a return on invested assets of 2.3%.

Overall, SCOR's net income for Q1 stands at €166 million, translating into a return on equity of 11.2%. In addition, SCOR's solvency position remains very strong at 222% at the end of the first quarter, marginally above the optimal range of the solvency scale. And after the clear demonstration of our shock-absorbing capacity in 2017, SCOR continues to provide an attractive remuneration policy to its shareholders with a dividend of €1.65 per share, which will be proposed at the AGM later on this morning.

So, moving to page 6, at the end of Q1, SCOR shareholders equity stands at €6.2 billion, corresponding to a book value of €32.49 per share. SCOR's financial leverage stands at 30.1% as at March 31, temporarily above the range indicated in Vision in Action following the successful placement of our inaugural Restricted Tier 1 subordinated notes issue in the amount of $625 million in March. With this issuance, SCOR has secured its refinancing needs at a low cost for the coming years. Adjusted for the calls of the two Swiss franc debts callable in June and November of 2018, this ratio stands at 26.2%.

Let's move on to page 7. SCOR generated operating cash flows of €123 million during the quarter. This is slightly below our normal €200 million per quarter run rate that we'd previously indicated. SCOR Global P&C's cash flows reflect the claims payments from Q3 2017 cat events, and SCOR Global Life benefits from strong cash flow with reduced claims payments. Overall, the total liquidity of the group is excellent and stands at more than €1.2 billion at the end of March with the rebalancing of the invested assets underway, in line with the Vision and Action plan.

Moving to slide 8, let me now update you on the latest development regarding the U.S. tax reform. We're in the middle of implementing our target solution, which satisfies our business requirements and also serves to mitigate the effects of the base erosion and anti-abuse tax component of the U.S. tax reform. It's subject to significant regulatory approvals, and we still maintain a fail-safe option that we can implement at our discretion. The implementation of the new structure should be completed in the second half of 2018.

Overall, we expect the impact of the base erosion and anti-abuse tax to be limited on our financials. First, there is no charge taken in Q1 2018 given the wide range of outcomes and regulatory risk. Second, the total nonrecurring tax expense for 2018 is expected to be in the lower half of the $0 to $350 million range that we indicated in Q4 with an IFRS booking to be completed by Q2 2018 for the target solution. Third, we expect the impact of the solvency ratio will be limited.

Overall, let me remind you that the lower corporate tax rates, from U.S. tax reform and the French tax reforms, are positive events for SCOR.

Let me now hand over to Victor who will give you more details on the P&C results.

Victor Peignet {BIO 6287211 <GO>}

Good morning. We are on slide 9. Q1 is an excellent quarter for the division. The growth comes out at plus 3.9% at constant exchange rate, which has got to be viewed in the light of the strong growth of plus 12.3% at constant exchange rates that was reported in Q1 2017. You'll have noticed the large difference between the two growth figures at current and constant exchange rates respectively. The size of the difference comes from the fact that the appreciation of the euro against most currencies and, in particular, U.S. dollar has happened all the way through 2017. The difference is therefore amplified at Q1 and it should progressively reduce over the next three quarters providing more stability prevails in 2018.

With the insights of the January and April renewals, we are on track to deliver a growth for the full-year 2018 that will be well-positioned within the 3% to 8% range that was assumed in Vision in Action. In Q1, two areas are standing out for their progression. The Treaty P&C business in the U.S. and Business Solutions, which is in line with the expectations.

On the profitability front, the performance is very strong with a net combined ratio of 91.8%. It is driven by a nat catalyst net loss ratio that is below budget at 4.1% and by a relatively lower man-made loss activity that translate into net attritional plus commission ratio of 80.3%, which is 1-percentage-point below the ratio of Q1 2017 once Q1 2017 is normalized for the 5.4% impact of the Ogden rate change net of reserve releases.

You'll have noticed that the commission ratio is higher this quarter by a bit more than 1 percentage point. This is a one-off deviation that results from the application of the sliding scales in last quarter share (00:08:36) contract in China whereby lower loss ratios within the scale are offset by higher commissions.

You'll have also noticed that the management expenses ratio has increased year-on-year. This is due to the combined effects of the increased weight of insurance in our overall activity and of the extended perimeter of nat cat protection following the 01/01/2018 renewal of our retrocession program.

