



# Coface Investor Day

## Webcast Transcription

London – September 22nd, 2016

**IMPORTANT INFORMATION**– In the Investor Day meeting upon which this transcript is based, Coface made certain forward-looking statements. Such forward looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Forward-looking information and statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results could differ materially from those expressed in, or implied or projected by, forward-looking information and statements. The Coface Group is under no obligation and does not undertake to provide updates of these forward-looking statements and information to reflect events that occur or circumstances that arise after the date of the said meeting.

Readers should read the consolidated financial statements for the period H1-2016 and complete this information with the Registration Document for the year 2015, which was registered by the Autorité des marchés financiers ("AMF") on April 13th, 2016 under the No. R.16-020. These documents all together present a detailed description of the Coface Group, its business, financial condition, results of operations and risk factors.

Please refer to the section 2.4 "Report from the Chairman of the Board of Directors on corporate governance, internal control and risk management procedures" as well as chapter 5 "Main risk factors and their management within the Group" of the Coface Group's 2015 Registration Document in order to obtain a description of certain major factors, risks and uncertainties likely to influence the Coface Group's businesses. The Coface Group disclaims any intention or obligation to publish an update of these forecasts, or provide new information on future events or any other circumstance.

The information contained in the transcript is a textual representation of the applicable company's meeting and while efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference calls. In no way does Coface assume any responsibility for any investment or other decisions made based upon the information provided on this transcript.



## Contents

<b>Welcome and Opening Remarks.....</b>	<b>2</b>
<b>Introduction.....</b>	<b>2</b>
<b>Economic Outlook.....</b>	<b>10</b>
<b>Strengthen Information and Risk Management.....</b>	<b>13</b>
<b>Improve Operational Efficiency and Client Service .....</b>	<b>17</b>
<b>Questions and Answers (First part Q&amp;A) .....</b>	<b>19</b>
<b>Differentiated Growth Strategies .....</b>	<b>24</b>
<b>Latin America – Case Study .....</b>	<b>29</b>
<b>Germany – Case Study .....</b>	<b>30</b>
<b>Italy – Case Study.....</b>	<b>32</b>
<b>Financial Targets and Capital.....</b>	<b>33</b>
<b>Questions and Answers (Second part Q&amp;A) .....</b>	<b>35</b>



## Welcome and Opening Remarks

Thomas Jacquet  
*Group Investor Relations and Rating Agencies Director*

Good morning, everybody. I am very happy to welcome you, along with the participants on the webcast, to Coface's investor day. I'm Thomas Jacquet, the new Head of Investor Relations and our plan today is to present you with our Fit to Win strategy over the next three years. You will see here some faces that you know already, as well as new ones. There will be a good opportunities during the Q&As and over lunch to get to know everyone.

## Introduction

Xavier Durand  
*Chief Executive Officer*

### **I. Preamble**

Good morning, everybody, and thank you for taking the time to be with us, as we introduce our Fit to Win Three-Year Plan. What I want to do is take you through what is going to happen during the course of the day:

- I will start with a 30-minute introduction of the plan and its key components.
- I have then asked Julien Marcilly, our Chief Economist, to talk a little about the economic outlook and the environment that we see as a background to this plan. This presentation serves as an introduction to the next section, which covers how we will strengthen our information and risk-management infrastructure. Nicolas de Buttet, our Head of Information, Risk Underwriting and Claims, will take you through this section.
- We will then go through the second pillar of the plan, which concerns driving operational efficiency and enhancing client services. Carine Pichon, our CFO, will take us through this section.
- We will then have a Q&A session before going for lunch.
- We will reconvene with the third part of the presentation, which is about how we are going to implement differentiated growth strategies in each one of the markets where we operate. Thibault Surer, our new Head of Strategy and Business Development, will take us through this section. We will take the opportunity during this time to highlight three case studies. We have three of our regional leaders here today with us:
  - Bart Pattyn leads our Latin American businesses and will take us through the case study around Latin America.
  - Téva Perreau, who leads northern Europe, could not be with us today, because he is attending a very important meeting with the Works Council in Germany, so Thibault will talk about the German market and what we are going to do there.
  - Ernesto de Martinis leads our Italian business and will take us through the Italian case study.
- I would also like to mention the presence today of Frédéric Bourgeois, who leads our UK business. He is not going to be talking but, hopefully, you will be able to exchange with him during the course of the day. He is the local here in the UK, if I might say.
- That will take us to the last section of the discussion. Carine will come back and tell us more about what the plan means from a financial-target standpoint and also talk about the capital-optimisation programme that we intend to put in place. This is one of the key parts of this plan.
- We will then have a final Q&A session and, hopefully, be done by something like 3.30 pm so that everyone can continue with their day.

