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.

Q1-2023 results

Conference Call Transcription

Paris, 25 May 2023

Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's Q1-2023 results. As a reminder, this conference call is being recorded. Your hosts for today's call will be Xavier Durand, CEO and Phalla Gervais, CFO.

Xavier DURAND, CEO

Thank you. Welcome, everybody, to this first quarter publication call. We're happy to report our net income at €61.2m for the first quarter. As you know, this is the first time we will be reporting under the new format of IFRS 17 and IFRS 9 accounting standards. In April, we provided a pro forma view of 2022 quarter by quarter, so we will be comparing this first quarter 2023 to the pro forma 2022 that we had previously disclosed. So, on that basis our turnover is up 11.4% at constant FX and perimeter. If you look down the list of our products, you see that trade credit insurance is growing almost 11% and client retention is breaking yet another record at almost 96%. Pricing is down 1.5% but less than last year. Business information continues to grow and is up 15% at constant FX, and factoring is up 13.1%. It was another good quarter and we'll discuss the underlying trends in the following pages. You also see the net loss ratio at 40.6%, which brings the net combined ratio to 66.3%. The gross loss ratio is up from last year by 9.2% as we see a normalisation of the risk environment, but last year we also had the impact of the last bit of the government programs which we contributed to, so when we compare the net result it's actually better this year. The net cost ratio is down by 2.1% to 25.7% and that's both thanks to operating leverage and continued high reinsurance commissions. We'll explain how we're continuing to invest in the business during that time. Overall, this was a strong quarter with net income up 17% to €61.2m and return on average tangible equity at 13.6%.

We've added a page to the usual stack on page 5 just to highlight two different points in what we're doing. The first one has to do with how we're growing our information business. We wanted to give you a little bit more colour on what's going on in that business. It's actually made up of two parts. One is the historical business information units that we had in Coface, mainly in Eastern Europe and Israel, and that piece is growing in the single digit. Then we've introduced our new strategy and new products, which is about 40% of our business, and which is showing strong growth. We have the annual value of the new business that we're driving and the pipeline of new opportunities which are seeing strong double-digit growth from last year. I think another benchmark that's interesting for us to highlight with this business is that we've reached 13,000 individual clients for this activity, both large and small companies, and that compares to roughly 50,000 clients for Coface overall. So, it's starting to be material in terms of our ability to reach a large number of clients even though the unit value of these contracts obviously is much smaller than what we get in credit insurance. Also, some really nice growth in the other specialties that we've laid out in our Build to Lead plan. Revenue from our bonding, single risk, debt collection and factoring specialties is up 20% and then insurance and debt collection fees are up 17%. That's a reversal of the previous trend where over the last couple of years we had seen much less growth in those parts of the business than on the pure insurance premiums. This gives you a little bit more colour on what's continuing to drive service and fee revenues for Coface.

The other point we wanted to highlight is obviously the real estate portfolio. As you know, we mainly have bonds in the investment book and we've been modifying our other holdings, mainly stocks which have come down. But we also have a €200m real estate book as a diversification. I wanted to give you a little bit more colour because everybody knows this is an area of the investment portfolio that is under more stress. We do not hold buildings directly. We hold them through investment funds. We have been careful in selecting funds that have low to moderate leverage, so we're not invested in the highest leverage parts of that space. We have been proactively managing that part of the book. It started in the second quarter of 2021, where we had about 9% of our book in real estate at the end of 2021. We're targeting something like 5% by the end of this year which implies €90m of divestments. There are limitations due to the liquidity of these assets and, while we are managing that exposure, we're also actively rotating away from what we consider to be the most risky part of that book, which is offices and retail, into something that for us has got more resilience, which would be housing and logistics type infrastructure. So, as you know the real estate portfolio won't be run through the PNL in terms of mark-to-market under the new IFRS 9 accounting standards, so it has a negative impact on the return of our asset portfolio for this quarter and we'll explain this in the rest of the call.

With that I'm going to turn to page 7. Those are pages that by now you're very familiar with. You can see the 11.4% growth in total revenues for the business and 10.9% for premiums, driven as it has been for quite a while now by past client activity and very strong retention. As I mentioned, other revenues are up just over 15% and information also up 15%. Third party debt collection is small but it has started pick up some speed at 44%. Factoring is up 13%. And then as I said, after several years of stagnation insurance fees are starting to see some momentum at 12.8% which for us is a nice non-capital-intensive source of revenues.

