Q3 2021 Earnings Call

Company Participants

- Fabian Uffer, Chief Risk Officer
- Francois de Varenne, Investments, Technology, Transformation and Group Corporate Finance
- Frieder Knupling, Chief Executive Officer, SCOR Global Life
- Ian Kelly, Chief Financial Officer
- Jean-Paul Conoscente, Chief Executive Officer, SCOR Global P&C
- Laurent Rousseau, Chief Executive Officer
- Olivier Armengaud, Investor Relations

Other Participants

- Andrew Ritchie, Analyst
- James Shuck, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- Will Hardcastle, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to the SCOR First Nine Months of 2021 Results Call. Today's call is being recorded. There will be an opportunity to ask questions after the presentation. In order to give all participants a chance to ask questions, we kindly ask that you limit your number of questions to two.

At this time, I'd now like to hand the call over to Mr. Olivier Armengaud. Please go ahead, sir.

Olivier Armengaud {BIO 20892984 <GO>}

Good afternoon and welcome to SCOR's first nine months 2021 results call. My name is Olivier Armengaud from Investor Relations and I'm joined on the call today by Laurent Rousseau, CEO of SCOR and the entire Executive Committee. May I please ask you to consider the disclaimer on Page 2 of the presentation.

And with this, I would like to hand it over to Laurent Rousseau. Laurent, over to you.

Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Olivier, and welcome everybody. Today, I'm pleased to report resilient results in the context of high natural catastrophe activity for the market. The group is in good health and delivered earnings of EUR339 million for the first nine months of the year, equating to 7.3% ROE. This is despite a small net income loss in the quarter of EUR41 million.

Our results for the first nine months were driven by, first of all, heavy natural catastrophes, leading to a 14.8% cat ratio year-to-date as well as continued COVID-19 pressure on the Life side with total COVID-19 claims booked in the first nine months of EUR299 million. This resilience is a good illustration of what I presented at our September Investor Day and the way we focused on disciplined execution.

First of all, improving margins. Both businesses delivered strong underlying margins, with the life technical margin of 5.6% in Life and P&C attritional loss ratio improving by 2 points. Second we reduced volatility. We have absorbed the third quarter volatility well, while keeping a very strong solvency ratio at 229%. Finally, we managed growth well. We see opportunities accelerating, particularly in the P&C business where the hardening market continued its strong momentum. Ian will take you through the detail a little further.

Beyond the third quarter results, specifically, what I would like to say today, and looking here at Page 6 of the presentation is that we continue to take proactive actions to improve our operational performance and we delivered on the shareholder value creation commitments reiterated at the Investor Day. First of all, the continued hardening in P&C insurance and reinsurance market enabled us to rebalance our business mix towards P&C. The Life retrocession in-force transaction was timely and accelerated a lot of good work that the team had already been doing to manage our US mortality in-force book.

Second, we are taking proactive actions to reduce the share of natural catastrophe business in our P&C portfolio, by growing in non-cat lines such as specialty insurance and Global Life reinsurance. The 1st of January renewal negotiations are ongoing and they confirm our anticipation of an improving reinsurance market while the underlying insurance prices continue to improve. And bear in mind that about three quarters our premiums are proportional. We also reduced our exposure to US wind and related perils by exiting standalone US wind MGAs and reducing our US proportional treaties.

Third, we are on track in our stated ambition to reduce our cash and liquidity exposure from a high 16% at the end of June 2021 with the aim of getting down to 9% by year-end. At Q3, this already shows in our portfolio mix and it will further accelerate. Liquidity is at 14% of invested assets versus 16% at end of June and the corporate bonds are at 40% of invested assets versus 36% at Q2 and this 40% will trend towards 45 by year-end.

Finally, we continue to proactively manage our balance sheet and we announced a EUR200 million share buyback program which we will execute in the market. We have a strong rationale for this attractive capital return. At the end of Q2 2021, our solvency position was extremely strong, as demonstrated by solvency ratio of 245%. This was significantly above the upper end of the optimal solvency range of 185% to 220% as we have benefited from a life retrocession transaction, which closed on the last day of the second quarter At the end of 2021, the solvency ratio -- at the end of September 2021, solvency ratio was 229%, pre-back. After that, we have assessed the various options to optimally deploy capital. This is to create long-term value for SCOR shareholders and revert to the optimal solvency range. As a consequence, we decided to seize profitable growth opportunities in the continuously hardening P&C market and we have been further re-sensitizing our investment portfolio.

Taking this capital deployment decisions into account on the one hand, noting that the US hurricane season is coming to an end on the other hand, and finally, acknowledging that the French regulator lifted its recommendation against capital distribution on the 1st of October, we have decided to launch a share buyback program of EUR200 million. It will be executed in the market by the end of March 2022.

