Q4 2018 Sales and Revenue Call - Renewals

Company Participants

- Ian Kelly, Head-Investor Relations
- Jean Paul Conoscente, Chief Executive Officer-SCOR Global P&C Reinsurance
- Laurent Rousseau, Deputy Chief Executive Officer - SCOR Global P&C
- Victor Peignet, Chief Executive Officer-SCOR Global P&C

Other Participants

- Frank Kopfinger, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Thomas Fossard, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Global P&C January 2019 Renewals Webcast. Today's call is being recorded. There will be an opportunity to ask questions after the presentation. In order to give all participants a chance to ask questions, we kindly ask you to limit the number of your questions to two.

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

Ian Kelly {BIO 19976646 <GO>}

Good morning, everybody, and welcome to the SCOR Global P&C January 2019 renewals call. I am joined on the call by Victor Peignet, CEO of SCOR Global P&C; Laurent Rousseau, the Deputy CEO of SCOR Global P&C; and Jean-Paul Conoscente, CEO of SCOR Global P&C Reinsurance.

May I please, at this time, draw your attention to the disclaimer on slide 2 of the presentation, which notes that the figures included in the presentation are unaudited. We will have a question-and-answer session at the end of the presentation, as the operator noted. Can I please ask you at that time to restrict your questions to the renewals presentation and not other matters.

And with that, I would like to hand over to Victor Peignet. Victor?

Victor Peignet {BIO 6287211 <GO>}

Thank you, Ian. Good morning. We are satisfied with the outcome of the 1/1 renewals for us. Our reinsurance business grows by 9.7%, while its expected profitability remains globally stable in terms of both return on risk-adjusted capital and technical ratio, which is loss ratio plus commission ratio, benefits from the effect of one large deal, without which the growth rate would have been plus 8%. So, it's no surprise to us in the spread of gross rates that are shown in slides 11 and 12 by geography and by line of business respectively.

Looking specifically at slide 12, the 15% gross rate in the Property Cat segments results from beyond the U.S. from a successful attempt to further broaden the relationships we have with a number of selected European clients, which included increasing our shares in the nat cat programs.

This led to a capital efficient rebalancing of our nat cat P&L commitments, in big (00:02:21) perils and region with the same risk appetite net of retrocession. Of course, we would have expected (00:02:29) reinsurance market in general, and in particular, vis-à-vis the markets and line of business that have been the most affected by the heavy nat cat and man-made loss activities in 2017, and in the second half of 2018.

As you can see in slide 6, our good performance has been made possible by our ability to pursue a very active and dynamic portfolio management that is illustrated by the volume of business cancelled, as well as to some extent by the positive and negative variation of volumes of the business affected by share variations and the restructuration of programs. Cancelled business is spread equally among APAC, Americas and EMEA, while most of the new business originates in Americas and EMEA, and mostly with existing clients.

For us, the relative disappointment mainly comes three areas: U.S. nat cat to-date, considering that most of the loss-affected programs renew later in the year; Marine and Energy, which had started well-off, but finished as one of the latest and slowest ever. China, for the property books where we kept our strategic positions and succeeded to tactically manage the portfolios.

Nevertheless, the overall result is positive for us with risk adjusted prices globally up by a bit more than 1% across the renewed reinsurance portfolio, close to 2% in non-proportional and above 1% in proportion. It is worth mentioning though that the risk-adjusted price increase in proportional is largely due to the summing up of the primary insurance prices in reaction to losses sustained and claims inflation. This positive momentum in the primary insurance pricing is also beneficial to us in our Specialty Insurance activities.

The growth in reinsurance at 11%, combined with a positive perspective in Specialty Insurance and for the rest of the year in reinsurance is well in line with indication given at the September 2018 IR Day of growth in the upper part of the Vision in Action plan assumption for 2019 and is to stay in the 5% to 8% range.

As anticipated, the growth at 1/1 has been fuelled by the U.S. which stands at plus 24%, well supported by the deployment of our key client management initiative, which encompasses 45% of the total gross return premium in the U.S. In the U.S., we have continued to be mindful of maintaining the 65%-35% balance of our book between short and longer dates.

Property Non-Cat grows by 26%; Property Cat rose by 24%; Casualty including (00:05:15) by 18% with price changes that are more in line with the improvements that we were already looking for last year and that did not materialize then.