Again, I am very happy to be here. As you know, I lived in London for two years, until I got the call to come and run Coface, so I am very happy to be back in this beautiful city, which is still part of Europe.



## II. Eight Intense Months Preparing In-Depth Transformation of Coface

### 1. Addressed Issues

What I want to do first in terms of this presentation, is to talk a little about what led up to this plan. I have been in this company for a little less than eight months and it has been a very intense eight months in preparation for what I would call a deep transformation of Coface. We clearly had some short-term issues to address. Emerging-market-risk performance was not where we wanted it to be. We took some pretty drastic risk actions at the end of last year, which led to some defiance from clients. We were somewhat in limbo when it came to the State Guarantees business and its future. We faced some challenges in mature markets and had to walk away from the guidance that was given at the IPO, and we had a profit warning. A lot went on in the first half of the year.

### 2. Diagnosis

During this period, I took a lot of time to reach out to all the constituencies of Coface. I met over 100 clients and 100 brokers, as well as half of our employees, in 12 locations on four continents. I took the time to really get out there and understand the questions, the expectations and the expertise that we have in Coface. We did an in-depth survey of our investor base and their expectations and questions.

### 3. Defined Strategy

We then launched a fully-fledged strategic review of the business. We wanted to be quick but also take the time to do it well. For the first time, we drove a plan that is not just top-down but one that is bottom-up, involving 31 countries in all the key regions and functions. The plan that we are going to put forward today, is one that is fully shared by the organisation and that we own collectively.

### 4. Launched Initiatives

Finally, we also launched some initiatives and did not wait to take action. You have seen some of the announcements that have been coming through the wire, in terms of the leadership team and reinforcing our expertise - particularly in some areas such as risk and in certain geographies. We have been continuing to drive risk actions at a granular level, as things continue to develop in the market. We have adjusted our growth and price strategies by markets, to start to inflect the trajectory of the business. We have launched some work streams in, for example, sourcing and some of the investments that we need to make. I will talk more later about the deep cultural change that we are driving at Coface.

## III. Trade Credit Insurance is an Attractive Industry

### 1. Continued Historic Growth

The first thing that I want to say is that, as background, we do believe that credit insurance is an attractive industry. This industry grew at a rate of about 5%, up to the time of the global financial crisis. Since then, growth has slowed down to something like 3%. We know that not all growth is good in this industry, but there is underlying growth. We need to relate this to the fact that product penetration of the total insurable pool of receivables around the world is still low, at something like 5%. So this is still an industry that has potential.

### 2. Strong Structural Positives

There are strong structural positives in this industry. It has demonstrated its resilience through the cycles and its ability to make money.

- The bulk of the business that we write is cancellable and we are typically less exposed to financial-market volatility than other insurance sectors.
- There are numerous competitors around the world but only three that are truly global - and we are one of them. We are probably the most global competitor.
- Relationships with clients are based on trust and service. More and more, we are seeing integration between our systems and clients' systems, so these relationships tend to be sticky over time. We retain the vast majority of our clients from one year to another.
- Finally, there are significant barriers to entry. In order to play well in this business, you need a global infrastructure, experience, expertise, systems that talk to each other and capital.