We are confident in the future of the group and we believe the share buyback is an accretive way to deploy our excess capital given we trade at such a discount to book value while keeping a strong balance sheet in an environment which remains extremely volatile. In 2021, SCOR will continue to favor dividends as a way to remunerate the shareholders and we will pursue the attractive dividend policy that it has implemented over the years.

I will now hand over to Ian to go through the specifics here. And once he walks you through the key financials of the quarter, I will then give you an update on the strategic plan. We'll conclude with a Q&A session. Ian, over to you.

Ian Kelly {BIO 19976646 <GO>}

Thanks, Laurent, and good afternoon, everybody. Let's look at the key metrics of the quarter. In the first nine months of 2021, SCOR continued to successfully develop its franchise and its rebalancing towards P&C. Gross written premiums stand at EUR13 billion. This is up 10.1% at constant FX compared to the first nine months of 2020, driven by P&C up 16.7%, benefiting from excellent renewals and steady Life growth, up 5.0% with continued franchise expansion in Asia.

Let's focus on profitability. Net income is at EUR339 million for the first nine months of the year, translating into an ROE of 7.3%. And looking at the business units and starting with P&C, we've published a combined ratio of 102.7% in the first nine months, heavily impacted by a cat load of 14.8% as Laurent noted. The main events in Q3 were the European floods representing EUR206 million net of retro and Hurricane Ida representing EUR137 million net.

The underlying development of the attritional plus commission ratio has improved 3.5 points, benefiting from both profitability improvement and lower manmade activity. COVID-19 claims remain unchanged for P&C at EUR109 million since the beginning of the year.

On the Life side, the technical margin stands at 11.3% since (Technical Difficulty) of which 5.7% is related to the day one impact of the recent Life in-force transaction. COVID-19 claims booked since the beginning of the year stands at EUR299 million, of which EUR241 million comes from the US. Impact from COVID-19 on the mortality block is reducing and is tracking in line with our epidemiological model. Including the impact of the recent Life in-force transaction, the technical margin should remain in the range of 5.5% to 6.0% for the full year 2021.

On the investment side, return on invested assets stands at 2.3% in the first fine months of 2021. The redeployment of excess liquidity into corporate bonds, as noted, will be completed by Q4 2021. Return on invested assets expectation for the full year is confirmed in the range of 2.0% to 2.3%. In this context, solvency remains very strong at the end of Q3 2021, estimated at 225%. This is above the group's optimal solvency range of 185% to 220%. The decrease compared to the half year position reflects the cat activity, the deployment of capital into P&C growth, and the share buyback which is tailored to provide a strong capital return without jeopardizing solvency of the group and is consistent with maintaining our strong credit ratings.

On the share buyback, I would add that, at this stage, there is no intention to exercise the call option we have at EUR28 and we will buy in the market.

If we now look briefly at other key financials, group shareholders equity remained strong at EUR6.3 billion. This is an increase on the year-end position, resulting in a book value of more than EUR34 per share. And finally, I would like to highlight the group's strong cash flow with net cash flow from operations exceeding EUR2 billion.

With that, I hand back to Laurent. Thank you.

Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Ian. Before we move on to the Q&A, let me now give you an update on the upcoming strategic plan preparation. Despite an eventful quarter, we remain focused on execution of our strategy and you can have a look at Page 13 of the presentation. As announced at the September Investor Day, we have started the preparation of the upcoming strategic plan and we are progressing well.

So what are we proceeding on? We will build, first of all, on a detailed analysis of the performance of our portfolios to optimize our core business. Second, we run an analysis of the options available to enhance our financial and capital management. Third, we run a review of our operating model to take full advantage of nimble and lean organization. And fourth, we will go through an exploration of ways to keep growing our franchise and develop the business.

We're nurturing a strong and disciplined underwriting ethos and we will focus on culture and people. We want to make our people and the culture our number one differentiator. This in our industry is absolutely critical. Business leadership, it has to be our own way, to be global reinsurance leaders with again a strong underwriting ethos. Our success will start and will finish with underwriting capabilities. This is key. Third financial performance with attractive shareholders remuneration as demonstrated today.

And with that, I'll hand back to Olivier for the Q&A. Thank you.

Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much, Laurent. Page 15 you will find the forthcoming schedule event. With this, we can now move to the Q&A session and I remind you to please limit yourself to two questions each. Thank you.