However, we continue to be cautious in U.S. Casualty as (00:05:31), we still see the projected loss ratios increasing despites rates improving to cover the assumed inflation. In addition to the U.S., the growth is also marked for the portfolio of global client with a plus 23% progression, demonstrating the relevance and the efficiency of the initiative on that segment.

In conclusion, we believe that combined with the early and good renewals of our capital shield protection last fall, these renewals should contribute to enhance the overall net profitability and we are looking forward to the spring and summer next renewal with a reasonable optimism.

Thank you for your attention and I think we now move onto the Q&A.

Q&A

Operator

We will now take our first question from Kamran Hossain from RBC Capital Markets. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning. It's Kamran Hossain from RBC. Two questions. The first one is just coming back to the nat cat ratio point that we've talked about in the recent past I guess, (00:06:51) came up. Any indication on whether that's moving up from 6% to 7%, or whether ends up? So, that's kind of question one.

And then, I guess, slightly relating to that. Could you give some comments about, I guess, your ability to access retrocession and whether you've made any material changes to your own cover for the coming year? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Okay. So, on the first point, I do confirm that we intend to move our cat budget from 6% to 7% in our operating plan for 2019. So, that's done basically. On the second point, the retrocession, while you know we've been largely in the media about our retro program. So, our retro program every year goes to the market very early. We are ready with the information for renewal in June, we start negotiation in September with the pure objective to be completed early November.

This year was no difference. This year meaning 2018 was no difference from any previous year. We went exactly as per the previous years in terms of schedule and we completed early November with basically the same structure, well with of course, the addition of the cat bond that we had placed earlier in the year. So, structurally, we've not changed the structure and we've continued with basically the same providers of capacity on kind of a 50-50 basis between traditional and alternative.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay. Thanks very much, Victor.

Operator

We will now take our next question from Vikram – my apologies. His line seems disconnected. We will now take our next question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Hi. Yes. Good morning, everyone. I just had a question first on – at the gross reported in the Credit & Surety lines, plus 16%. Could you split that up between gross in volumes and pricing and what has been the drivers behind this gross?

And the second question would be related to your appetite for Property Cat, especially plus 15% when renewed (00:09:04). When you put that in the context of overall appetite from nat cat, how much can you – or are you willing to take on top and how much of the capacity (00:09:19) are you utilizing at present time? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Credit & Surety, first of all, I mean, the plus-16s comes from a combination of two things. A few new clients to us, companies that we knew in the past, had discontinued business with, have resumed business. So, we have three or four new clients. And we have increased our share on one of our large customer. So, that completes the plus 16%. We are pretty satisfied with the behavior of the Credit & Surety book. And so, even though, I mean if you look at the slide that shows the prices movement by line of business, while Credit & Surety shows as the line, which has seen a reduction, we are still very satisfied with the expected profitability from there. So, we had an opportunity to re-enter some clients, we had an opportunity to increase our line, we had been looking for that increase for quite a number of years and we had the opportunity, we took it.

On Property Cat, well, over the past three, four years, we have considerably increased our Property Cat book in the U.S., as you know, which was just in line with the overall redevelopment of our business in the U.S. And well, we used to have in the past an unbalanced portfolio with Europe sticking up and U.S., Japan below, while we ended up over the last two years with the best result (00:10:48) of the reverse position, while peak PMLs in the U.S. and Europe below.

While we had opportunities this year and in our relationship with a number of large customers in Europe, whether they'd be global or very large national, our relationship with them are such that, well, we could basically redeploy cat capacity. And at the same time, increase our line on the rest of their programs. That's what we did.

And as I commented, well, this is having two effects. One, our weight in the wallet of those clients has materially increased and this is totally in line with what we wanted to achieve. And secondly, we have rebalanced our book, which from a diversification perspective and a capital usage is very useful. At the same token, you'll remember that we placed the €300 million cat bond earlier in 2018. That was exactly the purpose of that cat bond in which Europe was included.

So, we have a retro program today that is well covering us for 2019 and even a bit further in terms of continued development of the business in Europe, without modifying our risk appetite (00:11:59) retro.

Operator

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

Good morning, everybody. I have two questions. So, my first question is on you pointed – looking forward, you pointed already to expectations for higher and better pricing coming through, also being pushed by the losses that you had or which occurred in 2018. Could you give some flavor on your expectations for April and July renewals outlook in terms of pricing?

And then secondly, you sounded still quite conscious in respect to U.S. Casualty business. Can you share some more thoughts on what would make you more optimistic on this? And what are the key concerns here?