That, then, is a positive view of what this industry has to offer.



#### **IV. Coface can Leverage Strong Historic Capabilities**

##### **1. Unparalleled Global Presence and Network**

What I would also say is that, when it comes to Coface, it is well positioned. We have strong, historic capabilities that we are able to build upon, and that is what this plan is really about. We serve 50,000 clients in 100 countries around the world. We have clearly been one of the pioneers of global expansion of this industry and we are today probably the most international player.

##### **2. Strong Expertise**

We have been working in this field for 70 years – and in fact we will be celebrating our 70<sup>th</sup> anniversary, next week in Paris. We have an integrated system infrastructure that is able to manage data, perform risk underwriting and manage collections. When we talk to our clients, they trust Coface. They want Coface to do well, to be successful and to be there, at their side, to help them manage a business world that is becoming more and more complex. I think we have strong assets to build from, and this is something that we intend to do.

#### **V. The Environment for Coface has Evolved**

##### **1. Slower, More Bifurcated Growth**

The environment, however, is changing - and we need to recognise this. As I said earlier, we are in a world where there is less growth – that is pretty obvious. Not only is there less growth, but it is bifurcated. In mature markets, we have seen a slowdown and we have seen this industry stop growing. In emerging markets, double-digit growth has become single-digit growth. We know that all of this growth is not profitable but, at the same time, it is still growing.

##### **2. Increased Market-Risk Volatility**

The second element is increased market-risk volatility. I do not need to comment on this, since you are professionals in this industry. Clearly, however, there is more economic, financial and political risk at this point than we have seen in the past. While that is creating uncertainty, I think it also builds the case for why it is complicated to manage for our clients and why credit insurance remains absolutely a valid proposition in an environment where it is very hard to predict and manage all of these changes.

##### **3. Impact of Technology**

The third thing that I think is important, is the impact of technology. It is touching every part of our business, as can be seen in many financial-service industries. I would call it an evolution more than a revolution. It changes the way we manage data, do underwriting and communicate with each other. It changes the way we communicate with clients. It can be an opportunity to distribute products to other types of client that we cannot reach through traditional salesforces. I view it, therefore, as much as a threat, in a way, as an opportunity. It is an opportunity for us to perform the same tasks more cheaply, more quickly and more efficiently - to enhance client service, while reducing costs. It is for us, then, to master, to make the right investments and to seize what it has to offer in terms of growth, client service and retention.

##### **4. Loss of State Guarantees Business**

Finally, we have lost the State guarantees business. I think you are all aware that this creates a contribution shortfall for us and we are committed to addressing this. At the same time, I think it provides a chance for us to break away from the image of Coface as being associated with the French State in one way or another. It is 4% of our total business but it is an opportunity for us to just move on. That is what this plan is really about - turning the page and writing a new chapter in the history of Coface.

#### **VI. In This Environment, Coface Needs Significant Change**

##### **1. Key Issues**

In this environment, we recognise that we need to change. It is fair to say that the company has probably overstretched itself a little in emerging markets. We were faced with emerging markets that were quite benign for a number of years, and things seemed to be going pretty well. Over the last two years, we have seen a dramatic and correlated increase in risk and volatility in these emerging markets. That showed us two things: that we had probably underestimated the level of volatility in these markets and that the



infrastructure that we had put in place had never gone through a cycle. They are being put to the fire and tested here in real stress situations.

## 2. Actions

I think that recognising these facts has two main consequences for us. First, we need to adjust our growth strategies to the reality of the risk that is underlying these markets. This will be key to our plan. The second thing is, that we need to continue to build and invest in our risk and information-management capabilities. We are global. This is a differentiator for Coface and is something that we want to continue to build upon.

