Group strategy and outlook

PROJECT NEW SCOR

10 June 2005

NOTICE

- The Management of SCOR wishes to emphasise the fact that this document is intended to present the Group's strategy and outlook, and particularly the state of advancement of considerations relating to projects currently being developed.

- NEW SCOR is a global project, certain aspects of which, once they have been oulined and according to their purpose, will give rise to specific consultations with the *Comité d'Entreprise* (Work Council) of SCOR Paris, as set out in chapters IV and III of the French Work Code, as well as consultations with the trade unions.

- NEW SCOR is a project involving the whole Group. It will also be necessary to undertake the necessary meetings and consultations with the managers of all the SCOR Group entities and their staff.

Group situation and outlook

SCOR has come through a profound crisis

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SCOR made some strategic errors in the 90s that led to very significant losses in 2001-2003

- Unmonitored expansion in the United States and Bermuda along with a lax underwriting policy meant that significant re-reserving was necessary…
- these corresponded to accumulated losses in 2001-2003 that reached EUR 1,047 million (Group Net Income: 2001: EUR - 278 million, 2002: EUR -455 million: 2003: EUR -314 million) and almost completely wiped out the Group's capital equity in existence at the beginning of 2002;
- The capital equity had to be restored by means of two capital increases in 2002 and 2003 for an accumulated amount of EUR 1,132 million

SCOR has come through a profound crisis

Without the support of its shareholders, who made its recapitalisation possible, SCOR would have had to put itself into run-off:

- Underwriting would have ceased
- and only those jobs necessary to manage the run-off would have been temporarily maintained, involving a maximum of around 200 people for the whole Group
- France’s only independent private reinsurer would have disappeared and the cedants would have found themselves in a potentially oligopolistic market.

SCOR has been actively executing a recovery policy since 2002

Since the end of 2002, SCOR's teams have been executing an aggressive and determined policy in order to bring about the company's sustainable recovery. This has involved:

- restoring its capital based and refinancing the Oceane in 2004
- defining and following a new underwriting policy that is now centred on profitability
- actively processing legacy issues (such as WTC, CRP, discontinued business commutations, IRP, credit derivatives and so on)
- maintaining the confidence of its clients

SCOR has been executing a recovery policy since 2002

This policy has helped to:

- achieve a ROE of 5% after three years of losses;
- re-establish financial credibility;
- safeguard the client base;
- maintain the confidence of brokers;
- unite the conditions necessary for a positive revision of its rating

SCOR has been executing a recovery policy since 2002

This recovery policy has nevertheless not yet produced all its desired effects:

- competitiveness has not yet been fully restored
- the Group has benefited from a positive outlook from the rating agencies, but its rating has not yet been upgraded
- the markets are increasingly competitive and there is a risk that the client base will be eroded if the Group's rating is not upgraded as of this year;
- Some legacy issues have still not been closed (e.g. WTC, CRP and IRP) and continue to take up significant resources

SCOR's business has been resized and the Group has been repositioned

SCOR remains a worldwide group

SCOR's business is principally international

- In Non-Life Reinsurance, 80% of premiums are collected outside France;
- In Life & Accident Reinsurance, 79% of premiums are collected outside France.

The Group's headquarters are certainly in Paris, along with 60% of its employees, however SCOR has one of the most globalised French companies

SCOR is facing competitors based in environments that are fiscally and socially more favourable

- Bermudian companies are highly and increasingly competitive, even though they operate in a country benefiting from tax, social and regulatory advantages

- The French environment is still not very favourable for conducting international business
(e.g. for SCOR ”tax and contributions excluding Corporate Tax” + 129.3% in 2004 compared to 2003, EUR 6.3 million of which was linked to the increase in professional tax alone, representing almost 20% of salaries paid in SCOR Paris).

- The gap in competitiveness is progressively widening to SCOR’s disadvantage

After being significantly contracted, SCOR's business is stabilising

- Since 2002, the Group's worldwide premium income has fallen by half, a condition of solvency restoration
- This change involved the decisions to put CRP in run-off in Bermuda, to reduce the premium income of SCOR US between 2002 and 2004 (-82%) and to apply the new strict underwriting policy
- Overall since 2002 there has been significant business contraction in large corporate risks (Business Solutions), and to a lesser extent in treaties
- Life reinsurance premium income has fallen less than in Non-Life, but faces the risk of depreciation

After being significantly contracted, SCOR's business is stabilising

- SCOR's business volume has been resized;
- Renewals at 1 January and 1 April 2005 are considered satisfactory, even though competition is becoming more fierce;
- SCOR envisages a stable premium income in 2005 compared to 2004 excluding exchange rate effects;
- SCOR is moving into growth markets (e.g. Korea, India, Russia, the Middle East and so on);
- SCOR gained new clients during the renewals.