A - Victor Peignet {BIO 6287211 <GO>}

Okay. I will take the U.S. Casualty and Jean Paul Conoscente will take the April and July renewals. On the U.S. Casualty, we were very clear last year in the sense that we were commenting about some of the large deals and Casualty market in general. And we were saying that on the proportional side, we thought commissions should go down by at least a few points, 2 to 3 points at least.

And on the non-proportional, we were looking for increases of about 10% more than the increases we were seeing last year, which means that last year, we passed certain number of those deals. Interestingly enough, what – if we look at our price movements on the U.S. Casualty this year, this is about where we are, I mean we have compensated commissions by about 3% and we have price increases about 11% to 12%.

So, it has opened up - to some extent, it has opened up to further development, but we've remained cautious, because as I said, well, we see in certain areas where we don't do commercial auto (00:14:10), so that's not an area for us. But we see in other areas, whether it is Med Mal, and in particular for hospitals, whether it is D&O, there are certain - a number of areas where we see a frequency of large losses and the severity of the losses that is increasing.

While there are a lot of uncertainties, still we are doing a lot of studies on that. There are uncertainties regarding the reasons for that, and hence, while there is certain uncertainty on the pricing. So, we remain cautious about that and we do our best to take that into account. And we, in certain cases, we feel that the risk is not yet well being taken. That's where we are in U.S. Casualty.

Jean Paul on the renewals.

A - Jean Paul Conoscente

Yes. Regarding the renewals, in April, loss affected programs, we'll be renewing in Japan and the United States. In Japan, we've engaged already in discussions with our clients on the renewals. Expectations is for price increases. The extent is still being discussed, in our view, probably double-digit, but to be confirmed over the next few weeks.

In the U.S., there's a number of large cat programs that have loss affected that we'll be renewing as well. The expectation is similar, double-digit rate increases, on the extent of which remains to be confirmed. For loss free programs, we see countries like India, which is a big market renewing in April. That would likely not be affected by the losses in the U.S. and Japan and that market has its own dynamics and expectations there is for an improvement of terms, because of the deterioration of the results for both the insurers and reinsurers in India.

And in the U.S., for loss free programs, we expect there to be also a timing of capacity. If we look at what happened at 1/1 in the U.S., where there was a lot of loss free programs renewing. In 1/1/2018, as we got closer to the end of the year, the market tended to be softer. This year, as we get closer to the end of the year, the market tend to be harder.

A lot of programs struggle to be finished to be placed and the placement went into January. There was a lot of trading going on with brokers and clients to complete the placements. And we think that that will carry through at the April and June, July renewals. So, we remain cautiously optimistic for those renewals.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thank you.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. Thank you, everybody. So, just one question on the technical profitability and the pricing. So, I remember, Victor, discussing with you last year as well this topic. And probably, it's the same that when you have 1% price increase, 1.3%, the fact that it is 0% for technical profitability, is due to various other factor, which are probably similar. But just if indeed the comment that were just made on double-digit price increase for April, but if it's only in Japan and loss affected if you could clarify. But if that double-digit comes in, then would you expect slightly bit more group point (00:17:55) technical profitability as well? And that's the first question.

And second question is just on the slide 7 today, where the proportional volume of premiums are up 8.7% and you have mentioned they are large whole-account program. Could you just comment a bit about that, because I think that's bit of a shift here? Could you just comment on that? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, the increases in proportional and non-proportional, they are not very different. I mean, we are nearly 9% on the proportional, 11% something on non-prop. So, it's not fundamentally different. What you have to take into account that overall, we are a 70% proportional, 30% non-proportional. And this is very stable. I mean, it takes a lot of non-proportional to move this balance. So, it can be 69.5%, it can be 70%, it can be 70.5%. But we are around 70% proportional and 30% non-prop. I think that is the sort of ratio we have been carrying on with that for a number of years.

We tend to continue with the same balance. I think the dynamic of proportional and the dynamic of non-proportional are different, a bit like Life and Non-Life. We like to have a combination of prop, non-prop. So, we have – prop is increasing. We try to increase our non-prop, so that we keep the balance. So, that's basically what we do.

Regarding the first, yes, I mean, every time we have a disconnect between the price increase and the movement of the underwriting ratio, which is the loss ratio plus commission ratio, someone like you comes up with that question. And the answer will always be the same. And we'll take a very simple example, wildfire in the California. If last year, we had a loss model for wildfire in California, and this year we have a different loss model, because we take into account the experience, we progress in our analysis and our loss model is stronger this year than it was last year. Then because of the change in the loss model basically, while the improvement in prices does not translate entirely in an improvement or expected profitability.