On page 8, we usually break up our growth story by region. Whereas last year we had fairly homogeneous growth across all the world, you start to see some differentiation here and that's really driven by what's going on in the economies and in different regions. So Latin America used to grow 30%. It's coming down as we're seeing a softening of commodity prices from last year. Asia Pacific is slightly down, that's driven obviously by the slowdown in activity in the Technology ICT space as well as commodities. If we exclude the positive one-off from 2022, Asia is fairly flat. North America posted double digit growth. Med and Africa is doing really well. Central Europe is negative because we are running off the book in Russia. Excluding this we would be at 1% growth, so that also highlights some form of slowdown in Eastern Europe. And then in Northern Europe and Western Europe, you see the numbers being inflated in Western Europe by some accounting one-off due to the alignment of the accounting methodology, which accounts for about 10 points. If you take that out, growth stands at 7% for Northern Europe and 11% or 12% for Western Europe, so continued growth in client activity in that part of the world.

If you go to page 9, you see that new business continues to return to pre-COVID levels. We continue with our stance of being prudent in the way we underwrite business in this part of the cycle and very consistent with our strategy of value creation through the cycle. The retention rate broke yet another record, I think we've been breaking those records for 5-6 years in a row now. The price effect is -1.5%, which is fairly in line with those historic trends, but it is better than it was last year. So after Covid we had a good year in 2021, we had a rebound, a negative rebound in 2022 and things are starting to improve a little bit. And then on the volume effect it's still a good quarter but it is less than half of the activity we saw last year, so we're clearly seeing a slowdown in economic activity which is reflected in the turnover declarations that we get from our clients. Clearly, the cycle that we had predicted would continue is happening, so no real surprise when it comes to those numbers for the team here at Coface.

I'll go to page 10 and talk a little bit about risk. We had another good quarter at 40.7%, which is pretty much in line with the quarters that we had before that. There is a slow normalisation underway. I think it's probably happening a little bit slower than we would have thought, but we've seen the number of claims increase for almost two years now. It'll be two years in June, close to pre-crisis levels. The large losses are increasing even though they're still below the average of the cycle. You can see on the bottom right of the graph here we try to compare 2022 and 2023, so under the new IFRS 17 rules we have to discount the reserves that we put on the books, so that's why you have this light blue line here on the top which explains what the reserves would have looked like if we didn't have that discounting method. So, we're reserving the new vintage at 78.4%, which is actually very close to the 84.2% we had last year. As you recall last year was the first quarter in which we saw the invasion of Ukraine by Russia and we had taken some reserves, which explains why it was a little bit higher last year. On the other hand, the turquoise 35.6% are the releases from the prior years and you see that they are lower than they were in 2022 and 2021, and getting back to the values historically that we had seen in the prior years. That's really because the two extraordinary vintages that we had following COVID and the government policies which had driven insolvencies to record lows, these two vintages are now running off so we're getting fewer releases from the past and then things here as well are normalising.

On page 11, we show the quarterly loss numbers by region, and we compare that to the annual losses in the prior years. It's a little bit tough to compare one quarter with the full year so I suggest we move to page 12 where we have the quarterly sequence for the different regions. Here what you see is that the four largest and more stable markets on the bottom are pretty benign at 42% for Western Europe, 24% for Northern Europe, 26% in Central Europe, and Med and Africa at 29%. So really, the risk remains pretty stable and really good on these four markets. You see more volatility as we have historically known in the three smaller more volatile markets on the top. North America rebounded from zero in Q4 to a still very good number at 32%. Latin America saw the second tranche of the large file that we had discussed in Q4, so the difference here is that we've taken the second part and then that'll be the end of this file. However, it is compensated this quarter in terms of the net loss by the charge that we will pass on to the reinsurers, so net you won't see it but on a gross basis it still appears here on the Latin America curve. And then in Asia Pacific it's rebounding from a low -50% to +29%, so the quarterly numbers are more volatile, but we still see a pretty good level of losses here in Asia.