SCOR's business mix has changed significantly

SCOR's business has changed:

- the premium income is now broken down as follows: 48% Life / 52% Non-Life compared to 30% Life / 70% Non-Life in 2002;
- the proportion of Large Corporate Risks and facultatives in the Non-Life Reinsurance business volume has shrunk, even if their contribution to the results remains satisfactory;
- we have noted a progressive transition from treaties towards non-proportional cover, which limits premium income growth.

SCOR now has a disproportionate cost base

SCOR's cost ratios have deteriorated since 2002

The changes in SCOR's cost ratio since 2002 are due to:

- An initial cost base in 2001 that was already significant in the US and Paris, following successive acquisitions and debatable choices such as the Group's New York listing in 1996;
- The significant contraction of underwriting volumes since 2002;
- The permanence of costs linked to the management of legacy issues (e.g. CRP, WTC and so on) and "discontinued business" reserves in the US;
- The emergence of new costs linked to the implementation of Sarbanes-Oxley audits, the transition to new accounting standards, and so on.

SCOR's cost ratios have deteriorated since 2002

- The cost ratio (overheads / Premium Income) has deteriorated, moving from 4.5% of Premium Income in 2002 to 7.7% in 2004,
- despite a drop in Group overheads, which decreased by 14%, from EUR 225 million in 2002 to EUR 194 million in 2004,
- and despite a 17% reduction in staff since 2002, worldwide staff numbers having fallen from 1,256 employees at the end of 2002 to 1,038 employees at the end of 2004,
- a reduction that mainly took place in entities outside France. Since 2002, 78% of staff reductions have taken place in entities located abroad (170 people), and 20% in SCOR Paris (48 people)

SCOR's cost ratios have deteriorated since 2002

	France	Germany	Italy	Spain	UK	Russia
staff**	587	40	35	33	32	3
2004 / 2002	-12%	-18%	-6%	0%	-47%	0%

	Singapore	Hong Kong	Korea	China	Japan	Chili
staff**	36	12	7	2	6	3
2004 / 2002	8%	-83%*	-43%	0%	-17%	0%

	US (Non-Life)	US (Life)	Canada	CRP	Colombia	Brazil
staff**	137	46	46	7	12	4
2004 / 2002	-46%	-14%	-9%	-471%	25%	-75%

*transfer of Hong Kong business to Singapore / ** employees at the end of 2004

SCOR's cost ratios have deteriorated since 2002

- The adaptations that SCOR has made over the past three years have mainly been dictated by the constraints that the Group has had to respect
- The reduction in staff numbers (-17%) was mainly the result of a policy of not replacing departing staff (e.g. retirement, early retirement, resignation, redundancies in the US and so on)

SCOR's cost ratios have deteriorated since 2002

- We have noted a contraction in overheads excluding personnel costs, but this remains insufficient (Overheads excluding personnel and rental costs: -4% in 2004, of which fees –22%, interim costs -36%)

- The sale of the headquarters building led, all other things being equal, to an increase in overheads due to a rental payment of EUR 11 million per year

SCOR's cost ratios have deteriorated since 2002

The management of run-offs and legacy issues is taking up significant human and financial resources:

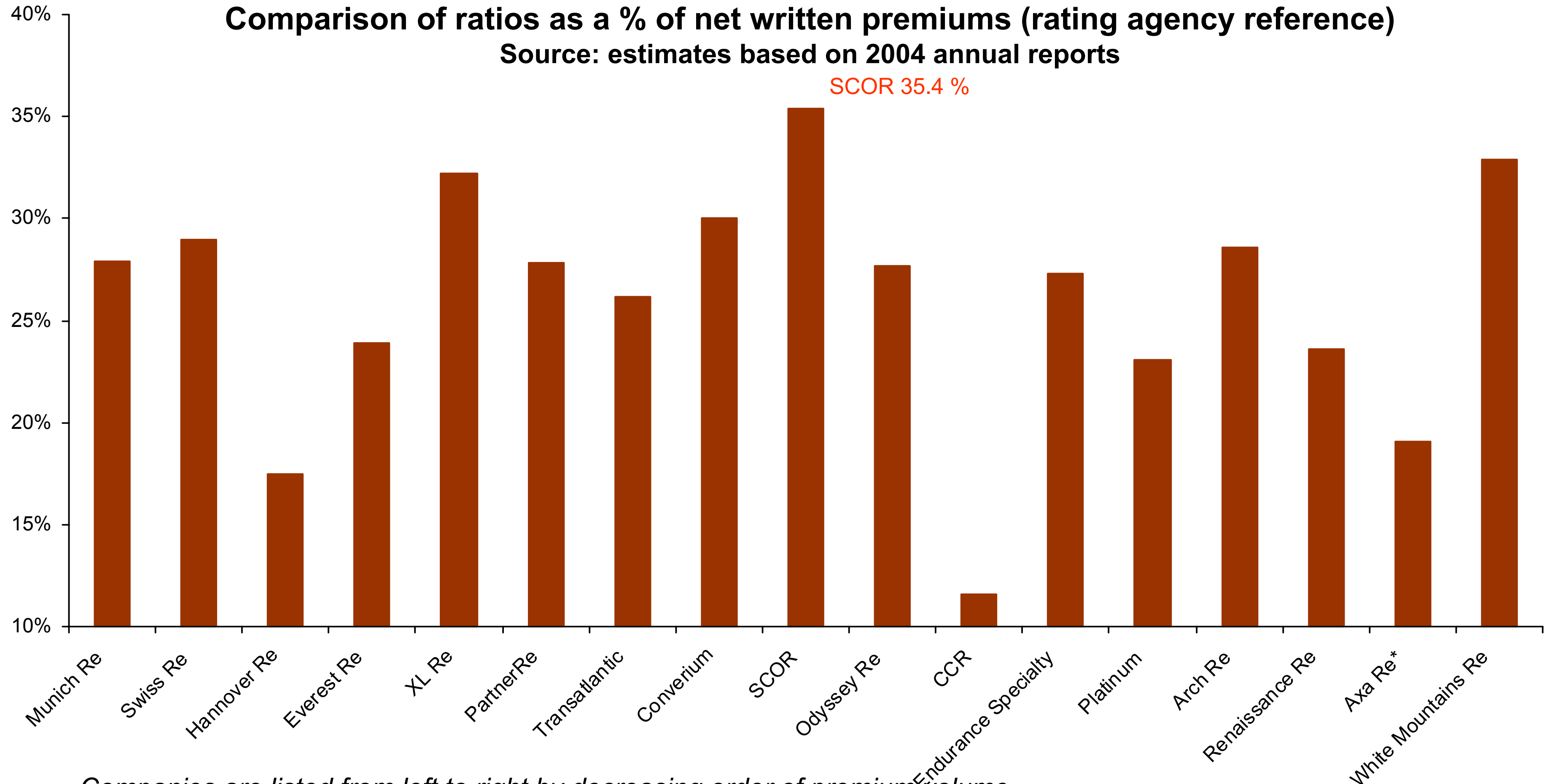
- The management of the CRP run-off by commutations has enabled us to reduce reserves by 80% since 2002, but still represents an annual cost of EUR 5 million
- The amount of SCOR US reserves corresponding to "discontinued business" was EUR 1,172 million at the end of 2004, and 45 people are needed to manage them
- Costs linked to the management of legacy issues (such as WTC, IRP, credit derivatives), have been very high since 2002 and take up significant human resources

SCOR has significantly higher cost ratios than its competitors

An examination of SCOR's costs shows that:

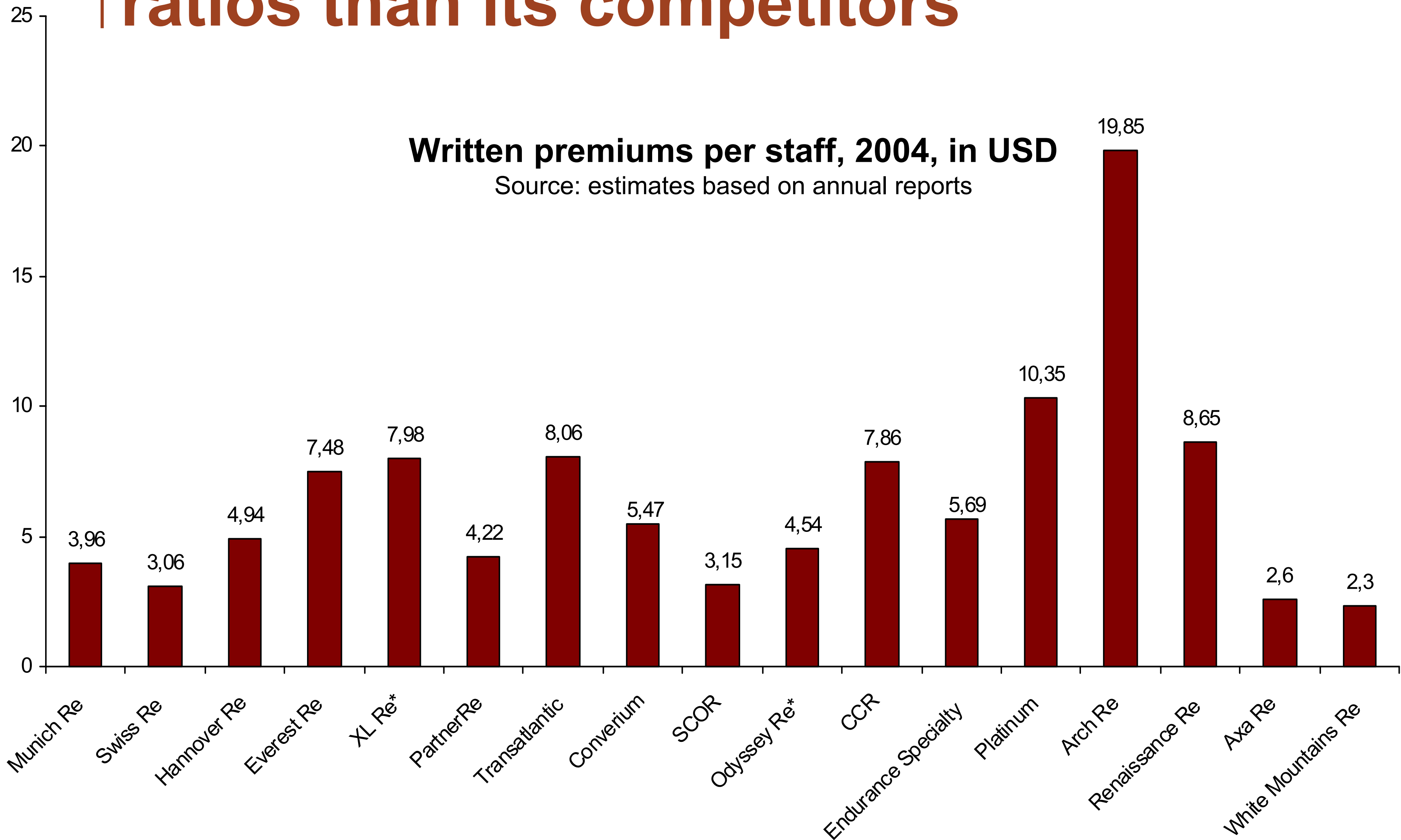
- its costs are higher than most of its competitors
- SCOR's "premium/employee" ratio is lower than that of other reinsurers
- The proportion of personnel costs in the overall costs is 45%, in line with its competitors.

SCOR has significantly higher cost ratios than its competitors



Companies are listed from left to right by decreasing order of premium volume

SCOR has significantly higher cost ratios than its competitors



Companies are listed from left to right by decreasing order of premium volume

SCOR's competitors have already begun cost cutting programmes

- Axa Re implemented a redundancy plan in 2004 that reduced its staff by 30% in France
- Converium: announced a 30% reduction in staff in 2004 following a downgrading and significant losses
- Swiss Re has relocated its technical accounting business to India and announced a reform of its structures in June 2005

SCOR has reduced its staff since 2002 but retained its expertise

- The reduction in staff in Non-Life above all affected the markets from which SCOR has largely withdrawn (i.e. the US and Bermuda: 107 people, constituting a 43% drop in staff from these entities)

- Staff numbers in Life reinsurance have been maintained, currently representing 224 people.

SCOR has reduced its staff since 2002 but retained its expertise

- The structure by qualification shows that at the end of 2004 SCOR had significant expertise at its disposal: 187 underwriters, 68 actuaries, 59 IT specialists, 25 legal experts, 25 financiers, 149 accountants and 213 back office staff and so on.