- We have lost the State Guarantees contribution. We have committed to offsetting that through operational efficiency in 2018.
- We have seen a slowdown of our business in mature markets. What this means is that we need to focus a lot more on segmentation, sales execution, innovation and client service in these mature markets.
- What this implies is that we are going to have to do many different things at the same time in different parts of the world. This means that, from an organisational and cultural standpoint, we need to devolve more to the local markets. This has profound implications in terms of how we run the company.
- We also need to better align the organisation with this new way of working, and I will talk more about that in the coming slides.

## VII. Vision: to be the Most Agile Global Trade Partner in the Industry

### 1. Clear Ambition

We have designed a vision for Coface. In a world where things are changing all the time, it is very hard to predict what exactly is going to happen tomorrow. Who would have guessed that the UK would have voted for Brexit? It was not easy to call that one with certainty. Clearly, however, what I think our clients expect from us is that we are agile and that we help them manage this volatility. We want to become the most agile global trade partner in the credit-insurance industry, which means four things:

- First, not all clients have the same needs. Whether you are a large company, a small company or a financial institution, your needs are different. We need segmented, specialised and dedicated value propositions sold by people who are close to our client base all over the world.
- Secondly, in order to underwrite risk well, we need good-quality credit information in the industry, which is acquired on a market-by-market, case-by-case basis.
- The same applies to risk underwriting. The best credit decisions are taken as close as possible to where the risk occurs - because that is where you have the best information. We maintain a team of experts located all over the world to make these decisions.
- All of this works together with fully integrated systems that allow communications, on a 24/7 basis, on the millions of companies that we take credit risk on.

These are the four key pillars that underly this vision.

### 2. Fit to Win Principles

There are two very important financial principles that we have behind this plan:

- First, to be clear, we want to prioritise value creation over growth for growth's sake. Not all growth is good. We are going to be focused on creating value, rather than just growing for the sake of growing.
- The second has to do with financial strength. Our clients expect us to be able to insure them reliably in the face of risk, so we want to maintain a strong financial position for the company. Carine and I will explain more about what that means, but clearly this is one of the underlying principles underpinning this plan.

## VIII. Strategic Plan around Two Pillars and Three Priorities

### 1. Ambition 1

In terms of how we articulate the overall Fit to Win plan, it has two key pillars and three strategic priorities. The first pillar is about positioning Coface operationally as the most agile global trade-credit partner in the industry.

### 2. Transformation

There are three parts to this:



- Firstly, to continue to strengthen our risk-management and information capabilities around the world, particularly in emerging markets, and to return the business over the cycle to a normalised loss ratio.
- Secondly, to work on both operational efficiency and client service - because I think that these two things are compatible. When you digitise a process, you go more quickly and reduce the number of errors. That means you improve client service, make it cheaper and improve your cost base. I will talk more about what that means in terms of the work behind it.
- Thirdly, to put in place differentiated growth strategies that reflect the reality of the risks that we face in each one of the markets where we operate and drive value creation rather than growth for growth's sake.

These, then, are the three key operating pillars, if you will, of the plan.

### **3. Ambition 2**

The second pillar is about steering the business towards a more efficient capital-utilisation model. We will explain how we want to leverage the capacity that is available in the reinsurance market in order to source capital more efficiently and improve the returns for the business.

### **4. Benefits**

When you combine all these things, what it means is that, by the end of this plan, we want Coface to be in a position to deliver a combined ratio of around 83% through the cycle. It is very hard to predict where the cycle is at any point in time but, through the cycle, that is what we are targeting. There are clearly some trade-offs here in terms of how much money we spend on operating expenses, versus how much risk we take - and we will have to adjust that. In terms of the framework between the cost and the risk, we would have in mind something like 30% for cost ratio and 53% for loss ratio - knowing that there could be trade-offs between these two metrics.

## **IX. Strengthen Information and Risk Management**

### **1. Invest in Information Quality and Data Tools**

I am going to go through each of these operating priorities and give you a bit of a flavour of what they mean. Then we will have the presentations for each one of them in more detail, along the rest of the presentation. The first pillar has to do with strengthening information and risk management. There are three parts to this. Firstly, we will continue investing in our information quality and data tools. This is about what information we buy, who we buy it from, how often we buy it, whether it is reliable and whether we can make it better. If it is not sufficient, should we generate it ourselves? We have information-enhancement centres all over the world. We are going to add 33% to our emerging-market information-enhancement staff, to make sure that we have a solid base to build from.

