Please note that the conference call was accompanied by a complementary presentation in PDF format available on the Group's website: http://www.coface.com/Investors, under the "Financial results and reports" section.

9M-2021 Results

Conference Call Transcription

Paris, 28 October 2021

Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's results for the period ending 30 June 2021. As a reminder, this conference call is being recorded. Your hosts for today's call will be Xavier Durand, CEO, and Carine Pichon, CFO.

Xavier DURAND, CEO, COFACE

Thank you and good evening, everybody. Thank you for joining this third quarter earnings call. Just before we get into the meat, I just want to acknowledge that this is going to be the last call for Carine Pichon. She's been our CFO for a very long time. I think this is her thirtieth earnings call as a listed entity and probably her fortieth quarterly closing overall. She will be taking us as usual through the second part of the presentation. On the call we have Phalla Gervais who will be taking over from her and so going forward she will be the one presenting for us.

Let me now start with the results. We are happy to report a very strong quarter. Our total net income for the year comes in at EUR 190.9m at the end of September, including EUR 67.7m in the third quarter alone, which is a record for Coface. I think it's a strong quarter, not just because of the net income but also because of the other metrics. Our turnover is up 7.9% year-to-date at constant FX and perimeter and up 8.9% year-on-year in the third quarter. Trade credit insurance premiums, which is our core business, are up 9.3%. This is on the back of the rebound in the economy as well as the repricing that we did last year. The pricing impact is still positive year-to-date, up 1.6%, but as we highlighted the last quarter, competition has been increasing quite significantly and it has been negative for two quarters in a row now at -1.3% cumulated. The other good news is our information services business that we have been focusing on continues to see momentum. We are up 13.4% year to date and 18% in the third quarter as we indicated previously.

On the loss side, it's more of the same with a net loss ratio which is down almost 30 points to 25.4% bringing the net combined ratio to 56.1% for the first nine months of the year. The Q3 net loss ratio is 31.4%, which is down almost 19 points from the third quarter of 2020. We continue to see a low level of loss activity although we probably bottomed out during Q3. The nine-month 2021 net cost ratio is up 0.6 points versus the first nine months of 2020 but it's better than the first nine months of 2019 as we continue to invest and our variable costs are back to more normal levels after an exceptionally low year due to Covid in 2020.

The net combined ratio is 62.4% for the third quarter. If we exclude the impact of government schemes, it's at 53.5%. The government schemes' costs are accelerating. What's happening is the years 2020 and 2021 are starting to mature and the phenomenon of accelerating government costs is going to continue for some time. We'll have more on that, but it's lowered our pre-tax profit by EUR 32m in the third quarter and EUR 57m year-to-date in 2021. I've already spoken about total net income. It brings our return on average tangible equity year-to-date to 13.9%.

Going into page 5, I just wanted to highlight some management changes. You've seen a few announcements come through. We continue to evolve and strengthen our leadership team as part of our normal activity. I've just mentioned the switch that is taking place between Carine Pichon and Phalla Gervais. Carine's moving on to head our Western Europe region, one of our largest regions, so she will now appear at the bottom of this chart.

Antonio Marchitelli who's been leading that region for the last 5 years will stay with us and will be leading our Global Specialities. He will drive Coface's growth strategy in three key specialty product lines, i.e. Single Risk, Bonding and Debt Collection. He will design and roll out a global roadmap to accelerate growth and build Coface's operational capability to develop these product lines.

Also confirmed in his role, Jaroslaw Jaworski who is now leading Central and Eastern Europe. He has been with us for a long time and until now has been leader of our business in Poland.

In the same spirit, we have appointed Marcele Lemos to lead our South American business. She was previously the leader of our Brazil business and has more than 20 years' experience in the credit insurance space. For the record, out of our seven regions in Coface, four of them are now led by women, representing about 74% of the total turnover of the company. So, I think we're demonstrating that we're taking gender diversity very seriously, and not just in support functions but also in key operating roles for the company.