All in all, the net combined ratio, once normalized at the nat cat budget, comes out 93.7% this quarter, which confirms that we continue to operate at about 1-percentage-point below the 95%, 96% range assumed in Vision in Action.

We do not see any reasons for this to change in the short term. We are currently busy doing our projections for the 2019 plan and we'll be in better position to give you indication about the foreseeable evolution of our property versus casualty and professional liability business mix in the U.S. at the September IR Day.

Moving on to slide 10, it gives you the picture of the 01/04 (00:09:44) renewals, which have been very much in the wake of the 01/01 renewals, but for the specificities of two very different market situation, one being Japan that is characterized by stability, and the other one being India, that went through positive changes in the reinsurance terms and conditions in reaction to losses. We hope that these changes will now be followed by the improvements in the primary market that are needed in addition.

One important point is that over the January to April renewal monitoring period, risk-adjusted prices are improving in all line of business and all geographies but for a few where prices are stable, construction, Credit and Surety and Marine & Energy treaty namely. We are looking forward to the June and July renewals, and we expect them to further confirm the positive trends observed in January and April.

I'll now hand over to Paolo for his comments on the activity in Life.

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor. In the Life division, we enjoyed a very strong start of the year, both in terms of growth and profitability. In the first quarter of 2018, we recorded gross written premium of €2.3 billion, representing an increase of 14.7% at constant exchange rates or 5% at current exchange rates. The strong growth was driven by the outperformance of our Asia-Pacific and Financial Solution businesses.

Going forward, we expect the full-year 2018 premium growth to normalize at around 5% to 6%, in line with the Vision in Action annual premium growth assumptions. On the profitability side, we see a strong increase in net technical results, up 10.3% at constant exchange rates. The technical margin is robust at 7% at constant exchange rate or 6.8% at current exchange rates, in line with the Vision in Action assumptions. It benefits from both the profitable growth of new business as well as the performance of the in-force portfolio. In this regard, we're pleased to report the U.S. mortality development for this quarter, in line with our expectations.

Finally, I would also like to report the successful completion of the integration of MutRé. MutRé contributes €33 million to our gross written premiums for the quarter or 1.5% of growth, with technical margin in line with our Vision in Action assumption. The acquisition has also resulted in a badwill of €26 million, which is included in the Q1 financials.

I will now hand over to François for more details on our investment strategy.

François de Varenne

Thank you, Paolo. Moving on to slide 12, SCOR's total investment portfolio reached €27.6 billion at the end of March with an invested asset portfolio of €18.9 billion compared to €18.6 billion at the end of December 2017. The positioning of the investment portfolio is in line with the Vision in Action target asset allocation. Liquidity is stable at 5% of the invested assets, in line with the level designed for the strategic plan. The share of corporate bonds in the invested asset portfolio has been slightly increased by 1 point compared to the previous quarter, and the duration of the fixed income portfolio is unchanged at 4.6 years.

Our fixed income portfolio remains at very high quality with an average rating of A+ and highly liquid. Indeed, at the end of March, expected financial cash flows from the fixed income portfolio over the next 24 months stands at €5.4 billion. SCOR Global Investments delivered a 2.3% return on invested assets for the first quarter and we benefit from an improved investment yield of 2.7% at the end of March.

In this context, we confirm that the recurring yield of foreign (00:13:35) investment portfolio should continue to follow a positive trend and increased for the second consecutive year after 2016 and 2017.

Under current market condition, we expect the annualized return on invested assets to be near upper part of the Vision in Action 2.5% to 3.2% range for both full-year 2018 and over the entire strategic plan.

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

Mark Kociancic {BIO 17852409 <GO>}

So, in 2018 SCOR continues to successfully execute Vision in Action as planned. Both our profitability target and our solvency target are confirmed. All the teams at SCOR remained fully mobilized to deliver the ambitious development plan set in Vision in Action.

SCOR Global P&C is uniquely positioned for profit and growth opportunities particularly in the U.S. SCOR Global Life had successfully reinforced the power of the franchise notably in Asia-Pacific. SCOR Global Investments is well-positioned to benefit from the current higher interest rate cycle. As a result, the technical assumptions in P&C, Life and Investments remain unchanged.