Questions And Answers

Operator

(Operator Instructions) We will now take our first question from Vikram Gandhi at Societe Generale.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, hello, it's Vik from SocGen. Congratulations on a good set of numbers and release today. I've got two questions. The first one is on the retro in the P&C business. Can you highlight some of the key changes to the program since the impact from Hurricane Ida implies a market share of about 0.5% rather than the usual 1% that we've been used to seeing or perhaps it's a reflection of a lower gross losses held, but any comment there would be helpful? The second one is on management actions. Is there anything you can share about potential management actions that might come over the next few months? For example, is it possible we might see another in-force deal on the Life book or anything on those lines? That would be very helpful. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, Vikram. Jean-Paul will take the first question on the retro and I'll take the second one.

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

So thank you, Vikram. On the first question on retro, as we had indicated previously, in 2020, we did a request for proposal on our retro program with a view to have better balance between protection for severity and protection for earnings. And that we had in place in 2021. The program has proved effective, I would say on -- and this is shown in the figures we provide. I think two points. One, our market share of Ida is below 1%, but it's because the areas have been affected, we have a smaller market share than 1%. And second, the capacity we have still available for the rest of the year on our retro program is still sufficient for us to be comfortable with the -- where we stand at the end of the Q3.

On management actions, I will just give you a few. Laurent mentioned them in his opening comments on the cat. We've decided that on a forward going basis we reduce our exposure to the first dollar programs where we are exposed to climate sensitive perils. And as a result, we exited MGAs that are focused on US CNS primary business, exposed to US hurricanes and also reduced our planned capacity for proportional US treaties. So those are some of the management actions on cat volatility that we are implementing now for 2022.

With that, I'll give it back to Laurent.

A - Laurent Rousseau {BIO 5131107 <GO>}

So just to pick up on what Jean-Paul said, the MG actions alone, that's -- we're talking here EUR200 million of P&L reduction. I mean, it is sizable absolute level and in the scheme of -- in the relative size of the group. Now, more generally speaking and turning to the future because this is what we've announced is done. I would very much focus -- if you look at Page 6, this gives a good sense of the focus or actions how to enhance earnings. Here, clearly what we're going to continue working on, Vikram, is the shift in business mix whether it is Life, P&C, so in favor of P&C. Within P&C in favor specialty insurance. We're here -- the market in single risk continues to be extremely hard. We've made significant investments, so -- in people and resources. So I would expect that business as well to keep growing fast and as well, in the non-cat lines in reinsurance.

You might have seen in the markets, we've made a significant hire on the global line reinsurance in our Zurich Team. So here we've been as well attracting some meaningful tenants. So the earnings enhancement is strictly going to be focused and (inaudible) side as the reduction of volatility. You mentioned the US mortality in-force book, we have a dedicated team for a number of years now. They are doing a tremendous job and we are indeed taking a very proactive stance on the way to manage that in-force. Thank you, Vikram. Next question, please.

Operator

Our next question comes from Will Hardcastle at UBS

Q - Will Hardcastle {BIO 22230376 <GO>}

Hey, afternoon, everyone. On the retro, I guess, a bit of a blend. Actually I was thinking about retro optimization, cat budget, underlying guidance blend. Since you struck this at your Capital Market Day, we've probably seen a bit of high cat activity and extrapolation of better pricing environment. There may be some retro tightening and collateral lockups. As the -- it's all a fine balance and I appreciate that, but has the aggregate improved in your eyes since the Capital Markets Day or the same deteriorated et cetera because there's been a lot of moving parts in a sense? And then just on the buyback expectation from here, I mean, how should we think about that? You've got the logic of -- hands-on logic of why it's running until March. Is that just a liquidity perspective or keeping powder dry? And with this in mind, how those levered data point that we had at the Capital Markets Day was 25% debt leverage target over the next three years. I guess the buyback is probably pushing closer to 30. Does that metric still stand and that's still the target over the next few years? Thanks.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, will. Jean-Paul will take your retro question and Ian the one on the share buyback.

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

Yeah, if I understood correctly, your question relates to the state of the market, the retro market. So the 2021 plan was executed when -- in the process of renewing the retro program for 2022. In that plan, we anticipate a shrinkage of capacity for both proportional and aggregate covers. And our program takes that into account. We'll probably look for different products to help us replace that shrinking capacity. But again, the target remains the same as in 2021, protecting against severity and frequency of events. But I think the metrics that we had for 2021 program will be very similar to 2022 and we feel very confident as we speak today on the 27th of October that we should be able to reach our plan.

Maybe I pass it over to you, Laurent, Ian.

A - Ian Kelly {BIO 19976646 <GO>}

Yeah. So just on the share buyback, before getting into the question directly, just a few comments. Just to talk about the timing, I mean, we think it's a very accretive way to deploy capital and bring value to shareholders. And we had to see the life in-force transaction as at the end of Q2. That unlocked significant value, increased the degrees of freedom for the group in terms of accretive capital management. And we talked to that at IR Day. We talked about the profitable growth opportunities in the P&C market, how we would seize those. We talked about the reorientation of the investment portfolio into value creation assets and then we talked about the additional capital management actions. So that's why we're doing this now.