Moving on to the pages that you're more familiar with, on page 7, there are some growth story highlights. You can see total growth at 7.9%. Trade credit insurance is up 9.3% all other things being equal. We're seeing positive client activity. Business information sales are encouraging at 18% in the third quarter. Factoring, another one of our important adjacencies, is up almost 11% year-to-date and more than 10% in the third quarter. We're seeing finance volumes rebound in line with the economy. One of the corollaries of having a low level of losses is that third-party collection revenues are down, which is understandable. They're down 5.3% year to date. We're seeing the same phenomenon when it comes to fees collected from our insurer clients, as collection fees are also down, and that's driving our insurance related fees divided by earned premiums ratio down for the first nine months of the year.

Looking at the geographies on page 8, we actually have a very broad-based recovery in terms of our volumes with some really nice growth numbers across the key regions here. Western Europe is up 6%, Northern Europe is up 10.6%, Central Europe is above 7%, and Mediterranean & Africa is above 8%. North America, which has been one of the more volatile markets, is up 2% and I think we are seeing some recovery there. Asia-Pacific is up 5%, and Latin America is posting exceptionally high 18.8% growth on the back of prices. Agro-food, chemicals and raw materials mainly drive our business there, and there's been quite a lot of price appreciation in these spaces, which is helping our Latin American business see some pretty nice growth.

Page 9 contains the usual operating metrics. It is still a year of strong performance for Coface in terms of new business. We're having the second-best year in our history, not quite as good as 2020 but definitely continued growth. The retention rate is close to our highest. We are seeing a bit more competition as we speak, and I think I've already highlighted that. You're seeing it as well when it comes to pricing, which is still up 1.6% year to date, but it's been going down, which I already mentioned last quarter. During the third quarter, our prices went down about 0.7% but the impact is still positive year-to-date. We can see at the bottom of the chart the rebound in terms of the economy with the volume effect being the growth that we get from the growth of our clients' turnover, which is up 5% from last year, year-to-date. Again, that is in line with what we had indicated in the second quarter call.

Looking to the risk side on page 10, we're having another quite extraordinary quarter in terms of losses with a 16.9% loss ratio before reinsurance and including claims handling expenses. Operationally, we are seeing a low level of activity on large losses and low frequencies. We believe that we probably reached the low point in the cycle at the beginning of Q3. In this context, we've not changed our reserving policy. What you see on the bottom right-hand side is the opening of the 2021 new vintage, which is now lower at 70.5% and reflects what's happening as the year starts to develop. You also see some very large bonies coming from the prior vintages at 47.9%. At this point in the year, about two thirds of the bonies are from the 2019 underwriting year and one third from the 2020 underwriting year. That matters since for a good chunk of 2020 and the first half of 2021, about two thirds of our book has been protected by government schemes, mainly in France, Germany, Italy and the UK. These government schemes mean that we're immunised against losses but also against gains and recoveries when it comes to these vintages. That's why you will see that the cost of government programmes has increased, and we do expect this to continue temporarily for another few quarters. However, this doesn't mean we're not performing. It just means it's going to weigh on our upside for that period of time.

On page 11, looking at losses by region, I think the chart is pretty clear. It's quite an incredible picture if you look at the four largest and most stable regions at the bottom of the chart. They're all below 30% and Central Europe is at 16%. Then if you look at the more volatile markets, which we typically place at the top of the chart, clearly, they're very low, all in the teens with Asia back at 11% and Latin America at 8.9%.

On page 12, we show the quarterly trend and the story is even more spectacular with Western Europe, Northern Europe and Med & Africa well below 30%. Central Europe, North America, Asia-Pacific and Latin America are all close to zero, with even a negative loss rate for Latin America as the year's rolling out much better than we had anticipated.

If we look at page 13 going to the cost side now, you'll see that our costs are up about 12% quarter-on-quarter from Q3 2020. Bear in mind that in 2020 we were right in the midst of the Covid crisis, so pretty much on lockdown. This was a tougher year of course for Coface, meaning T&L was down, and we had lower bonuses, lower volumes. This year we are growing again at a pretty fast rate. Variable costs are up, bonuses and compensation are going back up on the back of a very strong year. You can see that our cost ratio is marginally up from the first nine months of 2020 and there's a couple of things going on here. One, we are investing in our information business, and that's costing us about 0.5 points of cost ratio. We are seeing lower debt collection fees linked to low claims and that's costing us another 0.5% of cost ratio. At the same time, the business continues to drive operating leverage, meaning that the growth in our premiums is higher than the growth in our core operating costs to run our business. So, our first nine months' costs have gone up by 3% whereas revenues have increased by 5%. Combined, this means that, at 33%, our cost ratio is just barely higher than what it was in the first nine months of 2020, but it's lower than 2019, which is a more normal year as a reference.

