DENIS KESSLER
Chairman & CEO of SCOR

His career path

When he was called to the bedside of an ailing SCOR in November 2002, the ex-No. 2 at the MEDEF found a company on the brink of collapse. Ten years later, this HEC graduate with an advanced degree in economics has raised the French company to the position of 5th largest reinsurer in the world, having restructured the Group from top to bottom and made several significant acquisitions. He previously ran the Fédération française des sociétés d'assurance from 1990 to 1997, leading it again from 1998 to 2002 after a brief interlude at AXA.

What he’s doing now

2012 is, for the time being, a favourable year for reinsurers, but SCOR believes it has already proved its capacity to absorb shocks. Known for his prudence, its Chairman & CEO says he has immunized the company against a partial break up of the Eurozone by having no investments or capital in the vulnerable countries. He has also sheltered the Group from a sudden surge in interest rates. He will present the third quarter results on 13 November 2012, having made a profit of EUR 206 million in the first half.

“THE NEXT FEW YEARS ARE GOING TO BE VERY DIFFICULT”

Many company leaders are critical of the austerity budget, do you agree with them?

Austerity budget? That’s a very misleading term. The State is subjecting itself to neither rigour nor austerity, since it has not reduced its spending, contenting itself instead with stabilizing expenditure in nominal terms. The entire deficit reduction is focused on households, whose disposable income is going to fall, and on companies, which will suffer a major drop in their margins, already at historically low levels. This decision to go with “out and out levying” is leading to a major, unprecedented dent in the competitive production sector.

Are you saying that the screws are being turned too tightly?

Let’s get this straight; it is crucial that the public accounts recover. Efforts in this direction should have begun much earlier, and at least in 2000 when we were moving to the Euro. Instead, however, the route we have chosen is disastrous, since the State is imposing no structural reforms. We have even removed the principle of not replacing one out of every two retiring civil servants. In fact, we should have added to the first golden rule on budgetary balance a second golden rule stipulating that the bulk of the budgetary adjustment should be borne by the public sector. Instead of this, we have opted for a policy that increases mandatory contributions even further, without implementing the slightest structural reform to improve the low productivity of our public organisations. Public spending stands at more than 56% of GDP, yet our levels of poverty, morbidity and job insecurity are the same as those in countries that spend far less. As ever for the past thirty years, the State is protecting itself to the detriment of the commercial sector, which is increasingly exposed to global competition.

Do you believe that the objective of reducing the public deficit to 3% of GDP can be achieved?

It would be very surprising if we managed to do that. We have multiplied the number of spoonfuls, both small and large, being taken out of the fiscal pie, believing that this would make the new contributions less sensitive. As a result, we have upset everything. All the parameters of economic activity have changed: the holding of capital, the transmission of assets, savings, business creation, transactions, and so on. This
is going to lead to shrinking investment, lower household consumption, and relocation. All of which will aggravate the economic situation, thereby reducing fiscal revenue and raising unemployment. Which will take us even further away from the 3% objective. Corporations, which constitute France’s cashflow, are suffering and will continue to suffer over the coming years.

What should we have done?

To tackle the deficit quickly, we should have increased VAT, like Germany. That would have strengthened our competitiveness and our balance of trade, without impacting investment. And it would have enabled us to finance the structural reforms crucial to the sustainable reduction of spending. When will we have the courage to recreate a modern State, one that takes account of progress in terms of European integration, technology and so on? Our State is outdated. We need to overhaul everything. We need to rethink all of our public organisations, their duties, how they operate, their financing: justice, social security, education, and so on.

Southern Europe, which opted for this solution, is in the middle of a full-blown recession. Is this the right road to follow?

In the noughties, debt allowed us to consume too much. This debt, which was accumulated not to invest in future growth, but for everyday consumption, must be reimbursed. We are not the only ones in this situation. The whole of the western world must pay the bill for this excessive debt. Deleveraging is an absolute necessity. It took eight years to create this bubble, and it could well take just as long to deflate it, if not longer. But Europe has not even begun to deleverage yet, all it has done so far is stabilize its debt. The next few years, therefore, are going to be very difficult. And the choices we make now will determine what’s going to happen once this effort has been made. Without structural reform, however, this effort will count for nothing. There will be no return to sustainable growth without an overhaul of the public and social spheres. This is what Spain and Italy have had the courage to begin.