We also had, at the start of October, the ACPR lifted the recommendation against capital distribution by the way. So we are starting now. We think the six months is good timing given the ability to execute in the market. As I said before, we will not be using the call options at 28 that we have, we will be buying directly in the market for this buyback.

And then coming to your point in respect of leverage, I think here EUR200 million in terms of sensitivity, EUR200 million on equity means a change of 0.6% or so in respect of leverage. I think the -- it's clear actually that on leverage ratio it has come down a little across the course of this year. We would expect to broadly maintain the level of leverage going forward through the balances of capital return, earnings generation, and so on. And then a little bit more longer term, we would expect to earn back into the 25% range.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Will. We'll take our next question.

Operator

Our next question comes from James Shuck at Citi

Q - James Shuck {BIO 3680082 <GO>}

Hello. Good afternoon, everybody. So two questions from myself. Firstly, just in terms of the EIOPA review into the Solvency II position, you highlighted there is a potential positive there and I assume that's coming from the risk margin. You are quite a heavy user of the diversification credit, particularly relative to other reinsurers. I'm just keen to get your thoughts on whether EIOPA is looking at that diversification benefit and in particular, how local authorities actually will have implementation of that through internal models, and if that is actually taken into account into your comments about positive impact from that review. Second question, I'm not sure who to direct this one to as I'm not sure if Denis is on the line or not. But I'm just keen to get a view into his potential retirement in -- at the next AGM. My understanding is that he will reach mandatory retirement age before the AGM. And therefore, and as you change the bylaws, he will need to stand down. So therefore, I'm just keen to get a view whether you intend to change the bylaws, please. Thank you.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, James. So Fabian Uffer, CRO will take the first question. I'll take the second. Denis is not on the call and I will answer your second question. Thank you.

A - Fabian Uffer

Okay. On the EIOPA review, the particular point on the diversification, you might be aware that the risk margin allows not for the full diversification as the SCR. So the risk margin depends on the legal entity risks and it is then aggregated the way some of the legal entity risk margins. So this is not the change in the Solvency II revision that is expected. The change from the risk margin is -- proposed by the EC is on the cost of capital, which would directly translate for our risk margin. And then there is a so-called introduction of a (inaudible) factor which has a dampening effect on the size of the risk margin. Overall, we have communicated in the past and it depends a bit on the economic situation, but the expectation is that the proposed changes could improve the solvency ratio by around 19%, but still this needs to go through a political process and will be in place earliest in 2024.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Fabian. On your second point, James, so the age limit is reached indeed at the AGM. However, if you look in the precise bylaws wording, it's -- the age limit hits in the year when the person turns 70. So it's not when the person reaches 70 itself, it is at the AGM following the age. So first point is, so I can confirm that Denis Kessler would reach the statutory limit in March 2022 and then that would have to be reviewed at the upcoming AGM. The nomination committee makes recommendations on age limits. If the Board wishes Denis Kessler to remain as Chairman and if Denis Kessler accepts it, then the resolution would be put to the AGM to extend the age limit and then shareholders decide. Anyhow, this is a Board matter. They own it and that's with them.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you, James. We'll take our next question, please.

Operator

Our next question comes from Andrew Ritchie at Autonomous.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. Thanks for the buyback. Perhaps I will take that questions. Two other quick questions. On Slide 5, Ian, I wonder if you could just clarify how I interpret the 8 points for planned P&C growth. Is that on a sort of forward-looking basis and to what degree is that of capturing 1/1 or how forward looking is it? And in that slide as well, the EOF generation looks quite low, but there is something that says and other. What is the -- I'm guessing the and other is negative, but maybe if you could just clarify is there any way you can sort of give us a sense as to normal levels of EOF generation or something exceptional in Q3?

Second question for Jean-Paul, when I look at your normalized combined ratio, you've normalized using 7 points of cat. When -- I just assume you've already transitioned to the 8 points of cat. I'm not sure what happens overnight in 2022 that makes the 8 points normalization right then versus 7 points now. I mean does the underlying attritional drop by compensating amount or -- so I'm just -- I'm not sure why you normalized it now. And related to the normalized, it was a bit higher. I'm always conscious that I shouldn't over interpret a quarter, but was there any sort of elevated manmade particularly in Q3? Thanks.

A - Ian Kelly {BIO 19976646 <GO>}

Andrew, I'll just hand over to Fabian to pick up on the solvency position changes.