With that, I'm going to turn it for the last time to Carine to take us through the rest of the pages.

Carine PICHON, Group CFO and Risk Director

Thank you, Xavier, and good evening, everyone. Happy for my last call to comment these figures.

So as usual, I will comment on the reinsurance result on page 14. As in previous quarters, this reflects very low loss activity and also public schemes. The cost of reinsurance, which you can see at the bottom, is around EUR 164m, EUR57m is linked to public schemes and I will provide more detail in the slide afterwards, but as the overall loss ratio is low, it's a higher cost for us. The premium cession rate at 43.4% is up by 0.7 points compared to last year, whereas we have a lower cession rate on the claims side mainly because we are releasing important results on the 2020 underwriting year.

The cost of reinsurance is higher because of low loss activity. Recognition of government schemes' impact is accelerating. We have two ways to look at this impact. The first one on the top left is the combined ratio. As a reminder, in blue, you have the published combined ratio and in green is the combined ratio without public schemes. What you can see is that up to and including Q2 2021, government schemes had a positive on the combined ratio, but the situation reversed in Q3 2021 because we have ceded virtually all premiums around that, but now we have reserve releases that we are giving back to the government. The impact is accelerating on pre-tax profit, what you have on the bottom left, where you see that we started to be negative in Q3 2020 and accelerated between EUR 10m and EUR 15m up to June and EUR 32m in Q3 2021 so clearly the costs to Coface, partly offsetting very strong profitability, are likely to increase in the coming quarters. This is because in countries where schemes are in place, the majority of potential future reserve releases are attached to underwriting years 2020 and up to mid-2021 when the government schemes ended. These potential future reserve releases will benefit governments.

Continuing now on the following slide, the net combined ratio is at 56.1% so a record low loss ratio on a cumulated basis for the first nine months of this year. You see that the cost ratio is up slightly by 0.6 points but clearly improved compared to a record year in 2019 by 1 point. The net loss ratio also improved at 25.4% which is around a 30% improvement compared to last year reflecting a low level of loss. On a quarterly basis which is the graph below, 62.4% is the combined ratio for Q3 2021. The loss ratio is at 31.4%, which is up compared to previous quarters. The fact that this is up is not because of the loss ratio before reinsurance - you have seen it was a contrary trend - but it's because the public schemes' weight on new business is more than offsetting improvement in past years. That's what you may see on net combined ratio.

On the financial portfolio side, nothing specific that's new compared to previous quarters. We have a resilient income. The average yield on investment portfolio without realised gains is 0.86%. At the end of September 2020, it was 0.91% so quite similar and resilient investment income. We realised some gains this quarter on one specific real estate fund. It's a little more than EUR 4m. The investment portfolio is growing due to strong operating cash flows, and we continue to progressively deploy our excess liquidity. So, strong operating performance based clearly on the low combined ratio and resilient investment income.

Page 18 shows current operating income of EUR 266.1m. The tax rate stands at 23% this quarter, which is quite similar to before, so we have a cumulated tax rate at 24% and net profit at EUR 191m. This is 3.6 times higher than nine-month 2020 but what is clearly more relevant is to compare that net income to the pre-crisis level in nine-month 2019. On that basis, it's up +63% so a significant increase compared to 2019 too.

Page 19 is our return on average tangible equity, which stands at 13.9%, clearly on the back of a huge increase coming from technical profit with a strong underlying commercial and profitability level. The financial result is driving up the growth to a lesser extent. And our equity is up above EUR 2bn now on the back of this good net income. So that's it for my comments on that and now I will leave it to Xavier to discuss the key takeaways and the outlook.

Xavier DURAND

Thanks, Carine, and thanks for this contribution.