We have the usual page on costs on page 13. Our total costs quarter over quarter and a year are up 10.9%, and that breaks down into 8.8% for external commissions paid to third parties and 11.5% in internal costs. Within those numbers, I just wanted to highlight a few things. First of all, insurance costs are up 7.9% so when you compare that to growth in insurance premiums, we are continuing to see operating leverage. Costs are growing more slowly than premiums, which is exactly what we want, and what we've been doing for the last seven years. We're continuing to invest in the business as per our Build to Lead plan, so you see that 2.2% of those 11.5% have been driven by investments that we deliberately make in this business. Then we're also adding to our technology investment budget, because I think this is a good time for us to do that. There are some things we can get done this year that it's just not worth postponing. And then when you look at our gross cost ratio, it's actually down 1.2 points from last year at 29.4% and that's really driven by the increased fee revenues that I mentioned earlier. With that, I'm going to turn it over to Phalla to take us through the rest of the deck.

Phalla GERVAIS, Group CFO and Risk Director

Good evening. So, let's look at the reinsurance page on page 14. I will start with the premium cession rate at 27.3%. That has been very stable compared to last year. We’re going back to the pre-COVID period level where you only have the third-party reinsurers in place. The claims cession rate has moved up from 7.1% to 27.4%. Just to remind you that in Q1 2022 we released the last chunk of the reserves related to the public schemes and of course that went back to the government that put these schemes in place. This explains the low claims cession rate last year, while this year we’re more back to normal pre-COVID levels, except that here within the 27.4% we have the first tranche of excess of loss related to this very large claim that we have in Latin America. For the first time in Coface’s 20 years history we reached the first tranche of excess of loss. Bottom line, the reinsurance result moved from -€52.5m to -€21.3m.

If we move to the next page, the net combined ratio is at 56.3%, which again is a pretty good result. If we want to compare apples to apples, again I would compare last year’s 56% without the public schemes in place to the 66%. Here, you can see that this increase is mainly due to the loss normalisation where the net loss ratio is moving from almost 30% to 40.6%.

Let's move now to the financial portfolio on page 16. So, if you look at the chart on the left-hand side, we can see the mark-to-market of our investment portfolio is now slightly above €3bn. In terms of asset allocation, we have not moved much since the end of 2022, with the investment in bonds at 75%. We de-risked our equity part last year down to 3%. Investments in real estate funds are at 7%, and here you can see that 16% is liquid assets as of the end of March and we are holding cash to pay out dividends which was done yesterday.

If we move on to the right-hand side which is the net investment income at -€2.6m. I think three highlights here. The first one is the underlying yield on our portfolio without mark-to-market and without realised gains. You can see that our accounting yield is now at 0.5%, which is twice as much as we had last year, so here you can see that we are starting to really benefit from the interest rate increase and the fact that we moved our portfolio to take advantage of this opportunity last year. On the other hand, we booked a negative impact related to the fair value of our investment in real estate. As Xavier mentioned, the mark-to-market, so the unrealised loss, under IFRS 9 goes to P&L while under IFRS 4 it used to go into our equity. Lastly this quarter, we booked an accounting impact related to the application of IAS 29, Hyperinflation, on Turkey and Argentina, booking -€5m pre-tax, which goes into our net investment income. This gives us net income of €61.2m with operating income up 11% compared to last year and net income up 17% compared to last year. Again, a very satisfying quarter.

On return on average tangible equity, I will start with the change in equity. On the equity side, full-year 2022 pro forma under IFRS 17, we have €2.018bn. Net income for the quarter at €61m and then I think differently from last year you can see that the mark-to-market of our investment portfolio is now positive, excluding of course the liquid asset part and investment in real estate that goes into P&L. This leads us to a final IFRS equity at the end of March of €2.1bn. Return on average tangible equity starting with the end of full-year 2022 stood at 12.7%. Adding up the technical results and the negative impacts related to the financial results gives us a return on average tangible equity of 13.6%.