A - Fabian Uffer

Thanks, Ian. So on the planned P&C growth, that includes the capital we deploy on a one-year forward-looking view. That's the pure effect of the SCR on the solvency ratio. So it includes obviously one last quarter of capital needs for this year and then three quarter of next year. And in particular also it includes then the growth that we have announced at the IR Day. And big part of the 1/ 1 renewal. So that's pretty much what you should expect as capital needs for next year. Obviously, it will then depend on how exactly, which lines of business we write, what kind of diversification we get, and how exactly the retro program puts in place. So that's our plan, in some sense, capital deployment that we need to book in Q3 just because the SCR is fully forward-looking.

On the own funds generation and other, we don't usually publish a full walk in Q3 or in the Q1 and Q3. So what we have included here is the usual model changes, market movements, and the own funds generation. There is nothing particular negative or positive. As you know, the own funds don't linearly come in over the quarter, mainly driven by the big chunk of 1/1 renewals, which we will see in the one -- in the Q1 own funds generation. So this is just a bit of a seasonality effect that it's slightly lower than normal.

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

I'll take the question on the cat ratio and the normalized combined ratio. So we had mentioned going to 8% cat budget in 2022 and we continue to use 7% because that was our base assumption, the remains are base assumption for this year. On the -- your question as to what changes as 1/1, well, actually quite a lot. We have a new retrocession program in place. We implemented underwriting measures. I just described bylaw myself on the US portfolio. We have other actions that we're taking place and we will put in place at 1/1. So there's quite a lot of changes that happen on 1/1 compared to where we are today. And so for continuity, we continue to use our assumptions for 2021 at 7%.

That being said, as you said -- as you mentioned, the Q3 normalized, whether it's 7% or 8%, is higher than the prior quarters. And that's really driven by one large event, the South African riots which represent a EUR48 million net impact this quarter. And that's the -- let's say the -- it's almost 2.7 points of loss ratio in the one event. So that's the main driver behind those figures. The rest of the manmade has been really lower than normal and lower than 2020.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Andrew. Next question, please.

Operator

(Operator Instructions) Our next question comes from Vinit Malhotra, Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. Thank you very much for this opportunity. So one on P&C please and one on Life. On P&C, Jean-Paul, I remember -- I mean, we were quite surprised at the IR Day when 2021 was looking quite lower than those expectations at that time was and you have guided to 7.5 billion GWP P&C leap. Obviously you retained that today and that is even a bigger surprise because that would imply 4Q21 to be a minus 15% roughly. I mean, what has been the change since then for the strong growth in 3Q and why should we expect or why should the targets imply such a sharp contraction in 4Q21? Is there any one-offs that you could point out to or anything that would be helpful? Thank you very much.

Second question just on the Life technical margins like COVID. I mean, it remained very, very high, like in 13% odd level for the third quarter. Is that the reason why despite a pick-up in 3Q mortality in the US, the guidance for the fourth quarter -- for the full year really that's been unchanged? And do you see any risk to that because the US mortality is still quite high. I mean, I think it's more than maybe 1,500 there of the current average. I might be not fully accurate on that number, but just based on the rough number. So just curious as to what do you think of the moving parts on the Life technical margin from here. Thank you.

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

So, Vinit, I'll answer the first question on the P&C gross written premium. This quarter, the gross written premium at constant rate of exchange is roughly EUR1.7 billion. We would expect the same in Q4. What was impacting us in Q1 and Q2 was really the foreign exchange as you can see on Slide 10 of the presentations. This effect is really dampened out in Q3. We expect it to continue to do so in Q4 if there is no big shock on the real exchange market. And therefore, at constant rate of exchange, we would expect the GWP to be more like 7.8, in that range, 7.7 to 7.9. And then when you take out the sort of the impact that we had in Q1 and Q2, you land at the actual rate of exchange to roughly 7.5. That's why we're guiding 7.5 still at the current rate of exchange.

With that, I'll hand over to Frieder.

A - Frieder Knupling {BIO 17247809 <GO>}

Thank you, Jean-Paul. So the portfolio has performed well in Q3. Excluding COVID, we see experience and performance in general in line or slightly above our expectations. And that is really in fact across the whole portfolio. We are also constantly working to improve and optimize the portfolio, the performance of the in-force portfolio. And in line with previous quarters and years, we have taken action to improve performance and increase premium rates on certain underperforming US treaties and that was the case in Q3 as well. And overall, we have and continue to have significant reserve margins which help to report the performance of the business and that will also be the case in future quarters.

As far as COVID is concerned, you've seen the losses which we have booked in Q3. Our exposure continues to be mainly concentrated in the US. There the current wave has plateaued and we expect this to be trending down during the course of Q4. But you're right, we will continue to see fairly significant numbers of population that's in the US in Q4. And that is broadly in line with what we had indicated in early September. Q3 population deaths came in I guess a notch above what we had expected in Q3. Overall, we still think that for the full year 400,000 deaths in the population in the US is a sensible high level estimate. Maybe within high likelihood that the final number will be a bit higher than below that number. But that is included in our plan and in our forecast for Q4. And we continue to guide to what the same margin and overall result as in September. And I'm very confident that we can achieve that despite the continued high claims activity on COVID in the US.