This concludes our opening remarks and we're now ready to take your questions.

Ian Kelly {BIO 19976646 <GO>}

Thank you, Mark. On page 14, you will find the next scheduled events starting on July 26 with the Q2 2018 results and of course our Investor Day on September 5 here in Paris as well as the upcoming conferences that we are planning to attend during 2018.

With this we can start the Q&A session. I would just remind that the COMEX members need to attend the AGM at 10:00 AM CET, so please keep your questions to two each. Thank you very much.

Q&A

Operator

We will take our first question from Kamran Hossain of RBC, please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning, everyone. Two questions just coming (00:15:57) about the U.S. tax reform and the impact on SCOR. It's really helpful that you've kind of said it would be towards the lower half of the range. Just wondering, how much uncertainty is there because it's still a relatively large number between kind of naught (00:16:14) and €175 million. So, kind of what's the uncertainties there?

And the second question relating to that is when you take this charge in the second quarter, assuming there's no kind of real cash impact, is this the right assumption? And then how should we think about the dividend for the year? Because obviously, if you do take one-off charge, it doesn't mean that your reported earnings are going to be slightly subdued. Does that mean we should kind of ignore it for the purpose of dividend payout (00:16:45) or kind of how we should think about that? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

So, with the charge, it's something that we think will have a more mature situation with our regulatory submission by the second quarter. And that's going to give us more confidence in booking a more precise number. It's difficult to say exactly what the split between cash and non-cash will be. That's a bit of a fluid situation because there's many things for consideration in that type of calculation.

But having said that, I mean, we do indicate that we're fairly advanced. We know what we want to do. It's subject to regulatory approvals. But that process will take some time, and that's what's leading to the uncertainty.

With respect to the dividend, we would view this as a one-off. So, I don't think it would have much, if any, impact on the dividend decision next year. The core earnings of the group are still good. We're very bullish on the prospects we see for both Life and P&C, and I think we have a strong positioning in the Investments side.

So, this is something we should be able to absorb, move on, and, more importantly, we're looking to implement a long-term solution for U.S. tax reform that's very efficient for the group. And so, we think what we're implementing is superior to what we can do, for example, in a typical Bermuda solution.

Q - Kamran Hossain {BIO 17666412 <GO>}

Fantastic. Thanks for you comment (00:18:24), Mark.

Operator

We will now take our next question from William Hawkins from KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you for taking my call. I joined a couple of minutes late, so apologies if you've already answered this. But first question, how much of the 9-percentage-point increase in the Solvency II ratio came from capital generation? And can I assume that whatever the balancing item is it's just markets or was there something else that helped you this quarter?

And then, secondly, Victor, you must be clearly aware that one of your competitors has given quite an ambitious combined ratio guidance for 2020. If you look out over the medium term and ignore issues like the pricing cycle and reserve development, do you think that from business mix and cost efficiency your combined ratio could be better over the next three to five years than it's been over the past three years or is that too much to hope for? Thank you.

A - Operator

(00:19:20)

A - Victor Peignet {BIO 6287211 <GO>}

So, about – I mean a little more than half of the capital, which we generated came from the reinsurance business. So, this was due to favorable claims experience both on the Life and P&C side, and strong new business written in Q1 in both areas. So, really across both areas and new business and in-force business. And the remainder, as you expect, mainly by market movements in particular the increase in the U.S. dollar yield curves was favorable for us because of a significant U.S. Life business. So, that helps both on the own funds side and the SCR side. And there was no particular one-off, no model change or nothing unusual in Q1.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

We will now take our next question from...

A - Mark Kociancic {BIO 17852409 <GO>}

Hang on a second, just a second. The second question for Victor on combined ratio.

A - Victor Peignet {BIO 6287211 <GO>}

Well, two points. First, I think we are, well, relatively cost efficient by benchmarking. Of course, we are looking at improving that. But as I was saying, our mix between insurance and reinsurance is impacting the expense ratio. Well, at the end of the day what we look is the bottom line and the profitability of the business.

What you can see is that, not only we have been extremely good and performing technically, but our technical performance tends to improve with the market improving and with our business mix evolving. So, I would not give a guidance for combined ratio, but I would just, well, answer by when we look at how it has behaved, look at how it continues to behave, well, I think it's moving in the right direction.