Xavier DURAND, CEO

So as usual I'm going to wrap this up on page 20. Just to say few words about the environment to start. There's a lot of risk out there. I think over the past few quarters we've highlighted the geopolitical tensions, the war in Ukraine that's showing no sign of abating any time soon, inflation that's out there, the increase in the rates from all the central banks and the pinch on liquidity that's simultaneously been driven all around the world, the incredible increases we've had over the last year in commodity prices, social tensions, and the economic risk around energy. All that is out there. It did not materialise as we said on the prior calls as badly as it could have during the winter. However, the risk is still out there. We were also seeing some manifestations of that through the number of insolvencies which continues to rise and in many economies is now at or higher than 2019 levels. Plus there are the tensions you've heard about over the last few months and in the US around banking liquidity, which adds additional uncertainty to the economy because I think it will create some kind of a credit crunch from the thousands of mid to small size banks in US. So there's still risk out there in this environment which remains hard to predict even though I would say the general trend is what we had forecast. The individual events are hard to predict. So we are staying absolutely true to our values and we're continuing to do what we said we would do. Number one, this means being thoughtful about where we invest our money and what kind of business we write. Number two means making sure we focus on clients and deliver superior service. We have an NPS that remains above 40, which for us is a really good score. We measure that on a monthly basis and in a very detailed way. We're continuing to invest in our plan. This is the time when the business is performing so we think it's a good time to invest. We're investing in our ancillary products and we're also investing in our technology. We're being disciplined about cost and we are managing the risk portfolio consistently with the long-term trends that we're seeing. We're also managing the new risks when they show up and I think the real estate portfolio is one that we had not discussed before but which we've been working on for almost two years now, and we've been taking a number of measures to try to limit the impact that the increase in interest rates would have on that book even though it has an impact. So that's where we are. Staying absolutely true to our culture and continuing to deliver and execute. With this I'm happy to turn it over to you for questions.

Q & A session

Michael HUTTNER (Berenberg) Fantastic, thank you, and congratulations again. Three questions. One is what is the amount of the business insurance fees? I'm sure it's there somewhere but I couldn't find it so that would be very useful. The second is on the reinsurance so using the excess of loss, can you help us out and say what the limits are on this to give a feel for how well protected you are? And then the final question is that insolvency is up and then you said in many places at or above 2019 levels. Your loss ratio is definitely below 2019 levels. So, what's the difference? Where are you so much different to back in 2019 that you can still produce these excellent ratios?

Xavier DURAND (CEO, Coface) So let me start with that one then Phalla's going to look for the insurance fees number while I speak. So, usually what government's measure is the overall number of insolvencies in the market, it doesn't tell you where these insolvencies are happening and what kind of companies or sectors are being hit. So, what we're saying in a turn of a credit cycle like this is it usually starts with the smaller businesses, it starts in certain geographies and it starts in certain sectors. So, you're all aware of some of the difficulties we're seeing in the retail space for example. I think construction is starting to feel some pinch. We've had obviously in the past certain industrial sectors that have been under close watch. So, two things underneath this – one, we're not necessarily exposed to those sectors that are most impacted, and second we managed this proactively by being a little bit ahead of the curve. When it comes to the reinsurance, I think our limit is €60m or something like this.

Phalla GERVAIS (CFO and Risk Director, Coface) Well the first tranche of excess of loss is €52m.

Xavier DURAND (CEO, Coface) Oh because that's a prior year. €52.5m before quota share so after the quota share it's €40m.

Xavier DURAND (CEO, Coface) We manage anything above 40 net. That was last year. We've increased those limits consistent with the growth of the business this year as well. And then the insurance fees? The limit fees…

Phalla GERVAIS (CFO and Risk Director, Coface) OK the total exposure increase, is that your question?

Xavier DURAND (CEO, Coface) Was that your question?

Michael HUTTNER (Berenberg) No, I was asking for the fees from the business you're investing in, the business information.

Phalla GERVAIS (CFO and Risk Director, Coface) Are you talking about the business information revenues?

Michael HUTTNER (Berenberg) Yes, sorry I should be clearer.

Phalla GERVAIS (CFO and Risk Director, Coface) So, there's a 15% year-over-year BI revenue growth.

Michael HUTTNER (Berenberg) Yes, and what is the actual euro number?

Xavier DURAND (CEO, Coface) Sorry, we're struggling to understand what you're asking.

Michael HUTTNER (Berenberg) Sorry guys. Thank you for being so patient with me.

Xavier DURAND (CEO, Coface) It's somewhere in the back of the deck. They're looking for the number Michael.

Benoit PETRARQUE (Kepler Cheuvreux) Yes, good evening. A few questions on my side. So, the first one will be on the claims frequency which normalised, which is quite normal. Do you see any acceleration of the normalisation or is this normalisation still very gentle and progressive? I was also trying to understand if you already see any signs of a credit crunch happening in the US following the March events, or is that too early? Just wanted to get your view on the speed of normalisation of the claims frequency. Second one is more on the large losses which are still below average. Could you help us to understand how much points of the combined ratio or claims ratio that could bring if you're back to the longer term average in terms of large claims. And then the last question is on the total credit insurance exposure on your construction book. Do you see any deterioration there, any signs of weakness and maybe higher claims or is your book still doing well? I was just wondering about that. Thank you very much.