A - Laurent Rousseau {BIO 5131107 <GO>}

Next question, please.

Operator

We'll now take the next question from Thomas Fossard at HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon. Two questions, please. The first one is a follow-up for Frieder. Frieder, I mean, at the start of the year, previous CEO of SCOR Global Life indicated that you had lot of positive management actions in full year 2020 and that we should not expect those to be repeated in 2021. But when I'm looking at my model, it looks like on a full year '21 basis, those positive management actions will be actually bigger than they have been in 2020. So, I mean -- sorry about that, but can you please come back on what has been the drivers and maybe for next year, I mean, would you go again with a fairly cautious assessment of what to be expected in 2022 or, I mean, any comment would be interested on the experience 2021 and what we're expecting in 2022?

The second question would be for Francois. So actually you are going to be -- looks like very active in terms of liquidity rebalancing into Q4. Can you tell us what kind of reinvestment rate you're getting at the present time on the corporate bonds, because it seems to be that this is where you're going to shift or reinvest this liquidity? And maybe if I can squeeze a very last one, very short one is, what do you make of the global minimum tax? I mean, do you expect any implication for the group when this is implemented? Thank you.

A - Frieder Knupling {BIO 17247809 <GO>}

So, Thomas, thanks for the question. So we do continue to expect to perform management actions on underperforming treaties in the course of 2022. We have, of course, taken some of the more significant rate increase actions somewhat earlier on in the program. Having said this, the performance of the business, the way the treaties are structured and many other factors have an influence which we continue to assess and evaluate and our current view is that there is still quite sizable potential for improvement of underperforming treaties next year and probably beyond.

So that's something we'll continue to leverage upon and we also have in-force management opportunities outside of the US. And that is an area which we are increasingly exploring as the business is growing and we are building up our in-force management capabilities In addition, as we explained in early September, the in-force transaction which we concluded at the end of June has not only led to a significant one-off gain, but it has also led to an increase in margins of prudence in our reserves, which, given the improved profile of the business, will run off during the coming quarters and that helps to support the performance of the business also during 2022.

A - Francois de Varenne {BIO 7447858 <GO>}

Thomas, on your question, so that's true that we have a significant activity on our side in Q3. You have to take into account that we will receive on the investment side the proceeds of the Life in-force transaction early July. So between our starting point at the beginning of Q3 was not 16% of liquidity, but 20% if I include the EUR860 million of this transaction. Where we've invested? That's mostly on US corporate bonds, which corresponds to the sale program we executed in Q1.

During Q3, we purchased EUR1.7 billion of corporate bonds with an average rating of BBB plus, an average duration of five years and average book yield of 1.64%. Since the beginning of Q4, we have already invested the equivalent of EUR400 million always on corporate bonds, average rating A minus and you see improvement of market condition, average book yield 2.3%. So that's affecting the increase of interest rate.

On top of this, if you remember, I mentioned during the IR Day that we deployed EUR200 million of commitments in 2021 and also EUR200 million in 2022 on value creation assets, mostly private equity, infrastructure and private debt. On this overlap, we have already committed EUR120 million for 2021. So we will be on target for this year. I remain very confident in the fact that the reinvestment of our excess liquidity will be done by the end of the year. So with liquidity, we are on 9%. We will come back to, I would say, our normal allocation to corporate bonds between 43%, 45% and we would close the duration gap that we open in Q1. And after, we will maintain a disciplined year-end strategy within the fixed income portfolio.

A - Ian Kelly {BIO 19976646 <GO>}

And hi, Thomas. Ian here. I'll just pick up on the tax question briefly. We are currently monitoring the situation and we'll assess the impacts once the situation becomes a bit clearer. But just in terms of sensitivity, a strict application of a 15% minimum tax rate globally to areas that are currently below that threshold wouldn't have a material impact upon the group low to mid single digit.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Thomas. Next question, please.

Operator

We'll now take our next question of Will Hardcastle at UBS.

Q - Will Hardcastle {BIO 22230376 <GO>}

Hey, thanks for taking the follow-up. Just the first one on potential for reserve releases. I guess in the past we became a little bit accustomed to seeing major cat quarters arrive with some reserve release to dampen the volatility. I guess, has there been a change in approach or what was the logic this time? And then the second one is, can you give any sort of loss -- industry loss assumption for the European floods and Hurricane Ida? I know there'll be some distortion but any indication there would be helpful. Thanks.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Will. I think the first question and I'll let Jean-Paul talk about the second one. I'll make a general statement on your first question. Just like you might have seen, we don't do capital gains on bonds. I make the link here on the smoothing the volatility of the earnings that we did not do this time around on the P&C reserve. So your understanding is good. I think it's important for us to have to go through this volatility to take it without necessarily looking to smooth it. We don't need to. We don't have to. I think it's more transparent. And we will look to do in that way as much as possible.