Q - William Hawkins {BIO 1822411 <GO>}

Lovely. Thank you.

Operator

We will now take our next question from Guilhem Horvath from Exane. Please go ahead.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes. Good morning. Thanks for taking my questions. The first one is for François, so 2.3% return on invested assets in Q1, and you still target the upper end of the 2.5% - 3.2% for full year. So, where is it going to come? I mean, if you look at the unrealized gains you hold today that you have some in equities, you have some in real estate, what should we expect as a an help coming from this year?

And the second is a follow-up question for Victor on P&C. So, you said, if I'm correct, that you weren't expecting any of the difference between the combined ratio and the lower end of the target to reduce in the coming quarters. You still hold this 95%, 96% combined ratio guidance. What could go in the adverse side going forward? Because if I'm correct, you didn't outgrow Casualty and the prices you saw in Casualty were quite far from the level at which you would agree to grow. So, what am I missing here? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

François?

A - François de Varenne

So, on first your first question, so the return on invested assets has two component, the first one is the performance of yielding asset classes which is the recurring yield. And the second one is the performance of non-yielding asset classes which are translated into realized gain.

On the first component, the recurring yield, as you see, the recurring yield has been gradually and progressively improving since 2016, benefiting from improved reinvestment condition. The recurring yield was at 2.0% in 2016, 2.1% in 2017 and 2.2% in Q1 2018. My forecast is that for 2018, the recurring yield should still increase and should be between 2.2% and 2.3% and each would further accelerate in 2019 under current market condition.

As far as capital gain are concerned, as you can see in the appendix and the annualized gain we've got, notably on non-yielding asset classes, you could see, we still have a significant amount of annualized gain, €321 million on real estate and equities, almost equally split between the two asset classes. And you should expect a significant amount of gains to be taken in the second part of this year on those two buckets.

A - Mark Kociancic {BIO 17852409 <GO>}

And Victor...

A - Victor Peignet {BIO 6287211 <GO>}

Yes.

A - Mark Kociancic {BIO 17852409 <GO>}

...sorry, on the combined ratio.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I don't know if I have been clear, but what I have said precisely is that we've been performing within the 94%, 95%, which was the previous range of the previous plan. So, we are 1 percentage point below the 95%, 96% of the plan. And what I said is that I don't see us, while moving from where we are, so which is that I see us continuing to be within the 94%, 95% and, well, probably in the lower part of that range as we have been for the near future.

As far as the casualty and professional liability in the U.S., I don't think we said that we are quite far in terms of pricing, but we are not at the right level. I mean, we believe that the prices that we will have to make to be competitive and enter at a certain speed in the market, well, is not at the level where we want it to be. So, we just delay a bit, postpone, wait and see. But, I think I'm confident that today our underlying portfolio is within the 94%, 95%.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Great. Thank you.

Operator

We will now take our next question from Jonny Urwin of UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks. Just one question from me, some on the Life division, I mean the Vision in Action target of 6.8% to 7%. I remember when you came out with that, there was some commentary that you thought the margin might contract a little bit as the business mix changed as more longevity came through. We're not seeing that obviously adjusted for FX here at 7% today, and the trend still look pretty strong. But I just guess what do you expect from here? Should we think that that sort of business mix shift will take that slightly lower or is it remaining resilient around 7%? Thanks.

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

I think, first of all, we run the division trying to generate as much technical result as we can on the capital that we get allocated. The technical margin itself is much – as you indicated in your question is much a measurement of mix as it is of profitability. I think we probably can see it slightly below 7%, I would say, for the total year 2018. As we have grown – some of the growth that came in in Q1 was actually related to prior-year contracts on Financial Solution deals that come in at a very low capital consumption but also low margin and that has driven about 10 basis points of difference between where we were last year and we were this year. So, I would see that on a constant exchange rate probably a bit lower than 7% falling towards the end of 2018.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great. Thank you.

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

And what I would like to point out is the growth on technical result for the quarter was about 10% when we look at constant exchange rate. So, that's what we're really measuring ourself in (00:27:44).

Q - Jonny Urwin {BIO 17445508 <GO>}

And you're noting that U.S. mortality is tracking in line with expectations. Can you give us any more color there?