### **2. Reinforce Underwriting Processes in Higher-risk Segments**

Secondly – and we have already started to work on this – we are reinforcing our underwriting processes, particularly in the higher-risk segments. This is about aligning the way we underwrite debtors with the way we underwrite client policies and making this more consistent. It is about being much more granular and surgical in the way we look at and manage risk across markets and industries. Today, we take a market-by-market, country-by-country approach. We want to go into a country-by-sector approach, recognising that there are trends that are true for countries and for sectors. A combination of these two is what allows us to be much more precise in the way we, for example, reduce our exposures or accept higher risks. Nicolas will have much more to say about this.

### **3. Upgrade and Enhance Risk Talent and Resources**

The third part is about enhancing our skill base and talent pool in the area of risk management. You have seen some of the announcements that I have made on my team. We have reinforced the level of experience and expertise in some fields, such as risk in areas of the world such as Asia. I am not going to go through the whole list.

One of the things we also want to do is to create a centralised team of the most senior experts in the business. This team will act as a pooled resource in order to support, train and coach the markets as they go through their own cycles. The experience we have built over the last 70 years in western markets, and



underwriting risks on the other side of the world, can be put to work in an efficient way for the whole of the company.

We have 1,500 experts around the world who make credit decisions every day. We want to make sure that we keep them refreshed and trained and that they have career paths. It will be about maintaining that pool of expertise throughout the business as we continue our journey.

## **X. Fit to Win will Utilise State Guarantees to Invest in Efficiency while Enhancing Client Service Levels**

### **1. Actions**

The second priority has to do with both operational efficiency and client service. We have laid out a clear goal. We want to save €30 million in 2018 over the expense base that we have in 2015. We have identified four clear actions in order to do this:

- The first is no surprise. It is about being more efficient in what we buy, whether it is sourcing or real-estate utilisation. We want to save 5% on this base, which I think is an attainable and realistic goal.
- The second has to do with better utilising centres of excellence that are already in place in the company. We have centres of excellence in Peru, India, Poland and Morocco that serve different parts of the world. These centres mean that we can mutualise certain tasks such as back office work or tasks that are better performed by a group of specialists, rather than dispersed over a large number of companies in a subscale way.
- The third has to do with process simplification and automation. We are launching a lean exercise to go through the key processes in the business. We want to automate, we want to be faster and we want to reduce the level of rework. It is very classic but there is an opportunity here for us to do this.
- Finally, it is about streamlining the organisation and simplifying the way we are organised. We are looking at simplifying our organisational structure, for example in the Baltics or the Balkans, where we have multiple legal entities. I think that there may be opportunities here for less infrastructure.

These, then, are the key pillars of what we want to do.

### **2. Utilise €70m State Guarantee Gain**

Underpinning this plan are investments. We are going to be receiving €70 million from the State, as we transfer the Public Guarantees business at the end of the year. We want to use that money to do two things:

- Firstly, to reinvest in our systems. We cannot digitise without investment and we cannot improve processes without first spending money on reviewing them. There is a lot of work and this will take time but I just want to make sure we are clear here. We are going to reinvest €35 million in our technologies and systems.
- Secondly, there are some restructuring costs associated with all these changes. It means moving people from one place to another and reducing the total number of jobs. We will expense the other €35 million in these restructuring costs. In terms of any people-related changes that we need to drive, we are going to prioritise voluntary and natural attrition, as well as early-retirement plans, across the different markets where we operate - because it touches a large number of countries.

We have a clear plan and there are several components to it. It will take some time, but I think that what we need to do is clearly laid out.