I'll hand over to Jean-Paul on second question.

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

Thank you, Laurent. On the industry losses for Ida, our assumption is a market loss around $30 billion to $35 billion with, I'd say, a small contribution to the market loss of the flooding on the Northeast. The majority assume to be ceded to FEMA. On the European flood loss burnt, the assumption is EUR11 billion market loss.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Will Next question, please.

Operator

We'll take our next question from James Shuck at Citi.

Q - James Shuck {BIO 3680082 <GO>}

Hi, thanks for taking my follow-up. Frieder, I think the way you answered the question on diversification was specific to the risk margin. Really my question was just leaving the risk margin to one side. My kind of thoughts were that EIOPA were looking closer at diversification credit overall and used by insurers and whether it's appropriately applied by the local regulators. So just any comments on whether you are actually seeing that or can anticipate any kind of scrutiny of your very large diversification credit that you apply in the Solvency II ratio would be helpful.

Second question, I heard the answer you gave on the Q3 underlying combined ratio, which was in response to the underlying number being bit higher than one might expect. My take on that is a little bit different, in that you would normally see quite a high level of seasonality around the nat cats, the Q2 and Q3. Perhaps almost as much as twice the usual 7% load. And if that's the correct view then, the underlying combined ratio actually looks a lot better. So if that's the case, then can you just comment around the large loss experienced relative to what a normal run rate is or just any insight into what's happening on an underlying basis there?

And then finally, sorry to return to this. I just wasn't quite sure if I caught the answer, Laurent, but were you saying that the potential change in bylaws was something that could be considered or is that something that is set in stone and would not be? Thank you.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, James. So let's take your answers in the order. And so the first one was actually answered by Fabian and who I give the floor back to.

A - Fabian Uffer

Yeah. Thanks a lot. Sorry, I didn't get your full question on the SCR, now it's quite clear. There is no particular thing happening with SCOR and the diversification effect. What we see is obviously EIOPA doing more and more comparative studies among the internal model users. And I mean that's public information. So there was a -- it's an ongoing study on diversification. But we have no indication that there is something specific coming for the internal model of SCOR. I mean, that's the approved internal model that we have. This has been checked and thoroughly gone through with our regulators that we operate entities in the Solvency II regime, as well as the entities that we operate under the Swiss Solvency Test. And the diversification effect is not so much. Part is obviously our modeling assumption, but it's highly driven by the portfolio mix that we have that then leads to such diversification.

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

This is Jean-Paul. To answer your second question on the P&C net combined ratio on a normalized basis, so the year-to-date is actually -- if we combine commission and attritional losses, the sum of the two is actually 3.5 points below the same amount year-to-date 2020. The driver of the improvement has been primarily Q1, Q2. In Q3, we see the normalized net combined ratio being very close to the normalized net combined ratio of Q3 last year. And as I said, the driver last year was -- if you remember the Beirut blast, which was a significant market loss, that was a manmade loss. This year, we have another significant manmade loss, say, of similar size, which is the South African riots.

If you take out -- again if you take out that event as an exceptional event, the net combined ratio this quarter would be 2.7 points lower than the 94.7, so it would be around the 92 which is in line with what we've seen in the prior quarters. But the rest of the manmade losses have been very much in line with what we've seen in Q1 and Q2. The main difference this quarter has been the South African riots.

I hand it back over to you, Laurent.

A - Laurent Rousseau {BIO 5131107 <GO>}

Yeah. So on your question, so the bylaws can be changed, James, but it requires first of all that the Board recommends and puts through the AGM a recommendation to change the bylaws. And it requires the shareholders to vote to change the bylaws. So it can be done, but there is a very strict process to do so.

Thanks, James. Next question, please.

Operator

We'll now take the next question from Vikram Gandhi at Societe Generale.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello. Thank you for the opportunity. I've just got one follow-up question, which is on the investment income. Is there something that you can flag around potential real estate disposal that can come in Q4 or something next year? That's always lumpy. So any guidance there would be helpful. Thank you.

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

So, yeah, that's a good question. So the first point that I would like to mention that there is no one-off income this quarter. So take it really as a real one. On real estate, so that's true that I mentioned previously that we are in the process of selling mature assets. It will be done at the end of the year or beginning of next year. I have no certainty given the real estate market today entirely that it could be done before the end of the year or more probably in January. Having said this, we see -- I have a pipeline of mature assets that will mature in the next few years and you see the amount of annualized gain we've got on the real estate portfolio.