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

Yes. What we mean by expectation is the Solvency II assumptions that we have updated as we communicated back in our year-end financial. So, we saw a very relatively low mortality quarter. Just when we look at financials versus date of death, we're tracking about six months behind in terms of our financial. So, when we look at Q1, we're really looking at Q3 of last year date of death. It takes time for our cedents to report, and then the claims adjudication. So, we haven't reported the winter yet, but the Q3 of last year in terms of number of deaths and size of claims was actually in line or slightly better than ours.

Q - Jonny Urwin {BIO 17445508 <GO>}

Perfect. Thank you.

Operator

We will now take our next question from Frank Kopfinger of Deutsche Bank. Please go ahead.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good morning, everybody. I have two questions. My first question is coming back to the tax rate. You indicated that for 2018, you're narrowing the range. And you also said that for 2019 obviously and going forward, this will have a favorable impact sustainably. Therefore, can you comment somehow on what should we expect going forward from the tax rates from 2019 onwards?

And then, my second question is on the buyback. Can you update us on your views? Where are you in the process especially as you have now a strong capital generation in Q1, strong profits. Your business outlook seems to be very strong, and also you should benefit, and you benefited from your Solvency II perspective from the rising interest rate environment.

A - Mark Kociancic {BIO 17852409 <GO>}

Okay. On the first point, Frank, for the tax rate, it's something that we expect to be certainly marginally positive for the P&C business and broadly neutral for the Life business. Difficult to say how much of an impact it will have in 2019, until we get the final solution, target solution implemented for the Life division. On the P&C side, we'll see the improvements beginning in 2018 since the tax rate of 21% in the U.S. was effective as of January 1. So, we should see modest improvements there given the profitability coming out of the U.S.

There could be subsequent decisions later in the year when we start to finalize the operating plan in terms of how we allocate capital within the group. But broadly speaking, I would expect something marginally favorable versus the 22% to 24% range we gave in Vision in Action. On the buyback, we had a limited amount of execution in Q1. The program still remains the same, we have a €200 million program that expires in July of 2019 and we'll execute it accordingly over that time.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thanks.

Operator

We'll now take our next question from Andrew Ritchie of Autonomous. Go ahead.

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

Well, hi there. Had just two follow-ups on Life. Firstly, Paolo, could you just clarify where the growth came from in Q1 again? I mean, I think the implication is there was some lumpy business in there. Is that lumpy Financial Solutions businesses? Is it new Financial Solutions business? Because I'm assuming the Asian growth isn't really lumpy as such, that's kind of ongoing. So, just clarify really what was behind the exceptional growth.

And secondly, I'm just curious, you said the winter effect and most sort of primary carriers and some of your reinsurance peers and the fact that it has been quite a harsh winter as far as mortality is concerned, it sounds like that you wouldn't sort of see that until Q2 or Q3 because of the lag. I mean, from what you're seeing of winter, would you expect that to come through to you in elevated claims or given your retro fairly low retention, do you think you would kind of ride out some of that seasonality? I'm just sort of wondering how concerned we should be for subsequent quarters. Thanks.

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

In terms of the first question, it would be useful to just break it down in pieces. If you take the 14.7% growth, about 5.7% of that has been coming from what we call really update on in-force premiums. So, these are deals that we wrote in prior years. Clients are coming in with higher volumes as they report the total year and that usually is a reporting that we book into Q1, specifically on large deals in Financial Solution in Asia, particularly Korea. So, these are usually low-margin deals. The solvency relief – solvency relief deals, those produced higher volumes in Q1 and that accounted for probably 3% to 4% of that 5.7%.

And then we had 1.5% of the MutRé, it wasn't there the year before. So, you can see core growth at 7.5% for the quarter. We expect that core growth for the year to be at around 3% and the rest of the impacts will stay there and that would take us somewhere between 5% to 6% of overall growth for the year.

In terms of the winter, the data that we've seen so far do not indicate that we cannot write it through. It would indicate that, yes, it has been a harsh winter. But I think it is so far in line with the expectation that we have for the total performance of our U.S. group, yes.

Now, we still have one month to go – those that closed (00:34:44) 2017 in terms of claims that we have effectively seen. So, it's still a bit early, but from what we've seen, we don't see a major issue.

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

Okay. Great. Thank you.

