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Le Revenu
13 April 2012
Interview – Denis Kessler

How is your strategic plan progressing?

Denis Kessler: For ten years now, SCOR has been one of the rare companies to propose three-yearly plans and, above all, to stick to them. With the greatest possible clarity. With “Strong Momentum”, our fourth plan, we indicate to the market and all of our stakeholders the means we have put in place in order to hold to our growth, solvency and profitability objectives. At the end of the plan, SCOR will reach a premium income of EUR 10 billion, on a total balance sheet of EUR 35 billion. Despite that fact that 2011 was an exceptional year in terms of the unprecedented gravity of the events that took place, particularly in Asia, SCOR remained profitable and even reinforced its solvency. For a reinsurer, solvency is “the” supreme asset. A client will only entrust a reinsurer with its large risks if it is sure that the reinsurer will be able to face those risks, whatever the circumstances.

On that topic, how can an individual shareholder assess your solvency?

Denis Kessler: SCOR has a thoroughly defined “risk appetite”, which is respected to the letter. Put simply, solvency depends on four elements. The first is a strict risk underwriting policy – we don’t underwrite just anything, for any old price. Then comes a very precise reserving policy, with the most accurate estimate possible of the likelihood of losses occurring. A reinsurer must ensure that on the liability side of its balance sheet it has reserves to match the actuarial value of the risks it has underwritten. The third element to assess is the quality of the assets designed to cover these risks and the prudence involved in their management. Finally, the SCOR group reinsures itself against extreme risks. This came into play last year and enabled us to absorb major events such as the Japanese tsunami. Today, our solvency makes us one of the rare financial institutions to have seen their financial rating upgraded, from BBB- to A with positive outlook, and now A+ for Fitch. This was achieved with a satisfactory level of profitability and the lowest results volatility of a major reinsurer for the past five years. This recognition helps to feed our growth: since 2005, our annual premium income has increased by an average of EUR 4 million per business day.

Does SCOR “control” these major risks better?

Denis Kessler: SCOR is now one of the most diversified reinsurers in the world. For the past 10 years, we have been furthering the diversification of our risks – in order to reduce correlations, i.e. links between them. We firmly believe that Life reinsurance is not directly correlated to Non-Life business. Our diversification is also geographic, covering 140 countries with 4000 clients throughout the world. Moreover, the risks within each branch are
highly diversified – what do satellite risks and livestock mortality risks have in common? This diversification notably enables us to save capital and reduce the volatility of our technical results. In reality, the risks never happen all at the same time!

**Why did you create SCOR Global Investments (SGI), an asset management subsidiary?**

Denis Kessler: Our risk diversification goes beyond our liabilities. It also applies to our assets. This subsidiary enables us to manage our assets globally and to reduce, for example, redundant investments that would amass risks.

**As a result of your prudent asset management policy, analysts point to the low profitability of your financial portfolios...**

Denis Kessler: The risks underwritten by SCOR are primarily on the liability side. Why would you want us to add more on the asset side? SCOR has made a commitment to its clients and shareholders to manage its financial assets prudently. With the associated profitability. We accept a lower - by a few basis points - level of profitability on our portfolios in order to have the huge advantage of protecting our shareholders when others are obliged to record losses on their portfolios of imprudently invested assets. This strategy has borne fruit. We were practically untouched by the financial crisis of 2007-2008. In September 2008, before Lehman Brothers, we had EUR 3 billion in cash. We decided back in 2008 to hold no State bonds from the at-risk Eurozone countries...

**Are you going to change your investment choices?**

Denis Kessler: There are two phenomena that I dread: a massive, sudden rise in interest rates once the “accommodating” policies of the central banks have ended, and a powerful comeback by inflation if these monetary drip feeds go on for too long. Today, financial asset prices are distorted on the markets, due to the short-term interest rates “subsidised” by the central banks. Faced with these fears, we have chosen to maintain a short duration for our assets as well as our liabilities. We prioritise corporate bonds over State bonds, and we still invest in quality real estate. Moreover, we still have a lot of cash or partial cash in anticipation of the rise in interest rates – managing that is going to be a big task!

**Last year with UBS you put in place a “contingent capital” facility, a kind of “capital reserve” on which you can draw. What was the reasoning behind this?**

Denis Kessler: This is an innovative solution that further strengthens our ability to withstand the “shocks” that increasingly punctuate our world, whilst protecting our solvency and the interests of our shareholders, and improving the profitability of our shareholders’ equity. With a contingent protection facility like this, the conditions for a capital increase, needed to help maintain our solvency following a historic shock, are determined in advance and limit the risk of dilution.

**After Transamerica Re in 2011, should we expect any more acquisitions this year?**

Denis Kessler: When we make an acquisition, we always respect strict conditions. The company or portfolio must be a perfect match for our strategy. Moreover, we do not overpay for our acquisitions. The “badwill” (ed. a discounted price paid on the value of shareholders’ equity) achieved on Transamerica Re and Revios bears witness to this.
What will your dividend policy be in the future?

Denis Kessler: Despite the exceptional catastrophes that weighed on the results last year, we wanted to maintain a dividend for 2011 at the same level as last year, i.e. EUR 1.10 per share, representing a payout ratio of 62% of net income. In previous years, this ratio was already close to 50%, and our strategic plan sets out a ratio of at least 35% of net income. For our shareholders, this policy seems far preferable to buying back shares in order to cancel them, which is a strategy favoured by some of our competitors.