As far as fixed income, the contribution of fixed income portfolio into a gain as mentioned by Laurent and myself, we want to maintain disciplined ALM matching strategy, so which mean that any realized gains coming from the fixed income portfolio could be non-material and just reflecting tactical adjustments within the fixed income portfolio. Maybe another indication, I am still speaking on this, the income yield is at 1.7% today. Our projection, given the current environment, indicate that we should be at the low today.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Vikram. Next question, please.

Operator

We will take our next question from Vinit Malhotra at Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah, thank you. So, one is a quick follow up to Jean-Paul. One is a quick check on the EOF for Fabian. So, Fabian, just I'll start with that. If I go back to your IR Day presentation, we saw the EOF in the 1H roughly EUR400 million, a little above EUR400 million and I had asked you whether there was anything exceptional and you had said that there wasn't. So that would imply that the sort of EUR800 million give or take range on US capital generation is sort of the benchmark on normal level, which is very close to 18, 19 points. And then there is dividend, the usual commence -- say, last year dividend was 8 points, so roughly -- so is the 10 point kind of capital generation calculation per annum normal basis? Would you agree with that pot dividend, maybe post tax? If you could comment on that or clarify or correct that, I would be very grateful.

And just checking very, very quick one for Jean-Paul. So I've seen the Slide 10 Jean-Paul after your comments. Just so I understand, if EUR1.7 billion for P&C growth GDP [ph] is a good level for fourth quarter, give or take and then the EUR6 billion is stated there in that nine months ex-FX. So what are we looking to do for next year? Are we saying -- are you suggesting that we use 7.7, 7.8 as a base for a 15% to 18% growth or would you still be more comfortable with 7.5 as a base for 15% to 18% growth next year? Thank you.

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

Thank you, Vinit. I'll take the first question, well, the question on the P&C and GWP. Our basis for 2022 would be the 7.7, so that's what we're projecting for -- to land at the end of this year. And those are the basis on which we're projecting for next year.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Jean-Paul. Maybe answering on the own funds generation, so we usually don't give any forward guidance on this figure. So use the published figures on our half year and yearly walks and I think this is a good basis. Thank you, Vinit. We'll take the last question, please.

Operator

We'll take the next question from Thomas Fossard at HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, thanks for taking the questions. The first one will be on the cost of retro, Jean-Paul. I think that you're renewing pretty early. So you may have fairly good view on what could be the higher implied costs. So would you be able to give us a kind of impact on in terms of combined ratio, on what we should think for 2022 in terms of impact of unchanged retro structure, but likely to come with higher cost? Also on COVID P&C, any comment you would like to make regarding (inaudible) and how much you paid out already? And the very last one would be, it has no impact in Q3, but may have some impact from Q4 onwards is, could you remind us the call option mark-to-market? How this is going to be booked and if you could give any -- I know it's depending of lot of assumptions, but any sense of, I mean, any sensitivity will be helpful. Thank you.

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

On your first question, Thomas, we're still in the middle of negotiation. I think one of the key points is that the program will not be unchanged, because as I said previously, the supplier proportional and aggregate covers will be -- we anticipate to be less than last year. We'll probably have to buy more non-proportional and look at other structures, but the impact in terms of net combined ratio we are anticipating will be the same as last year. So the risk protection will be similar and this is where we're taking actions on the inwards the acceptance side to sort of balance-out the anticipated changes in retro supply and keeping the same risk metrics that we had last year.

On COVID P&C, we've paid out roughly EUR75 million as at the end of Q3 and we haven't made any changes to our reserve level because we just didn't get any new information. I think there's still a lot of litigations ongoing especially in the UK and France as well as some in the US. And I think the (inaudible) involved in those litigations are still -- have not changed their assessments or their exposures. We haven't either. And I think we'll probably gather additional information in Q4, but these are I think claims that will probably carry on into 2022 for sure.

A - Ian Kelly {BIO 19976646 <GO>}

Yeah. Just on the call option, Thomas, in terms of sensitivity, it's not been material. Just to give you an indication, in Q3, the impact was a very low single digit euro -- EUR2 million impact, in fact.

A - Laurent Rousseau {BIO 5131107 <GO>}

Thank you, Thomas. I think we can conclude the Q&A

Operator

Ladies and gentlemen, this does conclude today's questions and answer session. At this time, I would like to hand the call back to the speakers for any additional or closing remarks. Thank you.

A - Olivier Armengaud {BIO 20892984 <GO>}

Thank you very much for attending this conference call. The Investor Relations team remains available to pick up any further questions you may have. So please don't hesitate to give us a call. I wish you a good afternoon. Thank you.

Operator

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