## **XI. Driving Differentiated Growth Strategies by Market**

### **1. Geographical Vision**

The third area concerns driving differentiated growth strategies in each one of the markets where we operate. We have analysed the world in two dimensions: what is the level of stability and risk that you see in a market and what is the penetration of trade-credit insurance in each of these markets? When we did this, we put them all on a chart and realised that there were four blocs:

- The first is Western Europe: the historic markets where Coface has been operating. In these markets, there have been fewer claims since the global financial crisis but there is more price pressure and competition. In these markets then, the priority is around sales execution, segmentation, innovation and client service in quite a generic way.



- The second market is one which is still stable but where, so far, credit insurance has had lower penetration. To take an example, I would put the US in this category. Credit insurance is not a product that is being used broadly by the industry. The challenge is to build the market, to invest in distribution and to do it in a thoughtful way. We can only do that much and we have to place our investments in smart, selective ways.
- The third category of market concerns more stable growth markets. One example would be Central Europe, where we have been growing, historically. We want to continue to grow in a safe way, build value over time and reach scale in the markets where we operate.
- The last category is the high-risk markets, where one would immediately think of some of the places we have been discussing, such as Brazil or China. The priorities in these markets are to make sure that we can stabilise the risk and make money and serve our global clients. Our clients want us to be there and they need our services there. We need to be selective when it comes to writing local business, to make sure we create value and not just look at growth for growth.

That, then, is how we are thinking about our growth strategy when it comes to market-by-market segmentation.

## **XII. Differentiate Value Proposition for Key Segments**

### **1. Large Corporations**

There is another dimension that I think is important, which has to do with the type of clients that we are dealing with, and I touched on that a little earlier. Typically, we have been offering our services to the very large corporations that need our services in many places around the world. What matters for them is that we put in place tailored solutions that are uniquely suited to the way that they are organised and that we become seamless and part of their business. Here, we will focus on quality, retention, selection and tailored solutions.

### **2. Mid-market**

Another segment that we think has potential and in which we have been growing is the mid-market (think of the *Mittelstand* in Germany). Here, the challenge for us is distribution. How do we get there? What is the right distribution channel in order to serve these clients, to reach them and to grow our share?

### **3. SMEs**

The third segment is SMEs. This is a wide space in this industry. The product that has been traditionally sold is complex, with a higher number of touch points. It requires qualified, skilled and expensive resources. The challenge here is about innovation. It is about simplifying products and distribution, selling through the web and finding partners that can distribute on a wide basis, in a cost-effective way.

### **4. Financial Institutions**

The last segment that I would describe, is financial institutions. These are not only clients, but also distribution channels for our simple products. We work with factors, for example, where we insure their pool of receivables. We see an opportunity to grow in this space and we are going to create a centralised, dedicated team to follow this client base across the world. They will communicate with each of the sales forces that we have in the key markets that service these clients, so we will have a much more integrated and dedicated organisation to follow these clients.

These, then, are the three operating pillars of the plan.

## **XIII. Enhancing Management Framework**

I want to talk about another two things, which have to do with the way we run the company. The first is the management framework that we utilise to run the business:

- In the past, I would say the game plan was to try to replicate the success that we had had in Western Europe across the world. We took the organisation that had been successful in Western Europe and replicated it around the markets. We have to recognise that not all markets are born equal – the ways they work are different – and so we have to adapt. We have to build tailored infrastructures in each market that has been proven to work, before investing to grow.
- We used to have a very centralised decision-making process but I think we need to go to a much more devolved one. This also means having controls and having a strong matrix to be able to work together.



Planning, as I said, is now going to be market-by-market-based and rolled up into a total that makes sense.

- We are going to go from normative bonus schemes, to something that is much more tailored to what each one of the markets has to accomplish during the year.
- We need to make sure that the company works seamlessly across functions and markets. We need to ensure that the different functions share the same goals when it comes to economic research with risk, or to commercial underwriting with risk underwriting, for example.

There is, then, a deep change going on in the way we run the company.

