Transcript of the YE 2022 P&C triangles call

June 23rd, 2023

Eric LECOEUR Group Chief Actuary

Good afternoon, everyone. I am pleased to chair our annual roundtable following the disclosure of our YE 2022 P&C triangles.

As every year, we are not going to go through all individual questions as most of them are connected and some are overlapping. We have grouped the answers related to questions covering the same scopes. Traditionally, questions are either Actuarial segments specific or covering much broader topics such as inflation, reserving level of comfort or reserving approach.

Before we get into more detail, let me start with some reminders

As in previous years,

- We do not comment our peers' figures as they are not necessarily directly comparable to ours.
- We do not comment on pricing (and therefore reserving) assumptions for obvious reasons.
- We do not comment on financial analysts' own assumptions considered when performing their reserves' assessment. We invite those of you who are doing your own projections to be cautious when using Chain Ladder and do not hesitate to use the data disclosed on the full statistical horizon.
- It is also worth keeping in mind that any evolution computed between two consecutive years of disclosure should be done using the As-If information, as this neutralizes FX and perimeter changes.
- We draw your attention to the fact that the published triangles cover circa 90% of the P&C Gross Booked reserves for the disclosed UWYs. This must be kept in mind when comparing to any other SCOR public document.
- It goes without saying but SCOR reserving actuaries are performing their reserves analysis at a much more granular level, using additional information from various stakeholders (pricing data, individual claim information, even head by head data, policy limits and so on)
- Several actuarial methods are applied including but not limited to the most classical ones which are the Chain Ladder or Bornhuetter-Ferguson methods.
- What I want to stress is that the Actuarial methods used are not limited to projections of historical losses. The reserves estimations also consider elements such as exposure analysis, frequency-severity approach, repricing of a portfolio. We are also considering individual claims information, reserves distributions coming from the SCOR internal model, diversification factors, aggregation methodology using copulas and other actuarial methods to estimate reserves.

I would like as well to make a general comment

Sometimes, some of you are asking questions on small movements or on the fact that some movements are not as smooth as one can expect. I would answer that such movements are normal and are to be expected. This is inherent to our business and driven by the so-called Process Risk. This is the risk due to the stochastic nature of the risk given a statistical model and its parameters. This refers to the inherent uncertainty of the insurance claims process. Unlike Parameter and Model risks, Process risk can be diversified.

What about reserves' increase implemented in 2022?

If you recall, during our roundtable on P&C reserves back in June 2022, we described that SCOR has an active management of its reserves, which are dynamically managed throughout the year following among others, cross reviews, portfolio deep dives and repricing exercises. A full bottom-up thorough and detailed review of the Group's P&C reserves is performed on a yearly basis, based on Q3 data and then rolled forward to Q4.

In 2022, we started this review earlier based on Q3 data. On top of this usual process, in 2022, a leading external actuarial firm was mandated to perform an independent reserving review based on Q2 2022 data. The business considered was a part of our P&C US business we believe is the most exposed to inflation.

As mentioned last year, if need be, SCOR has historically coped with observed inflation by reallocating reserves from lines that have shown favourable experience. But we mentioned explicitly that, and I quote, "should we have a long-lasting blip with a two-digits inflation, we would have to adapt our level of reserves. This kind of configuration would be a global market issue and would also impact our peers". Indeed, we mentioned as well that the level of our reserves is set up to cope with a reasonable inflation forecast in line with the current economic landscape. It is not set up to absorb an extreme scenario. And this is precisely what we are facing: an unprecedent inflation environment.

What about our claims' inflation assumptions? Our claims inflation assumptions consider exogeneous information such as Central Banks and financial markets forecasts, and our economists' own view. Last year at Q3 2022, SCOR has increased its P&C reserves to adjust for future inflation.

It is worth mentioning that actuaries, in accordance with their professional standards, are providing the management a range of Best Estimate. The management then chooses where to stand within this range. The management decided to place our Q3 2022 P&C reserves higher in the ultimate claim's distribution to take into account the claims environment marked by high economic and social inflation. As stated in our Q3 2022 press release: "SCOR took a prudent approach to its balance sheet resilience, by building prudence in a highly inflationary environment."

Hence, as shared during 2022 Investors' Day, SCOR increased P&C reserves by EUR 485 million:

- Approximately 2/3 of this amount was for adjustments for future inflation. Of these inflation adjustments 60% are in respect of casualty lines for UW Years 2010 to 2021. The remaining 40% relate to adjustments on property lines for UW Years 2020 and subsequent.
- The remaining part – approximately 1/3 – of the EUR 485 million P&C reserve strengthening corresponds to an increase of the reserves for Latent claims, including sexual molestation. This is impacting very old UW years and therefore is not in the triangles disclosed.

These elements should answer quite a few questions related to these segments.