So this is exactly what's the situation and we had that in the past. I remember a few years ago, because you asked already a question. We had produced a slide, where we were showing all the renewals, all the renewal seasons historically and we were showing the price increase and the expected profitability improvement.

And there are years where, because you changed your loss model, whether it is cat loss model or casualty loss model, because you change your loss model while the increase in prices do not translate entirely in improvements in the expected profitability. That's what we have this year.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes.

A - Victor Peignet {BIO 6287211 <GO>}

So, relatively simple, it's not simple, but it's very consistent, I should say...

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes.

A - Victor Peignet {BIO 6287211 <GO>}

...in our presentations. Yeah.

Q - Vinit Malhotra {BIO 16184491 <GO>}

If I may follow up quickly, please. So the question was also that if this double-digit in Japan might happen, then in – could you guide us that will that also ultimately end up being flattish for technical, as in will it be just matching the loss model or can you get a bit more...

A - Victor Peignet {BIO 6287211 <GO>}

(00:21:22). No, I know, but we are not intending to change our loss model for U.S. nat cat, I don't think so. I think that we have already learned a lot on the California wildfire. So I think we are there. On Japan, well, we are looking at it. I mean, the experiments we currently (00:21:44), we need to look into that and to see whether it serves or not a revision of the model.

If the model are revised, well, again, we would be in the situation, where part of the increase would be eaten up by the change in loss model, but we are not ready to really have an opinion there yet on that. We are – I think there is a very good dialogue with our Japanese client and I think we are trying with them to understand the dynamic of those two losses and in particular of (00:22:14).

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you. And, so just to follow-up, the large whole-account programs are proportional, is there any comment on that you could offer? Was it not casualty, not...

A - Victor Peignet {BIO 6287211 <GO>}

The only comment is that these are whole-account quota share (00:22:29), whole-line combined.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Well, thank you very much.

A - Victor Peignet {BIO 6287211 <GO>}

Yeah. For global insurance.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Okay. Thank you.

Operator

We will now take our next question from Jonny Urwin from UBS. Please go ahead. Mr. Urwin, your line is now open. Please go ahead. It appears Mr. Urwin may have stepped away from his telephone. It appears there are no further questions in the queue at this time. So, I would like to hand the call back to our hosts for any additional or closing remarks.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. So, thank you very much everybody for joining the call. Are you there, Jonny, on the line?

Q - Jonny Urwin {BIO 17445508 <GO>}

Can you hear me?

A - Ian Kelly {BIO 19976646 <GO>}

Yes. I can hear you, Jonny. Yeah.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great, brilliant. Thank you. Sorry. I don't know what's going on. Some technical issues, so just two from me, please. So, firstly, on the nat cat, just checking on the (00:23:46) obviously a bit higher than perhaps we were expecting. On those losses, where there any areas that you had above average market share or anything that's unusual?

And then, secondly, on the price increases. I mean last year was good as well and you took more rate than your peers on average. This year it looks to be the same and the delta looks to have grown a little bit. I mean how much of that is because you're still sort of regaining the Tier 1 status or is it just because you're being a bit more selective in navigating the cycle more? Just any color there would be great. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

I think we've invested a lot in portfolio management, both from a cultural standpoint and tuning in the division. So, I think I would attribute that to the management of the renewals, where I believe we are really I think very, very precise management of the landing of the renewals. And this management is really shared worldwide and I think all the teams are contributing and we have the tools so that we foresee basically where we are going to land. So, I think that to me, that's management. That's also position in the market, but I don't think we are regaining anymore. I think (00:25:08) in the eyes of the clients.

And the question for us now is, at which speed the increasing lines come and what sort of terms and condition we can negotiate, but I think we are there. So, we are very, very pleased with the response from U.S. client to our client relationship management. I think this has really promoted the company and given us a lot of renewals and (00:25:36) and this renewal is also very rewarding. It's really the results of six, seven years of hard work with those clients. So, that's for your - what was your first - oh the losses.

Well, I don't think we have any particular market share issues or whatever. I think we have a good book of business. That book of business reacts to the losses. We look at the figures, they are heavy, for sure, while they show that those losses are extremely serious, the ones in Japan in particular. I don't see myself, an issue in terms of risk appetite, that's - we buy rate position (00:26:22) for capital. To me, that remains an earning event. And the fact that we will end up the year with a combined ratio (00:26:30) makes me feel that, yeah, we are managing the situation, this situation is quite manageable.