On page 21, when it comes to looking at this quarter, clearly, we've reached a record in terms of profitability and on the back of two key trends. One is that we're still seeing low claims across all regions, and then secondly, and I think more importantly, we continuing to see strong operational performance from the different areas of the business. In terms of the economy, it's been rebounding throughout the summer, as you're aware. We're facing some uncertainties, sporadic flare ups of Covid here and there so it's not completely over. We are seeing supply chains that have been disrupted during Covid having trouble getting reorganised and that's going to take some time. It's generating cost inflation, it's generating delays in production, it's disrupting the world as we knew it before Covid. I think the central banks and the states have now begun to remove the support that they provided during Covid. They're eager to get the economies off of the support line, so that's starting to happen. We do expect insolvencies because of this withdrawal of support and as some of these disruptions normalise, but we think the most likely scenario at this stage is that this will happen progressively. As I've already highlighted, in this context, potential reserve releases that would be attached to underwriting years 2020 and the first half of 2021, for the reasons that we've described, would mostly benefit the governments who've signed the schemes and therefore this would weigh on our numbers in terms of capturing some of that upside. We continue to implement our Build to Lead strategy. We really haven't changed what we're thinking about and what our priorities are. We're navigating what's in front of us tactically with resilience and with agility. I'm encouraged actually by the resilience of our core credit insurance business, and we've demonstrated another strong quarter of growth in our adjacencies. We're seeing some momentum here. So, to sum up, the company is doing well. Although I would say over the coming quarter, we will be immunised in terms of benefiting from upside from the contract that we signed with the government.

So that's basically the story. With that, I'm going to turn it over to the Q&A session.

Q & A session

Michael HUTTNER (Berenberg) Fantastic, thank you very much Xavier and thank you Carine. Again, amazing results! I note the cautious turn and, on that, which year does what's coming up now, so the next couple of quarters, look like? 2019, 2018, 2017? Hopefully not 2020. Just as a feel for how we can gauge the progression. My feeling and here I'm maybe wrong is that because you benefit a lot from the raw materials cycle, that in fact we might continue getting positive surprises, but I don't know if you can say anything. Then on the information services, you're saying about extra investment. Can you give us an indication of what the profitability of the business is now, either as a number or as a margin or something? That'd be really helpful. I imagine in a couple of years, we'll have to put it separately in the valuations. I don't know if we can do that yet. And then, the last point is how much money will you pay as dividends? Sorry it's a really stupid question but that's one I have. Thank you.

Xavier DURAND (CEO, Coface) Thanks Michael. Interesting questions. First on your first question. We typically as you know – and I'm going to say it again, as frustrating as it is – we don't provide forward guidance. I think we are in an economy that has rebounded pretty strongly after Covid, There's some pent-up demand there and you're very well aware of this. There's inflation in raw materials and commodities. There are also disruptions and it's hard for car manufacturers just to be able to find chips and produce the cars so they're just not selling. So, I think it's a mixed bag. It's growing. It's probably going to slow somewhat. The question is whether the consumers who have accumulated so much money during the crisis are actually going to spend that money. I think that's really the question here and I don't have all the answers. And then how Covid ultimately ends up. Is this going to be the end of it? Are we going to see flare ups? Is there going to be a new strain coming through? I don't know. I think we have more tools in the developed markets. In the non-developed economies, it's still iffy. What I would say is it's not a bad environment for Coface to operate in. There's uncertainty, there's risk, there's movement, there's stuff. That's what we're here for, so you know I would just tell you that much.

In terms of the information business. I am encouraged by the fact that it's growing. It is a profitable business. I'm not going to give you the margin number. We've not disclosed the individual margin numbers of each one of our product lines. Maybe someday if we have to value that separately we'll have to make a change. But it's not the case today. We are making thoughtful investments, but we are making determined investments in the space because I think it's a great way for us to monetise the knowledge and increase the range of services we have for our clients. All by using the same infrastructure and same knowledge base and the same expertise pool that we have for trade credit insurance.

And your last question was about the dividend. Unfortunately, we really haven't changed our strategy or our priorities. Funding core growth then funding external opportunities through acquisitions if there are some and then finally returning excess capital to shareholders. What I will tell you is that we've already made EUR 190m for the first nine months of the year, so calculating 80% of that is pretty easy and our policy states that we will return at least that going forward given the level of solvency which, as you know, is strong for the company.