#### **XIV. Driving a Cultural Transformation to Support Execution**

##### **1. Client Focus**

Underpinning this change is a cultural change, which has to do with what our values are. When I came to Coface, I met a lot of people and heard from employees, clients and brokers about what they believe is important for Coface. I came back and jotted down four things that mattered and that I needed to promote as Coface's core values. The first has to do with client focus. Clients pay our bills. Clients should be at the centre of everything we do. When we make an underwriting or commercial decision, or decide to invest in a certain system, or to roll out a certain product, we need to make sure that the client is at the centre of every one of these decisions.

##### **2. Expertise**

The second thing has to do with expertise. What has happened over the last couple of years, has again proved the case that expertise is what is going to make us different. It is what is going to allow us to go through these cycles unscathed. Whether it is functional, industry or leadership, we want to build and reinforce this expertise. Coface employees are very proud to be part of this company. They believe they have a strong level of expertise and we want to insist on that and make it one of our core values.

##### **3. Collaboration**

In a world where things are complicated and continually evolving, you need to make complex decisions. Finding the best solutions requires collaboration – for example, collaboration between people underwriting a certain debtor in the market and staff underwriting a client policy in another market. They need to be connected: connected between functions and between the different groups that work in the company.

##### **4. Courage and Accountability**

Finally, we sometimes need to make tough calls, which need to be made as closely as possible to where the action is. That means that we need people who are accountable and who have the courage to make the right decisions as things develop. That means accountability, transparency and teams that are empowered and aligned.

These are the four values that we are promoting as part of Coface and aligning ourselves around. I will just mention one thing. When I arrived at this conclusion, at the end of May, I sent an email to all of our employees asking what they thought. Within 24 hours, I received a direct response from over 50% of our employee base, which is incredible. It showed the level of expectations and the engagement of all of our employees. What they had to say aligned completely with what I have just spoken about. In addition, 400 people in our employee base – about 10% of the total – volunteered to become champions of these values, saying, 'I want to be part of this. I want to be connected.' To me, it was a good feeling that there is momentum within the company, in terms of how to move this forward.

#### **XV. Clear Financial Ambitions Supported by Aligned Incentives**

What does this mean from a financial standpoint? We have some clear goals:

- In terms of where our performance stood at the first half of the year, our return on average tangible equity (RoATE) was 3.3%. When you take out the Public Guarantees contribution, which we are not going to have in the future, it is 2.2%. The three pieces of the plan that I laid out earlier are improving and reinvesting in risk management, driving operational efficiency and implementing differentiated growth strategies. I put them in that order for a reason. We are going to position the company to be able to deliver an 8% return on equity by the end of the plan, through the cycle.



- In addition to this, we are going to work on the capital efficiency of the business, using the capacity in the reinsurance market to make better utilisation of capital. This means that we will be able to drive another 1% return or more on the capital that we employ, bringing the total to 9% or above through the cycle. Underlying this is the 83% combined ratio across the cycle, which I mentioned earlier. From a financial standpoint, we are continuing with our policy to pay out 60% or more of our normalised income, on an annualised basis. Any excess capital that is available, due to the fact that we are going to optimise capital, will be returned to investors in the best possible way.
- Finally, in terms of maintaining strong ratings and solvency ratios, we have laid out a range of 140-160% as our target range. We want to position the company at the higher end of this range throughout this plan.

## **XVI. Wrap-up: Fit to Win '16 to '19 Will Transform Coface**

That is what I had to say today. You are going to hear more about each one of the sub-sections of this plan as we move through the day.

I just want to quickly wrap it up by saying that we want to be the most agile global trade-credit partner in the industry. It is a clear, three-part plan: 1) reinforcing risk management, driving operational efficiency and client service, 2) differentiating the way we think of growth in each one of the markets and prioritising value creation over growth for growth and 3) optimising capital. Underlying this is a profound cultural transformation of the way we run the company and the culture and values that we promote. We are aligned here and the team is with me to make this happen and to deliver a 9% or more return on equity through the cycle. Thank you for your attention and I will now turn the presentation over to Julien.