Xavier DURAND (CEO, Coface) Your last question was relative to construction…

Benoit PETRARQUE (Kepler Cheuvreux) Yes, construction, yes.

Xavier DURAND (CEO, Coface) Well that one I can answer because it is traditionally the sector that starts to pinch early in a credit cycle. I think you're well aware that in some parts of the world the interest rates directly impact the end buyers because the mortgages are variable rates, so as it impacts the home buyers, they quickly start feeling the pinch, their ability to borrow is lower and that drives construction business orders lower, so we're seeing that. It's an area that we're absolutely well aware of and it's not everywhere but it's mainly in the markets where you have variable interest rates and where the consumers tend to be impacted faster. I mean there's lots of literature in the press about this, so nothing really surprising here.

In terms of the claims frequency, yes there is normalization, it is happening, but it's happening probably slower than we could have feared. So, there's a definite rising trend. You might wonder why that is. I think it's because it takes a while for monetary policy to impact the real economy. It takes a while for the loan renegotiations to happen, and this is also happening on the back of incredibly generous monetary policies in the last 2-3 years, so it takes a while to soak up all that cash that's been spent by the governments to prevent the effects of the COVID crisis, so I think that's really what's underlying this.

In terms of large losses, I don't think we have a split between the two things, but a large loss for us is capped in its impact to a couple percent of our equity. These are discrete events, they're not high frequency events. What we call a large loss would be something that's much smaller than €40m, so it'll have an impact but that's something that we look at closely.

Phalla GERVAIS (CFO and Risk Director, Coface) And the very large claim that we have I would just remind you that it's related to fraud.

Xavier DURAND (CEO, Coface) So it's not an insolvency. It's a fraud which is a one-off event. We don't see many of those, but when they bite they can be significant.

Thomas FOSSARD (HSBC) Good evening. Two questions. The first one is that you would have to pay some reconstitution premiums for the excess of loss. If this is the case, has it already been booked in the revenues in Q1 or is it something we will see in Q2? Not sure if this is meaningful but just to understand the mechanism here. On the Q1 results, it's been a very strong start to the year. I'm really trying to get a sense of the obvious one-offs and it looks to me that actually the one-offs were rather negative than positive, with an impact of more than €65m or maybe roughly €70m and then profit normalised. The way you're describing the outlook is that they are still clouds on the horizon but that actually you've got all the tools in place to reproduce the kind of operating performance, so maybe you can help us to understand what was potentially in your view, things that were a bit abnormal and that we should keep in mind given where you expect to land on a full-year basis. And the last point is you're starting to indicate lower volume growth coming from your clients. There is also some normalisation on that front, which is only likely to increase further as we see a reduction in the inflationary environment, so should we expect a slowdown of your top line too, maybe more in 2024 than 2023 or the second half of the year? Can you can help us on that? Thank you.

Xavier DURAND (CEO, Coface) I'm going to start with the last one because historically our business grows more as a proportion of global GDP than anything else and I think the last two years if I count this first quarter, let's say the last year or year and a half has been quite exceptional because Coface grew 14% last year and another almost 11% this quarter. So, I would consider that to be something exceptional, especially if the central banks are keen on bringing down inflation. As you know, we are an inflation friendly business and the nominal rise in the turnover of our clients directly translates into growth in our premiums, so the answer to that question is yes, I think we should expect that, and that's what we've indicated for a long time now, that situation won't reproduce itself forever. To tell you how fast is very hard to for anybody to peg, I mean I don't think even central bankers know, so I'm not going to make any forward-looking statement there. But I think it's safe to assume that we're not going to see those kinds of activity levels forever.

Phalla GERVAIS (CFO and Risk Director, Coface) I'll take the first question and the answer is yes, we booked it.

Thomas FOSSARD (HSBC) And how much was it?

Phalla GERVAIS (CFO and Risk Director, Coface) It's really not significant.

Xavier DURAND (CEO, Coface) And then in terms of the Q1 results, I think Phalla highlighted some of the events. When it comes to the fraud in Latin America that is compensated on a net basis so that's really a one-off event, and then the other things pertain to portfolios.

Phalla GERVAIS (CFO and Risk Director, Coface) So the mark-to-market and the accounting standard application.