David BARMA (Exane BNP PARIBAS) Yes, good evening. My first question comes back to the comments on the outlook and trying to understand the drag from the prior year releases in the next quarter. Just wanted to confirm a number that you gave, Xavier, in your introductory remarks. Did you say that only one third of the PYD in Q3 was from 2020? And so, if that's the case should we just expect a multiple of the number you provide on slide 15 for the drag from the government schemes? And then secondly, on capital. I know you don't provide solvency numbers in Q3 but can you just give us just a directional view of where capital is now given the many moving parts in the second half with growth and the schemes?

Xavier DURAND (CEO, Coface) I did mention that year to date, when it comes from the recoveries that we're getting from past vintages, about two thirds came mainly from 2019 and a little bit from prior years, and one third from 2020. Naturally, as 2019 runs off, that proportion is going to change. In terms of the capital position, you know that we ended the first half of the year at a very strong point. We're not changing our approach; we're not changing the discipline we apply to handing out credit limits. You're seeing that our business is growing. Clearly, we have to fund that growth, there's no mystery around this, but we're not changing the discipline that we have. Our premiums are growing in line with the activity of our clients and the risk that we take. Overall, I do still expect us to be in a good position. But we do not provide those numbers in Q1 and Q3, so we'll have to wait until the end of the year to give you an exact figure on this.

Benoit Petrarque (Kepler Cheuvreux) Yes, good evening. A few questions on my side. Just coming back to the government schemes and the previous year releases. When do you think you will get most of your visibility on the 2020 vintage? Could that be already in the fourth quarter? And I wanted to understand the process. Do you get a push of any kind from governments to try to settle losses a bit quicker than normal because releases can take quite some time? I was wondering if that will be a very slow process, the release, or if that could be coming in one or two quarters, i.e. Q4 or Q1, and can you help us to try to quantify the pressure from that on earnings going forward? Any help would be very useful there. The second question is on the pricing pressure. I was wondering where it comes from. Any particular geographies? Is it more Europe, or is it more broad-based pressure? And then the last one, I was just trying to think about 2022 as we're almost there. Could 2022 be a kind of normal year where I mean obviously, we do see risk, government will be out. Could we think about an 80% normalised combined ratio in 2022 as you see it now, without providing any guidance? Just could it be a normalised year? And Carine thank you very much for all the time you spend with us and good luck.

Xavier DURAND (CEO, Coface) Thanks Benoit. Let me take the shorter one, the price pressure. You've seen the loss numbers - they're low everywhere so the price pressure is a normal reaction, I think. Not just from the industry but if you're a client or a broker, you're basically going to try to use this to negotiate better prices, so it's pretty broad. I don't think it's specific to any particular place.

In terms of the government schemes. So, your question about timing, going back to the prior discussion, I mentioned that about a third of our recoveries so far were about 2020 which means two thirds were largely 2019. If things are logical, a year from now we'll be about in the same position regarding 2020 right. I haven't really disclosed anything fantastic here. So that's maybe the way to think about timing.

When it comes to what 2022's going to look like, I think so far, we've had everything wrong every time we've tried to think about the crisis. If you remember at the beginning of 2020, everyone was thinking this could be the mother of all crises. So, there's still a lot of uncertainty. What I think is the most likely scenario that I've described, which doesn't mean it's going to happen 100%, but it seems plausible that you would see some kind of a withdrawal or increasing withdrawal of government measures. You're still going to see some supply chain disruptions for some time. Everyone's saying now it's going to take a year, maybe a little bit more. You're going to have social tensions, geopolitical tensions. So yes, I do expect losses and insolvencies to pick up some speed. At what speed, I don't know. I think that's what we do well at Coface. We're able to navigate an environment which is not easy to navigate, because it's multi-factor, it's multi-geography, it's multi-sector, and that's what we do. That's our job. So, I don't know if I'm helping you but at least I'm giving you a sense that this is exactly what we do. And it's because of this uncertainty that we actually have a business.