Operator

We will now take our next question from Vinit Malhotra of Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. So, I just wanted to ask about the FX effects. I mean - so we've seen, I think €13 million hit in 1Q in the investment income line specifically. So, if the dollar stays where it is, is this sort of going to be the case every quarter or if you could guide us a bit on how to think of that. And equally, I mean, for Paolo, I mean the new (00:35:40) FX adjusted technical margin in Life, is that just simply translation? Is there something else to note there that you would like to comment on? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Let me handle the first question on the FX. It is a little bit higher this quarter than typically so we do have pluses and minuses throughout the year. It's difficult to have an accurate prediction because sometimes you have timing differences in the settlements of large claims. We had significant outflows of payments and such. So, the monetary hedging inefficiencies can arise from time to time, but I don't think there's anything more here than what I would call just volatility from the hedging process. And I would not expect it to be of this magnitude going forward. Paolo, on the Life technical margin?

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

Yes. The impact of FX in Life technical margin is really driven by the fact that inner basket of currencies, when you breakdown our technical result by currencies obviously a large chunk of that is USD. And the USD-denominated business tends to have a higher - historically has had a higher technical margin. So, when you look at the FX impact on the basket of currencies that underlying the technical result, a lowering of the USD means also a lowering on Europe's translation of some of the business with a higher technical margin. So, that is the impact for these fewer FX impact that you see on our P&L. There's no more (00:37:34). It's just the way the math works out.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you.

Operator

Our next question will come from Vikram Gandhi of Société Générale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. Good morning. I have just one question. Can you comment on where you are with the planned increase in the P&C reserve margin? And how should we view that in conjunction with the reported combined ratio today? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, what I can confirm is, one, the results doesn't include any reserve of release. Two, the reserving policy has not changed, and we continue to be at best estimate plus a margin. But besides that I don't think there has been any change. We still continue on same basis as before.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Victor, if I can just come back on that. I think this relates to your comments around the price increase registered at the January renewals where I believe the indication was that although the price increase was very strong, we might not see all of it going through the bottom line, and it might be used to increase the reserve margin a bit. So, any comment in that context would be really helpful.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I don't - frankly, I don't - I think it's quite self-explanatory so I don't see what I can tell you more than that.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Fine. Thank you. Thank you.

Operator

We will now take our next question from Thomas Fossard of HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning. Just one question left for Victor that will be related to the HIM losses. Obviously, you're starting to - or the cash payments of the losses are starting to accelerate. You made big reserves, claims reserves on these losses at the end of last year. I mean, anything to mention here on what you are seeing maybe still in coming reported claims versus what you reserved and how you're positioned today, I mean two or three quarters after the event? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, first of all, our overall reserve is not moving. So, we maintain it at the level where it was set. Regarding the payments, I mean we have paid today on each of the three about one-third of the total reserve, a bit less for Maria which is moving, well, at a slower pace. But this is not surprising considering the nature of the loss.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. So, no indication...

A - Victor Peignet {BIO 6287211 <GO>}

So, for us, basically, everything is, well, I would say totally under control. We don't see any reason to move the total reserve. And the payments, well, I don't think we are surprised by the pace of the payments. I mean, this is quite normal for that sort of loss.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. So, no negative deviation but potentially by the end of the year, I guess that the one-third of the big cash payment will have significantly increased with the exception of Maria. So, should we potentially expect by Q4, I would say, maybe emergence of – I mean, over caution (00:41:40) booked in the reserves to translate into some form of releases (41:47)?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think it's too early to say that. I think we have communicated on market loss in total of about US$ 95 billion for that. I mean, the latest figures are right at that level. So, for the moment, no, we don't see the possibility of that. But as I say, it's too early. The incurred is still (00:42:10) substantially below the reserves, but I would not give any indication at that point. I think it would be very premature. Certainly, very confident in the level of reserves that we have set, that's for sure. But regarding any positive development, too early to say.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thanks, Victor.

Operator

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

A - Ian Kelly {BIO 19976646 <GO>}

Okay. Thank you very much for attending this conference call. Just a reminder that later on this afternoon, this evening, we have the round table at our UK and Paris offices at 5:00 PM UK time. So, see you there. In the meantime, please don't hesitate to call us should you have any further questions. I thank you very much and have a nice day.

Operator

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