Thomas FOSSARD (HSBC) So negative in Q1, which would be somewhat normalised, leading to higher underlying net income.

Xavier DURAND (CEO, Coface) Well, these things tend to cycle as you know.

Thomas FOSSARD (HSBC) Maybe on the reinsurance commissions, you indicated that the reinsurance commissions were high in Q1. I'm not sure I followed why it was the case in Q1.

Xavier DURAND (CEO, Coface) It's not in Q1, it's because we have pretty good reinsurance terms and I was just referring to that as we did last year. I mean there's really no change there.

Thomas FOSSARD (HSBC) OK, so nothing specific here. So, conclusion is very strong underlying performance basically.

Hadley COHEN (Deutsche Bank) Thanks very much everyone. A few small questions hopefully. Firstly, on the reinvestment rate at just above 2%. It sounds very low given where bond yields are so could you just tell me what I'm missing there fees and why the reinvestment rate isn't a little bit higher than that currently. And I guess linked to that, on slide 10 I think you're suggesting that the discounting effect in the third quarter was around about 4.5 points on the loss ratio. Can you possibly tell us what the average discount rate you used was in the first quarter please and then how should we think about that four and a half points all else equal for the rest of the year. Should we assume that that should trend a little bit lower going into the rest of the year given the mix between paid claims and unpaid claims? And then my second question is around the first time approach benefit which was around €90m and I think €30m of that give or take came out in the 2022 numbers, implying that there's about €60m left. I think you guided for that coming through in 2023 and 2024. Is it possible to get a sense of how much of that is left post Q1? And then my final question is slightly more conceptual but I think when we talk about normalised claims activity and over the cycle combined ratio and what have you, everyone seems to have 80% in mind and I think that historically has been the right number, but you're seeing very positive operational leverage given expenses are growing less quickly than the top line. So how should we think about that normalised over the cycle combined ratio now? Thanks.

Xavier DURAND (CEO, Coface) That's the $10m question right there. I'll start on the last one. I'll let Phalla handle the first two questions. So, on this combined ratio question, a few points of reference. I think we have a competitor that stated in their plan what their combined ratio is, so that's an anchor in the marketplace that we can't just ignore because there's somebody that's willing to write that business at that level on average through the cycle and they've been public about it and they happen to be quite a lot bigger than we are. The second thing I would say is our cost ratio has been improving steadily over the last seven years. I think back in 2016 we were at 36% or something like this or even higher and we're down at 10 points better so that's a huge improvement. I would just stress that part of that improvement is also driven by losses, so there are a couple of effects that are countercyclical on this. On one hand, if losses are low, we get better reinsurance terms and that translates into better cost ratios on a net basis, not the gross part. On the other hand, when there are more losses, you have more fees coming from debt collections and stuff like that, so it's a hodgepodge but I think looking at it on a net basis is not necessarily the right way here, because there is an impact of the losses on the cost ratio as well, so when you do well on losses, you tend to do well on both ratios at the same time.

Phalla GERVAIS (CFO and Risk Director, Coface) In terms of reinvestment rate, we have doubled compared to last year in Q1. You know that in terms of the investment portfolio, this is coming mainly from the bonds book that we have and you know that we have a buy and hold strategy, which means that of course we will reinvest and take advantage of the interest rate increase over time. But we're not changing and we're not selling the bond stock that we have to reinvest immediately. It's a rollout based on the maturity dates of our investments that we'll be reinvesting at a higher rate. So, yes, it is increasing and will continue to increase over time.

The second one in terms of discount, as you know under IFRS 17, we're using an EIOPA yield curve every quarter, so this is the application of the EIOPA yield curve, so it's a yield curve that we're applying in terms of discount rate. It's not something that we're choosing. It's something that is given and then we're applying it and the whole insurance market is applying it.

Hadley COHEN (Deutsche Bank) Sorry, Phalla, just to come back on that. If we assume that interest rates stay stable for the rest of the year, should we expect that 4.5 points level to stay stable as well or will it naturally be seasonally higher in the first quarter given the claims profile?

Phalla GERVAIS (CFO and Risk Director, Coface) I would say all being equal because of course you know we have the new vintage of claims coming through and you have the stuff that we've given. If we're not increasing significantly the total amount of reserves, all being equal I would say yes in principle, but in real life nothing is really equal so our books are moving and the yield curve is moving.