Benoit PETRARQUE (Kepler Cheuvreux) Right. Just conceptually, you have a gap on the combined ratio with and without schemes of about 10 percentage points. That could become a little bit more if I understand correctly going forward but let's assume 10 percentage points. So, is that conceptually correct to think that you need to generate an underlying at 70% to get to an 80% level next year? Because, I guess there will still be a drag, potentially more significantly in 2022.

Xavier DURAND (CEO, Coface) I don't know if I understand what your question is here, 70 / 80 what is this, I'm sorry?

Benoit PETRARQUE (Kepler Cheuvreux) Well, your normalised level is 80% but you need to assume you will have a 10-percentage-point hit from the schemes, so you need to have a core level at 70%.

Xavier DURAND (CEO, Coface) You know, the trick here is that the cost of the government programmes is a function of the level of losses. If there were zero losses, all of the reserves would go back to the government. If there's high losses, there will be low cost to the government. So that's a variable cost. In a way it's kind of like we're immunised. Or the portion of the business is that falls under those schemes.

Benoit VALLEAUX (ODDO BHF) Yes, good evening, two questions from my side. The first one is related to this competitive market environment. Just to see whether you see any increase in the self-insurance of your customers. Any change in terms of behaviours in terms of acquiring self-insurance coverage. And it's not really a question relating to Q3, but do you have a new kind of description or maybe some fintechs that are developing some new kind of business model that could compete with some of your business lines? And the second question is related to reinsurance coverage. I don't know what you can tell regarding the next renewals. What do you expect in terms of pricing and if you might increase your retention for the part of reinsurance business which comes up for renewal?

Xavier DURAND (CEO, Coface) These are good points. In terms of self-insurance, it's always been something that's around. Every year, there are companies that make the decision to go and self-insure. They tend to be in two categories. One is the very large groups that make the investment, and they usually have very stable businesses, so they know their clients very well and the make the investments to build up the infrastructure themselves to do this. The other ones are companies that are small that haven't been with credit insurance very long and they just happen to either run short of money to pay premiums or they have other priorities, and they decide to self-insure. So, typically, in a low loss environment, you're seeing more temptation to go down that route. That tends to reverse when things get bad. It's like you buying some kind of insurance product that's not mandatory. If you perceive that the risk is low, you'll be more tempted. So, there's some of that going on. To some extent it's marginally impacting our retention.

In terms of the fintechs, I've had the opportunity to talk about this a few times. There are two things fintechs can do. They can try to compete with us in our core business but then they have to be insurance companies and they're not fintechs anymore, so they tend to quickly become big and regulated. The other one is to provide information or related services that would allow a company to self-insure better. That's what we're doing because I think that our infrastructure, having data on more than 100 million companies in 200 countries and being interfaced with so many systems and having the experience of being able to understand what these numbers mean and having sometimes decades of underwriting experience is hard to reproduce. So, I think fintechs are interesting in that they will help us improve, they will improve some processes. And when they do that, it's our challenge to go and do better and maybe absorb some of that technology into our own operations and I've said this for five years. I don't think anything different is happening quite frankly.

When it comes to reinsurance, it's too early here to say what's going to happen. Clearly, if we're having good results then the insurance industry is having great results on the back of that. Negotiations will take place here and it's too early to say which way it's going to go. We have our opinion, and the reinsurers have their opinion, and we have to reconcile the two.

Thomas FOSSARD (HSBC) Good evening, everyone. Two questions. The first one is related to your solvency position. You're not providing the number at the end of September, but I guess that you are still in a pretty healthy capital position, probably holding some excess. Given the fact that you might be a bit limited at the present time in terms of giving back this excess, because of the constraints you may have in doing share buybacks at the present time, does that mean that we should think about you deploying this capital potentially in acquisitions? Obviously you're growing quite significantly and fast in the information business, so I was wondering if this was potentially one area where you could focus your attention in terms of inorganic growth. The second question may be for Carine about slide 15. Looking back at the bottom chart, the acceleration in the cost of the scheme is around EUR 20m pre-tax per quarter so would this math be correct that, with an unchanged claims level, actually 20 times four quarters means that you will end up with a pre-tax profit which would be running around EUR 80m lower than it has been running this year, so EUR 60m pre tax. So, if you're ending the year at EUR 210m or EUR 220m, does that mean that with an unchanged loss experience, will 2022 net income be around EUR 150-160m? Thank you.