But those are heavy losses. And then the market - well, we are not going to be the only ones to be affected. And we are hopeful that this will be another wakeup call, so I mean, we had 2017, we now have 2018, and well hopefully we won't have 2019, but even though I think we need to wake up and to really react to that and realize that in number of areas that is not only nat cat, in a number of areas, we are not where we need to be. And then we are working on that.

We want to discuss with client with the spirit of continuity. Get their understanding, but I think that there is no relationship that is viable over the long-term, if there is not balance, and if there is no profitability expectation. So, we want that to be a fact in our pricing and our negotiation.

Q - Jonny Urwin {BIO 17445508 <GO>}

Brilliant, thank so much.

Operator

We'll now take our next...

A - Ian Kelly {BIO 19976646 <GO>}

Sorry, carry on.

FINAL

Bloomberg Transcript

Operator

My apologies. We have a question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yeah. Thanks. Two questions. The first one is on SBS. So, premium growth plus 80%, looking at the different lines of business (00:28:00) in terms of growth, so could you tell us what's going on in SBS's Specialty lines? I mean, are you getting (00:28:10) regarding the business and profitability there? And the second question would be related to – just because you mentioned the Q4 (00:28:22) combined ratio below 100%. Should we expect you to have some key reserves development in Q4, that we should have in mind in (00:28:39)

A - Victor Peignet {BIO 6287211 <GO>}

I think Laurent will address the movements on the Specialty Insurance.

A - Laurent Rousseau {BIO 19524847 <GO>}

So in Specialty Insurance, my comments will focus on SBS, the loss commercial line (00:28:57) insurance business. I mean the U.S. MGA that really follow the trends that we've talked about on the U.S. Property Cat market. So for SBS and the loss commercial lines (00:29:07) business, the renewals trend was quite interesting. It really hardened actually as (00:29:14), as we progressed with the renewals, the market was hardening. So the dynamic – (00:29:20) dynamics in November and December were much, much tighter than what they were in October.

So, that was a quite interesting trend. And even though it's still very early to say, in January, we'll still see a rather tight market dynamics. So, that's my first comment.

In terms of rate increases, what we saw in the overall SBS book for the last three months is a rate increase of about 6% on average. But yeah, I think it's similar to what Victor was saying on the Casualty side. In some number of lines of business, this is not enough to compensate for the underlying loss experience. So, I think on the Casualty side here and in particular in the U.S., we see inflation cost coming up the function of course, being already (00:30:10) with the 2017 event. And so, it takes longer to get to (00:30:16) and increase use of experts in all those litigation. So, the claim inflation is coming up.

Another segment which was hit by cat activities, the energy sector, so mining and onshore, (00:30:33) and here rate increases are coming through. But, again, we don't think that's enough to (00:30:39) compensate for those activities.

So, all-in-all, we came up with a rate increase that was pretty significant for (00:30:50) top line wise. There was a major contract in construction that influenced the (00:30:56) top line. But even when you stripped out that major construction contracts, the top line growth is pretty healthy. And hardening is on the way whether it is stable (00:31:07) enough, it's too early to say.

On the management of the Europe (00:31:15), well, we will apply exactly the same projects (00:31:18) we have applied every year where we had large nat cat, well (00:31:23) that is the case. So, there won't be any surprise in the way we manage the outcome of the year.

My comment would be that, we continue to be extremely satisfied with the behavior of the underlying book. And the fact that we have been basically very stable, below 95% on a normalized basis. Well, to me, it shows that, yes, and we have continued to be extremely prudent in our reserving.

We have positive developments in the book, which I think is very comforting for us. I think it's very good to have that sort of behavior of the underlying portfolio. It helps to stabilize on the longer (00:32:00). So, there won't be any surprise in the management of the year (00:32:04).

A - Ian Kelly {BIO 19976646 <GO>}

Okay. So, I guess there being no further questions, thank you very much, everybody, for joining the SCOR Global P&C team on this call. In the press release from this morning, we did note the data of the next event for the group, starting with the 2018 full year results call on February the 20. In the meantime, if you've got any further questions, the IR team will be at your disposal.

And so, it just remains to say thank you very much and enjoy the rest of your day. Thank you.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.