Hadley COHEN (Deutsche Bank) And then just the last question on the FTA impact.

Phalla GERVAIS (CFO and Risk Director, Coface) So, basically your question is what? This is what we discussed at the end of the full-year 2022 pro forma presentation. We have €60m coming from IFRS 4 that we have taken into our balance sheet. So, if we didn't move under IFRS 17, yes I would say that part of the €60m would be released or probably released during 2023. But I don't know, I haven't done this exercise.

Xavier DURAND (CEO, Coface) And part of 2024. There's always an 18-month period so you would assume 18 months for this to be released, which we're not going to see.

Benoit VALLEAUX (Oddo BHF) Yes good evening, most of my questions have been asked already but maybe two other questions. The first one regarding business information. You gave us a breakdown between historical business and new products. So, in your view could that new business be more profitable in the end than the historical business? Maybe it's difficult to think about it like this but do you think you might have more pricing power on this kind of business? Just to understand if after the first investment you also expect a positive impact from the shift in product mix. And the second question, there is a lot of talk about artificial intelligence at this point in time. We see that you made some additional investment in technology. Do you believe that artificial intelligence is now working for you to improve your processes, efficiency and so on or do you believe that it will be a risk with potential new competition?

Xavier DURAND (CEO, Coface) Well, on that one, I see all this hype around ChatGPT and all that good stuff, and yes in theory you would think it's possible that at some point in time these systems become so great that they would start replacing operators. I think what's more likely to happen is what we've seen actually for all these tools that have been introduced over last 30 years, the latest being RPA, robotic process automation, is for these tools to progressively come and become integrated into our business and to help us become more accurate, more efficient, look at much more data than we used to do before. I think history is more likely to repeat itself than us having some kind of revolution where tomorrow we're just going to get rid of hundreds of people that are going to do the business, if only because we have to control these tools, we have to understand them. To build them into a regulated entity process requires a lot of back testing and a lot of proving to regulators that it actually works, and that if something shifts this thing's not going to go crazy. So, I don't think it's going to be the miracle solution that people maybe think. It is impressive to see what these things can do but nobody's tested them over the long haul on a business with changing circumstances and can demonstrate with 10 years of background that they actually work and they can keep it under control. You're going to see some stuff in terms of our retention that is helped by some AI work that we've done. We've taken data that we couldn't really understand just by looking at it and having the machine help us define which clients are a risk and which are not. So, we've done that work. It's taken years but it's helping as you can tell. It's not the only thing that's helping but it's one tool that's helping us and I do think it's going to be the same going forward. We can only put in a business process that is that sensitive where you're actually starting to allocate hundreds of billions of risk by machine, you've got to make sure the machines are going to do it right. So we're going to be both interested and reasonable about this.

In terms of the business information margin, I think we've said all along that the traditional information business is slower in terms of its growth and it's under more competitive pressure because it's been around for a long time. So in theory we should be getting better margins but the other thing is to develop the new business we've got to invest, so we're actually spending money and we're hiring people, we're building things in terms of technology, we're learning, and we've got to build a marketing presence. So when you add it all up, I don't really know how to answer your question. If it were mature and if we were really ahead of the game with everybody else, it would be true, but in a growth environment like this one which looks more like an internal start-up of some sort or the creation of a new product. It's not really a start-up because it's built on the core knowledge of the business, but it's still something new that we're developing, it's very hard to answer that question quite frankly.

Benoit VALLEAUX (Oddo BHF) But do you expect an improvement in margin for next year for this business or is it too early?

Xavier DURAND (CEO, Coface) The timing is also a question. I mean the way I've been discussing this with the market is to say the following. It's core to what we do. We are an information-based business. That's how we underwrite €700bn of risk on millions of companies and that's how we're able to on-board clients. We have 180m companies in the database, so that's core to what we do. Now it happens that this data can also be used for other purposes, for other use cases that traditionally we weren't considering, or we didn't even imagine that it could be used for. To do this, we've got to invest. We're doing it in a way that's neutral on the P&L so you're not seeing it, but basically, we're building a business for free or we're expanding the franchise for free. I think rationality means I should push it as far as I can to scale before I start milking it. We've got a very small cow here and if you start milking it too hard, you're going to get some milk but it's not going to be a lot of milk, so it won't matter for Coface. So I think it's too early to answer the question. I think we will know when we get a better sense of how big this thing can be, and I think logically we should keep pushing it as long as we can see some significant growth come out of it.