But will this approach be forcibly pushed ahead? The IMF seems to have its doubts...

It is absolutely crucial if we want to obtain conclusive results. The debt ratio has exceeded the critical threshold of 90% of GDP and is continuing to grow! We need to start debt clearing without delay; it is a necessary condition for the return to growth. However, this by itself is not enough: absolute priority must also be given to the production industry. The period immediately before us is a fragile one, because the longer the crisis lasts, the more tensions will grow, and the more difficult it will be to implement any changes. There will be a noisy opposition and a rise in populism, protectionism and patriotism. There will also be a silent opposition: fatalism, and an exodus of talent and capital. European tensions are visible, between the northern countries – which are increasingly unwilling to provide funds – and the southern countries, which are in the grip of serious problems. There is no point in postponing the necessary reforms; to do so would just increase tensions even further. But there must also be a mobilizing project, a vision justifying the efforts people are being asked to make and mapping out the path to recovery: this is currently lacking, on both a national and a European level.

You were talking about tax exile just now. Is this a genuine risk for our country at the moment?

Most companies are wondering about their location. We live in an open world. Any company that can relocate is duty-bound to think about it with regard to its shareholders, especially in a period of recession or very low growth. However, I believe that the attractiveness of our territory will suffer more damage from “non-locations” than from relocations. Faced with the choice of where to locate a production site, or where to invest, strengthen a research team or file a patent, many companies will choose a site other than ours. The spontaneity and energy of the “pigeon” moment, and the response it has received, bear witness to this major risk of seeing French entrepreneurial innovation and risk-taking develop elsewhere.
How are your shareholders, most of whom are foreigners, reacting to all this?

The major investors are reducing the share of their portfolios allocated to France, because the country is currently repelling many economic players. News of the 75% tax rate has spread throughout the world, and personal attacks on companies, their leaders and their shareholders, have not helped matters. Like others, I spend a lot of time having to comment on French choices, which have baffled international investors.

The risk of a Eurozone explosion is decreasing. Are we over the worst?

The markets have calmed down, that’s true. We are no longer in the acute phase of the crisis. The basic situation, however, has not improved. The ECB interventions have enabled us to avoid a systemic crisis, but they have not solved the economic crisis. This is proven by the fact that the effects of these massive cash injections in Europe and the United States disappear very quickly and have to be renewed on a regular basis. They mainly help governments, because they ease the debt burden. Just think, since 2008 around US$ 2000 billion has been injected into the US and EUR 2000 billion into the Eurozone, and the economy still hasn’t recovered. It’s as if the traditional instruments of economic policy have been deactivated, which proves that the crisis is structural rather than cyclical.

Where has all that cash gone?

It’s being hoarded by businesses and households, and by banks, which are re-depositing it at the central banks. At the first signs of economic recovery, the excessive cash created during the crisis could trigger a resurgence of inflation, as it will be difficult to sterilize other than through a sharp rise in interest rates. In the meantime, we are in a fully-fledged period of financial repression. Savings rates have never been as low as they are right now, because the central banks are intervening to ease the public debt burden and stabilize the banking system, which is facing the transition to new prudential standards. Who are the “victims” of this financial repression? Those with capital to invest: savers, insurers and pension funds. Thus a massive transfer is being organized, from savers to those in debt. The new banking regulations (Basel III and Solvency II) are part of this, dissuading bankers and insurers from investing in shares and encouraging them to buy government securities.

In this ocean of problems, are there any pockets of growth left?

There are still a few in Sweden, Australia and Canada, and most of the emerging countries, even though they have slowed down considerably, are still growing. But the overall economic slowdown is global. Many countries could tip into recession, because, in a globalized economy, problems in one country lead to a slowdown in others.

Interview by

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