To conclude,

- SCOR has an internal thorough and detailed reserving review on a yearly basis.
- the external independent actuarial review concludes that reserves were reasonable on the scope reviewed, confirming both our methodology and own assessment.
- there are additionally regular external reviews to comply with local regulation frameworks such as but not limited to Canada, India, Argentina, South Africa, SCOR Syndicate, most of Lloyd' syndicates part of SUL (third party syndicate)

- the reserves' increase implemented at Q3 2022 was a management decision to position the reserves more prudently in the actuarial best estimate range,

I can confirm that SCOR reserves are in a healthy position and that they are at Best Estimate.

So now let's tackle some generic questions and the questions related to the so called "total triangle" worksheet

A question which keeps coming up every year is related to the biggest risk we see in reserves. Our answer is not going to change either:

Long tail lines of business are always on our radar screen. Long tail lines are subject to exogeneous changes linked to the economic environment which could lead to economic inflation or linked to legal evolution or changes in law which could generate social inflation. These lines have always been closely followed up and as a reminder were subject in 2022 to an external review as mentioned previously.

One of you asked if our reserving governance has changed in 2022. The answer is clearly no. My mandate is still to give an "independent opinion with insights". As mentioned during the 2022 Investors' Day, the actuaries are providing a range of reasonable Best Estimates and the Comex and Board are deciding where to position SCOR reserves within this range. SCOR has a strong reserving governance where the Group Chief Actuary is attending quarterly both the Board Audit and Risk committee to share his opinion. To my knowledge, this set up is rare in our industry. The only change, but not directly linked to the governance per se, is that the Group Actuarial team has been reinforced by the arrival of 5 additional fully qualified actuaries as part of an internal reorganization to strengthen the risk function.

Now, let's tackle some of the questions related to the figures disclosed in the spreadsheet "total".

As far as underwriting year 2021 is concerned, the ultimate loss ratio improved indeed by 4,3% compared to last year, from 82,1% to 77,8%. The UWY 2021 ULR estimated at YE 2021 was impacted by many CAT and large losses on Property such as Hurricane Ida, European Flooding, European Convective Storms, Australia Floods etc. The positive ULR evolution from YE 2021 to YE 2022 is due to the mechanical effect of premium earnings during 2022 and low claim activity related to UWY 2021 during 2022.

When you look at slide 13, you can see that indeed ULRs for UW years 2018 and 2020 moved up by respectively 3,3% and 5,0%. The variations on these 2 UW years come mainly from Marine Aviation and Transport (UWY 2018) and from Property (UWY 2020). Indeed, the UWY 2018 ULR increase is driven by negative developments on the aviation portfolio marked by the Ethiopian Boeing B737 loss. UWY 2020 ULR increase is related to a precautionary increase on covid-19 on Property, fully covered by retrocession. On these 2 UW years, the negative developments observed are also due to the inflation impact but to a lesser extent.

As far as UW years 2015, 2016 and 2017 are concerned, their evolution is driven by the reserves' increase SCOR implemented at Q3 2022.

Some of you asked questions around the rationale behind ultimate premium evolution between this year's and last year's disclosure for the most recent UW years. The elements which are explaining this evolution are Fx rate, perimeter changes, as well as the update of the estimation of the ultimate premium by the underwriters. Indeed, in a reinsurance contract, the reinsurance premium in most cases is expressed as a rate to be applied to a known variable, also called the contract premium base. The premium base is usually the insurance premium which is only effectively known a posteriori and so is the reinsurance premium. The ultimate premium is based on EGPI (Expected Gross Premium Income) which is an estimate and may differ from the final actual premium income. The EGPI is updated regularly and is subject to adjustments especially for the most recent UW Years.

Now let's go through your questions related to casualty prop segment

As far as the 2022 opening Ultimate Loss Ratio of 61.6% is concerned, it is indeed lower than previous years. We took advantage of the hardening market and updated inflation forecasts have also been considered when pricing 2022 UWY, hence this level of Ultimate Loss Ratio. Also, one must bear in mind that actuarial studies are performed by segment and UW years, therefore reserves' increases implemented at Q3 2022 are not necessarily smoothly spread over UW years. Claims activity and change in risk profile are taken into account. These comments apply to other lines of business.

The case reserves ratio related to 2022 UWY of 2.5% is slightly higher than what was observed in the past due to a new cedant sending the accounts more rapidly.

As far as IBNR over Ultimate ratio is concerned, the ratio for 2022 UWY is lower than the previous year. The 2022 portfolio profile has slightly changed with new cedants being underwritten.

Let's now go through your questions related to casualty non proportional

Actuarial studies are performed by segment and UW years, therefore reserves' increases implemented at Q3 2022 are not necessarily homogeneously spread over UW years as inflation, for example, is not impacting all segments and UW years the same way.