- Part of these skills are generally under-used, given the current situation and the Group's outlook on a global level

The outlook for business developments will not enable us to spontaneously achieve a cost ratio of 5% by the end of 2007

In order to safeguard the Group's competitiveness:

- The Board of Directors approved the "Moving Forward" plan in August 2004 that included the objective of a cost ratio of 5% by the end of 2007
- The 2007 Premium Income forecasts vary from EUR 3 billion ("downward scenario") to EUR 3.4 billion ("fragmented scenario")
- Given these forecasts, the objective of a 5% ratio is unattainable: strong action is therefore needed

The outlook for business developments will not enable us to spontaneously achieve a cost ratio of 5% by the end of 2007

In order to safeguard the Group's competitiveness:

- overheads will have to decrease by 12% in the case of a fragmented cycle (representing a drop of EUR 24 million compared to the 2004 budget) …
- And by 23% in a downward scenario context (representing a drop of EUR 44 million compared to the 2004 budget).

SCOR's competitiveness is handicapped by a disproportionate cost base

SCOR has a declared objective of 10% profitability on capital equity (600 basis points above the risk-free rate):

- **One cost ratio point less now represents 2 ROE points more (before tax); each cost ratio point is worth 25 million, and each ROE point is worth 13 million;**
- **2004's profitability, at 5% of capital equity, is less than half of the profitability required;**

SCOR's competitiveness is handicapped by a disproportionate cost base

- **By way of example, in order to achieve 10% of profitability, SCOR should have significantly lowered its cost base in 2004;**
- **It is true that 2004 was affected by the re-reserving of the WTC and exceptional climatic events in the US and Japan;**
- **In any event, SCOR's operational platform is oversized compared to its current and forecast premium income.**

Project

NEW SCOR

NEW SCOR is a global consideration

The objectives of NEW SCOR are as follows:

- to adapt SCOR's structures to its new business volume and risk profile;
- to restore competitiveness with regard to other worldwide multiline reinsurers;
- to improve the Group's operational performance.

New SCOR is a global consideration

New SCOR requires various ways of adapting, such as:

- reorganising the Non-Life reinsurance business
- releasing productivity gains in Life reinsurance and relaunching commercial activity
- increased underwriting and management control
- re-implementing new Group procedures
- improving the contribution made by asset management to the Group's results
- optimising human resources management

Reorganising the Non-Life reinsurance business

Creating a Non-Life reinsurance business:

- **that is operational;**
- **that combines “treaty” and “large risks” across the world;**
- **that is 100% held by SCOR SA;**
- **to improve business synergy on a worldwide level;**
- **and better cross fertilisation and utilisation of experience and skills.**

Reorganising the Non-Life reinsurance business

To begin work on the reorganisation and simplification of the Group's Non-Life structures, in Europe, Asia and the rest of the world:

- **The integration of the European financial system and the Euro facilitates transnational processing;**
- **The cost of subsidiaries should be optimised;**
- **Underwriting on the various markets concerned could remain decentralised.**

Reinforcing productivity in Life reinsurance and relaunching commercial activity

- A slight contraction in Life Reinsurance compared to Non-Life Reinsurance has enabled us to maintain a relative competitiveness in this business.
- Comparisons show that the cost of SCOR's Life reinsurance business is in line with that of its major competitors: costs are between 4% and 5% of premiums.
- Nonetheless SCOR VIE must still contribute to a reduction in the Group's cost ratio, following the example of other Group businesses.
- The effort will be chiefly concentrated on structural costs, given current productivity levels.

Reinforcing productivity in Life reinsurance and relaunching commercial activity

- SCOR VIE will concentrate on its operational role
- SCOR VIE's results should be consolidated
- Existing commercial structures in underwriting offices and subsidiaries, should remain staffed by small teams
- Existing establishments will be examined
- SCOR VIE will seek more versatility in its personnel in order to manage its tasks more efficiently

Increased underwriting and cost accounting

- The CRO (Chief Risk Officer) will be responsible for monitoring the Group's Life and Non-Life reserves
- The CRO will play a role in defining underwriting policy for both "treaties" and "large risks";
- The CFO will be responsible for reinforced cost accounting over all the Group's business;
- The financial managers of Group entities will be subject to double line reporting to both the managers of operational entities and the CFO;
- Existing "management letters" will be expanded;
- The "quarterly business reviews" will be systemised;