Xavier DURAND (CEO, Coface) In terms of the first question, I'll let Carine answer the second one of course. In terms of the first question, we've always said that we are open to acquisitions. We have actually done a couple of acquisitions. We're very happy with them and they're working out very well for us. So, we're always open but we're not ready to buy anything at any price. It has to make a lot of sense; the price has got to be right. We have to see if it fits well in terms of being a bolt-on or an extension. We've said there's two things we'll do. We're either going to add scale, and this is what we did in a prior acquisition, or we're going to add skills, things we don't know how to do well ourselves that somebody else is going to do better and give us that capability. So, I'm not ruling out looking at other things than just traditional credit insurance, but again the price has got to be right, and it's got to fit in. You know that in terms of information or other businesses like this, multiples can quickly become quite impressive, so it's about finding that right thing. Carine, do you want to take question number 2?

Carine PICHON (CFO, Coface) Yes. Of course, you know that we don't provide forward looking statements, Thomas, but also that it will depend on the level of claims going forward. What we know and that's why we mention it, is that the cost for the government will depend on the level of the reserve release for 2020 and for the first part of 2021 because of the scope of the guarantees. For 2020, we only have one third of the September reserve release which is linked to that; there is still a part that is not yet there. And for 2021 it will really depend on the level of loss, as when you look at the opening of the year for 2021 it's around 70%. So, it will really depend on that. Just bear in mind that in general between the start of an underwriting year and the majority of the development it's a maximum of two years so it's something we will have to see in the year to come.

Thomas FOSSARD (HSBC) Thanks, Carine but looking at the chart it seems to me that the blue arrow is indicating that actually this EUR 32m is going to maybe go further down in Q4 2021. I mean, it's unlikely to stabilise at EUR 32m.

Carine PICHON (CFO, Coface) Well, what I will say is what is clear as of today, to make it simple, we don't send as much premium to the states because government schemes ended at the end of June. We may the end of some premiums but not so much. So, what will happen is what will happen to the develop [inaudible 49:04] we have and how much we will release. So that's the question in front of us. The good news is that the level of the loss ratio is still low but then we have to give part of it to the government. The extent of the government cost will depend on the extent of the reserve release this year

Xavier DURAND (CEO, Coface) These government programmes are extraordinary in that it's the first time we have this in the balance sheet, so it does introduce something different or harder or unusual in the short term. I just want to say again what I said earlier which is this is going to be temporary and, underlying this if you think a little more long-term, we have a business here that's going pretty well.

Thomas FOSSARD (HSBC) And yourself, you will be earning, if things are going well. Of course, the government will benefit and will have their profit share of it. But I get that you have also been pretty cautious yourself in reserving all those years. So, at the end of the day you will benefit as well from pretty healthy reserve releases in the coming years.

Xavier DURAND (CEO, Coface) Well, I mean again there's a short-term effect here which, once it's gone, obviously it will be a lot simpler to model.

Michael HUTTNER (Berenberg) Three questions. One is very cheeky and the other two are numbers. You talked about the government schemes and the recoveries. Is there a similar impact in terms of the normal reinsurance contracts or are they much smoother and we don't have to watch out for humps or anything? The second is the initial loss pick in nine months, 70 point something percent. Before it used to be 73%. Is it significant in any way? And the last one which is sort of cheeky in a way. You've got all these new managers which is fantastic. When I arrive in a new place, I'm king of the castle and I can do anything I like. Is there a risk that they are a little enthusiastic in growth?

Xavier DURAND (CEO, Coface) Who is enthusiastic in growth, sorry?

Michael HUTTNER (Berenberg) You said you had new managers in the various units. I mean people who may have experience but they're actually new in post.

Xavier DURAND (CEO, Coface) Well, I'll take that one. Maybe I'll let Carine handle the other two. We've always changed people. Since I've joined there's always been a healthy rotation of people. I think this is part of the normal life of a company where managers get to a certain point where they want to do something else, or we think there could be the benefit of a change. It's all, I think it's all normal life. We haven't done anything during the Covid time. We were managing the crisis and kind of hunkering down so it's not unusual that we would see a little bit of activity on that front.