As far as Proportional motor is concerned

On UWY 2021, the first year of complete accounts has shown unfavourable actual vs. expected and this has been reflected on the selection of ULRs of 89.5% compared to an historical average of 76.4%. 2021 ULR is an outlier typically reflecting process risk and there is no reason to have the same ULR for 2022 UWY especially since inflation has been considered in pricing. This has been on top of some changes in the risk profile.

As far as non Proportional motor is concerned

2022 ULR of 88.5% is better than the 2021 ULR. Here again, we have the same justification as before: we are considering in our pricing future inflation anticipation. ULRs can vary by UWY depending on the outcome of our actuarial analysis, the claims activity, and the risk profile.

2022 UWY ILR of 24.6% is higher than the 4 previous years. This is normal claims volatility driven by some claims related to the French Hailstorm of late June 2022. It is in line with the 2017 and 2014 first year of development.

As far as Property is concerned, we have already answered the questions related to 2020 and 2021 in the "generic questions" of my talk

We received some questions such as why UWY 2019 ILR of 71.9% was looking slow. Indeed, it is slower than 2018 and 2017 respectively of 74.4% and 91.3%. But should you compare to the average between 2013 and 2016 of 56.5% it is definitively faster. This is natural volatility and depending on the nature of the natural catastrophe loss, the reporting can be significantly different and consequently has an impact on the development pattern.

As far as Credit & Surety is concerned

The higher-than-average 2022 ULR of 67.6% is driven by the Ukraine war.

The decreases we see on all other UWY are driven by positive development notably on our Chinese portfolio.

As far as Engineering is concerned

The deterioration of the 2018 ULR by 6.1% is driven by some specific large losses.

As far as MAT is concerned

2018 ULR deterioration of 20.8% is driven by the negative developments of the Ethiopian Boeing 737 loss.

The positive developments in 2020 and 2021 are due to the reduction of air traffic during the covid19 pandemic, rate increases and better than expected results for marine.

UWY 2022 ULR level is driven by the Ukraine war.

END

General

Numbers presented throughout this document may not add up precisely to the totals in the tables and text. Percentages and percent changes are calculated on complete figures (including decimals); therefore the document might contain immaterial differences in sums and percentages due to rounding. Unless otherwise specified, the sources for the business ranking and market positions are internal.

Forward-looking statements

This document includes forward-looking statements and information about SCOR's financial condition, results, business, strategy, plans and objectives, in particular, relating to SCOR's current or future projects.

These statements are sometimes identified by the use of the future tense or conditional mode, or terms such as "estimate", "believe", "anticipate", "expect", "have the objective", "intend to", "plan", "result in", "should", and other similar expressions.

It should be noted that the achievement of these objectives and forward-looking statements and information is dependent on circumstances and facts that arise in the future.

No guarantee can be given regarding the achievement of these forward-looking statements and information. These forward-looking statements and information are not guarantees of future performance. Forward-looking statements and information and information about objectives may be impacted by known or unknown risks, identified or unidentified uncertainties and other factors that may significantly alter the future results, performance and accomplishments planned or expected by SCOR.

In particular, it should be noted that the full impact of the Covid-19 crisis on SCOR's business and results cannot be accurately assessed, in particular given the uncertainty related to the evolution of the pandemic, to its effects on health and on the economy, and to the possible effects of future governmental actions or legal developments in this context.

In addition, the full impact of the Russian invasion and war in Ukraine on SCOR's business and results cannot be accurately assessed at this stage, given the uncertainty related both to the magnitude and duration of the conflict, and the consequential impacts.

Therefore, any assessments and any figures presented in this document will necessarily be estimates based on evolving analyses, and encompass a wide range of theoretical hypotheses, which are highly evolutive.

Information regarding risks and uncertainties that may affect SCOR's business is set forth in the 2022 Universal Registration Document filed on April 14, 2023, under number D. 23-0287 with the French Autorité des marchés financiers (AMF) posted on SCOR's website www.scor.com.

In addition, such forward-looking statements are not "profit forecasts" within the meaning of Article 1 of Commission Delegated Regulation (EU) 2019/980.

SCOR has no intention and does not undertake to complete, update, revise or change these forward-looking statements and information, whether as a result of new information, future events or otherwise.

Financial information

The Group's financial information contained in this document is prepared on the basis of IFRS and interpretations issued and approved by the European Union.

Unless otherwise specified, prior-year balance sheet, income statement items and ratios have not been reclassified.

The calculation of financial ratios (such as book value per share, return on investments, return on invested assets, Group cost ratio, return on equity, net combined ratio and life technical margin) is detailed in the Appendices of the Q4 2022 presentation (see page 24).

The financial results for the full year 2022 included in the presentation have been audited by SCOR's statutory auditors. Unless otherwise specified, all figures are presented in Euros. All figures are at constant exchange rates as of December 31, 2022 unless otherwise specified. Any figures for a period subsequent to March 31, 2023 should not be taken as a forecast of the expected financials for these periods.

The solvency ratio is not audited by the Company's statutory auditors.