Re-implementing new Group procedures

The objective is to redefine the functions of each Group entity and the responsibilities of the managers who run them:

- ***The Life subsidiary and the proposed Non-Life subsidiary will be mainly operational***
- ***The Group central functions will be as follows:***
  - Strategy and innovation
  - CFO (cash flow, strategic asset allocation, PBR, Corporate Finance, relations with the rating agencies and investors)
  - Retrocession, reserving, pricing et accumulation
  - Information systems
  - Human resources policy
  - Auditing
  - General secretariat
  - Communications

Improving the contribution made by asset management to the Group's results

The objective is to increase the Group's financial income

- Cash flow management will be centralised and its investment will be optimised
- Financial management will be reorganised to distinguish asset allocation strategy and investment management
- ALM will be reinforced
- A formal investment committee combining the Group's various financial skills will meet monthly

Optimising human resources management

Resizing the Group to adapt to its new business profile will necessitate a reduction in costs of around €24 million (fragmented scenario) to €44 million (downward scenario) in order to achieve the objective of a cost ratio of around 5% of premiums by the end of 2007.

This reduction will be shared 50/50 between structural costs and personnel costs:

- the possible contraction of structural costs between now and 2007 on a worldwide level will be between EUR 12 and 22 million;

- the foreseeable reduction in the total wage bill between now and 2007 will be between EUR 12 and 22 million, representing between 120 and 220 worldwide Group positions based on staff numbers at the end of 2004;

Optimising human resources management

The ways and means to implement the reduction in Group costs remain to be determined with the parties involved:

- In France, the management will consult with the trade unions over the implementation of measures that will enable the objective of reducing the total wage bill to be achieved, including through a redundancy plan.

- Foreign subsidiary managers will be involved in the project through the Partner's Committee of 27, 28 and 29 June.

Determining a working method at SCOR Paris

Negotiation will be the favoured method of defining the conditions under which SCOR Paris will combine the imperative requirements of competitiveness, reducing staff and renovating the contractual environment.

An initial meeting with union representatives will take place by mid June in Paris with a view to reaching an agreement fixing the methods and timetable for dealing with NEW SCOR's consequences for employees in France, including a redundancy plan prioritising voluntary redundancy.

Determining a working method at SCOR Paris

Negotiation will also be the favoured method of redefining collective agreements on the length and arrangement of working hours in France:

- the objective of these negotiations is to achieve improved operations for SCOR Paris in the context of the new proposed structure;
- as well as to decrease the company's social liability (retirement and *CET* – system of compensating overtime with holiday – over the whole Group representing an overall social liability of EUR 58 million), a necessary condition for reviewing direct remuneration.

Next major steps for SCOR Paris staff representatives and unions

- Specific consultation with SCOR Paris' work council on the proposed creation of a Non-Life business and the new Group organigramme between now and the beginning of July.

- Negotiation of a method agreement between now and mid July fixing the methods and timetable for dealing with NEW SCOR's consequences for employees in France.

- Fixing in mid July of a negotiation timetable with regard to the various agreements likely to be renegotiated with SCOR Paris' trade unions.

Acting on all costs

The reduction of the total wage bill is just one of the ways to achieve our cost-reducing objectives. The Group will deal with the reduction of other structural costs:

- Overhead budgets will be established over the next three years so that they have been reduced by between €12 and 22 million by the end of 2007 depending on business developments.

- In the event of a positive or negative change in business beyond or below the scenarios set out in Moving Forward, the ways and means to achieve the Group's objectives will be reviewed.

Optimising human resources management

- Management has proposed the introduction of a variable proportion of salary for all employees who do not receive a contractual bonus. This proportion will be calculated on the basis of objectives fixed during the annual appraisal;
- The individual management of careers will be intensified in order to facilitate increased operational and geographic mobility;
- An in-depth analysis of individual salary situations will be carried out by 1 July 2006, with reference to market standards, in order to check that SCOR salaries are comparable to those paid by our competitors for similar skills.

Optimising human resources management

- The training policy will be reinforced by the authentication of acquired skills
- We will be seeking to harmonise the management of personnel between the Group's various entities (Share attribution scheme, stock options, variable proportion of salary and so on).
- The Group will continue to associate managers across the world with the company's success, through a policy of free share allocation and stock options, as soon as these programmes have been approved by the Board of Directors and the General Meeting of shareholders.