The first question. What was that? I'm trying to remember.

Michael HUTTNER (Berenberg) Reinsurers benefiting a lot from the reserve releases, the recoveries.

Xavier DURAND (CEO, Coface) First of all, it's not like we've reinsured 90%, it's mainly the quota-share at more like a 23% level. But essentially the way reinsurance schemes work is that if you have a good year then it's a quota-share then that quota-share goes to the reinsurer.

Carine PICHON (CFO, Coface) Maybe on this if I can interrupt Xavier. Private reinsurance goes after state reinsurance. So, it means that for 2020 and the first half of 2021, we apply first external government schemes and then we apply the current and normal reinsurance external ones. So, it means that in a way they have had lower [54:35 – premiums ceded] because of the government schemes but it has been stopped starting 1st July of this year. I don't know if that was your question.

Michael HUTTNER (Berenberg) Yeah, it was probably a better answer than I could have hoped for! And the 70%? The initial loss pick in nine months is 70% and it was in previous periods it was 73% or 75%.

Carine PICHON (CFO, Coface) You mean the opening loss ratio for underwriting year 2021? I mean we have applied the usual reserving methodology and model and we see that in the loss ratio. We have a lower opening loss ratio, that's what happens, because of the loss activity which is low.

Michael HUTTNER (Berenberg) And may I ask a last question. I remember, when you mentioned in the past the movement in the solvency ratio, you explained that partly it reflected the expected loss experience. In that is there something to say? Could it lead to a movement which we are not expecting in terms of solvency ratio?

Carine PICHON (CFO, Coface) We are anticipating the loss ratio but not the accounting one. It's a best estimate in solvency 2. The best estimate is also calibrated every quarter based on the current losses. So, we are readjusting this. This is the mechanism. We are not expecting anything specific as of today but that's the way it works so we will readjust this at the end of the year based on the last quarter's data.

Xavier DURAND (CEO, Coface) We are using an internal model now so, essentially, a good chunk of our solvency, or our capital requirement is determined by the exposures that we take.

Carine PICHON (CFO, Coface) Yes, the best estimate is used for the equity so you're right for the solvency capital level, but for the equity level, which is in front of that, it's more or less based on the best estimate calculation.

Moderator

Thank you, sir. We have no other questions.

Xavier DURAND (CEO, Coface) OK we're right on the hour. These calls are becoming perfect. So, I just want to thank you all again for attending. I want to thank Carine for her collaboration, publicly, over the last, well in my entire tenure as the CEO of Coface. Wish her luck in her new role. Welcome, Phalla, thank you again for joining and we will see you for our quarterly earnings call which will be in February, for full-year 2021.

Carine PICHON (CFO, Coface) And I will take this opportunity to say thank you Xavier and thank you all of you. It was a pleasure, and I will follow you in case the stock… I'm interested in any case to create value for Coface. So, thank you, everyone. And thank you Xavier for the support.

(End of transcript)

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FINANCIAL CALENDAR 2021/2022 (subject to change)

FY-2021 results: 15 February 2022 (after market close)
Q1-2022 results: 28 April 2022 (after market close)
Annual General Shareholders' Meeting 2021: 17 May 2022
H1-2022 results: 28 July 2022 (after market close)
9M-2022 results: 27 October 2022 (after market close)

FINANCIAL INFORMATION

This press release, as well as COFACE SA's integral regulatory information, can be found on the Group's website:

http://www.coface.com/Investors

For regulated information on Alternative Performance Measures (APM),

please refer to our Interim Financial Report for S1-2021 and our 2020 Universal Registration Document.

Coface: for trade

With 75 years of experience and the most extensive international network, Coface is a leader in trade credit insurance and adjacent specialty services, including Factoring, Single Risk insurance, Bonding and Information services. Coface's experts work to the beat of the global economy, helping ~50,000 clients build successful, growing, and dynamic businesses across the world. Coface helps companies in their credit decisions. The Group's services and solutions strengthen their ability to sell by protecting them against the risks of non-payment in their domestic and export markets. In 2020, Coface employed ~4,450 people and registered a turnover of €1.45 billion.

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Code ISIN: FR0010667147 / Mnémonique : COFA

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