Michael HUTTNER (Berenberg) Thank you so much. I just wondered if you do have that number on business information revenue that would be lovely. The second is you spoke a lot on investment, so I just wondered whether you could give a feel for how much you are investing and whether in a way you're investing ahead of the curve, that's a feeling I have at the moment. And then the final thing is when you discussed IFRS 17 so there's a question that my competitor asked about you know the €60m drag if you like, but I think when you discussed IFRS 17, you said it has an impact when you have a reserving where you set up the reserve now and then you kind of collect the run of profits two years down the road, IFRS 17 kind of forces you to front load this a little bit. It's more evenly spread, and I just wondered if you could get a feel for the impact of that relative to where it was before.

Xavier DURAND (CEO, Coface) So, regarding IFRS 17, we're a short-term business so I would say after two years we kind of know where the vintage is going to be, so over a period of two years I think IFRS 4 and 17 really doesn't make any difference, or minimal difference. So what changes is the dynamics. IFRS 17 forces you to recognise profits or losses faster than IFRS 4 because it's a different methodology and it introduces more volatility because every time an interest rate varies the discount is different and then you have to combine with IFRS 9, you have to put more things through the PNL than before so it just creates more volatility during that two year period. And that's pretty much all I can say quite frankly because I don't know exactly.

Phalla GERVAIS (CFO and Risk Director, Coface) And as I said the €60m is really related to the prior year period under IFRS 4. If we had stayed under IFRS 4 this €60m would be released, but IFRS 17 will recognise the prior year period earlier. This is what we have booked in our FTA.

Xavier DURAND (CEO, Coface) It's just a one-time event.

Phalla GERVAIS (CFO and Risk Director, Coface) It's a one-time event.

Xavier DURAND (CEO, Coface) I don't know if it's really worth…. Over a two-year period, €60m is OK so one time I don't know…

Phalla GERVAIS (CFO and Risk Director, Coface) In terms of the business information number, it's slightly below €13m for the first quarter.

Xavier DURAND (CEO, Coface) And then in terms of how much we're investing, when I say we're investing, it's not like there's an old business that runs on one side and then we've got an innovation shop where we put all the money. The money is spread among many different things we need to continue to build the business. That includes sales people, that includes new people in new geographies, that includes technology that we need to change or upgrade or improve on the core business, that includes new features and technology that we didn't have before, such as IT servers, maybe extranets or APIs or a whole bunch of technical tools that we need to invest in. So it's a hodgepodge of things and I think we're staying the course to pick those things that matter the most for us for the long term and for the short term. Then we have to be very consistent with our capacity to drive them home and that's not just the money, it's sometimes much more the users' ability to drive all these projects simultaneously. I think it's probably a significant limitation in terms of how much we can do at any point in time. So we're being thrifty because by spending too much, sometimes you overload the organisation with too many things and then things get done slower and not as well and you're not necessarily gaining time. So I think we're trying to balance out the execution risk with the speed with the short term, trying to change the wheels and the blinkers on the car while you're still running the race. That's pretty much the way I put it.

Xavier DURAND (CEO, Coface) Thank you very much, we're right at 7:00 PM so it's been an hour. It actually went so fast, I'm surprised. Look it's a pleasure quite frankly to have those discussions because I think we're really talking about the heart of the business and for me it's all we do all day long. So thank you for your interest and for these conversations. I think are getting to the meat. We're in this environment where the long-term trend is exactly as we said before so there's no news. The short-term events are whatever they are. We try to manage them as best we can. I think we're getting better at being agile and being on the ball, and we keep coming up with examples of how we're managing these things as they show up. I don't know what the next quarter will bring but we will be happy to speak with you. It'll be the middle of August so that's not the most convenient dates. It's IFRS 17 driven because we're learning that thing and we're going to try to do the best we can to deliver smoothly and as quickly as we can, but it's a little bit more complex than the stuff we had before. So, thank you for joining and we'll talk to you on the 10th of August. OK thank you very much. Thanks everyone.

End of transcript

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FINANCIAL CALENDAR 2023
(subject to change)
H1-2023 results: 10 August 2023 (after market close)
9M-2023 results: 14 November 2023 (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 H1-2022 and our 2022 Universal Registration Document (see part 3.7 "Key financial performance indicators").

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