## **Economic Outlook**

Julien Marcilly  
*Chief Economist*

### **I. Economic Research: A Unique Expertise at the Service of Coface and its Clients**

#### **1. Externally**

Good morning, everyone, and thank you, Xavier. As noted by Xavier, monitoring risk is our core business and we have a strong team of experts contributing to this. We have team members in six regions all over the world and we have two goals. The first is serving our clients. We have developed a number of tools, publications, events and dedicated presentations for them, and the goal is to help them to monitor their risks. This is part of the service that we sell and, which has, over the years, made us recognised expertise among clients, the business world and the media.

#### **2. Internally**

Our second goal is to work very closely with underwriters, leveraging the various qualitative and quantitative tools and processes that we have upgraded over the past quarters, to ensure that we are well coordinated. Again, the goal is to help them to monitor risk.

### **II. Challenging Global Environment with Lower Growth, Lower Inflation and Higher Debt**

#### **1. GDP, Inflation and Trade**

Let me just say now a few words as an economist, on where we stand at the moment regarding country and sector risk. The goal is to show you how we see the world at the moment. Nicolas will then follow on, to show how we are dealing with that, from a risk-underwriting standpoint. The key message is very simple: we are having to deal with a very challenging environment for businesses, both in advanced economies and emerging markets. By 'challenging environment', I mean low growth, low inflation and high debt.

In terms of low growth, we are used to living in a low-growth environment. Growth has slowed quite significantly over the last couple of years, in emerging markets and in advanced economies, for various reasons - both structural and cyclical. On the structural side, there are ageing populations and the lack of innovation. On the cyclical side, the legacy of the Lehman crisis is still weighing on many economies in terms of tighter fiscal policies and there is a lot of overcapacity in many sectors around the world. This



challenging environment in terms of GDP growth means that inflation is lower, because demand is lower. Inflation, which now stands at a 30-year low on a global scale, means that businesses are losing pricing power. Again, this is something that is challenging for them.

## **2. Global Debt**

Last but not least, corporate, household and public debt has greatly increased. This presents a tricky environment for businesses - all the more so, as we are in the middle of a vicious cycle between growth and debt. When growth slows, you want to offset it by increasing your amount of debt. When you get too highly indebted, however, it becomes more and more difficult to invest, so growth slows even more. The key takeaway is that the global environment is still experiencing low growth, low inflation and high debt.

## **III. Advanced Economies**

### **1. Lower Interest Rates Mitigate Corporate Credit Risk**

Having said this, the paradox is that, if you look at the situation in advanced economies only, the micro level the situation is not so bad. Over the last couple of years, business insolvencies have declined in all key markets. Admittedly, the magnitude of the decrease in insolvencies is very different from one market to another, but the situation is that business insolvencies have declined almost everywhere.

The reason why they have declined everywhere, despite this very challenging micro-environment, is because of monetary policies. All central banks across the world, at least in advanced economies, now have very loose monetary policies. I am sure that you heard the announcement yesterday from the Fed and the one the day before from the Bank of Japan. It is in line with that. The outcome is that corporate-bond yields, bank-credit conditions and bank interest rates are all going down, meaning that financing conditions for businesses are very cheap now. In fact, they are very cheap for all kinds of corporates. This means that, even for highly indebted businesses that are stagnating, it is now easier to hold over debt. This is the reason why, at least in the short term, that business insolvencies in large, advanced economies are declining, even though the challenging environment is continuing.

### **2. Advanced Economies Still Have to Deal with the Legacy of the Global Financial Crisis**

#### *a. Non-performing loans*

The problem is – and this is one of the key risks that we will have to monitor in the months and quarters ahead – that, when these kinds of monetary policies last for long periods of time, we start seeing negative effects:

- First, when there is a very loose monetary policy for a very long time, it becomes more and more difficult for banks to devote resources to fast-growing and dynamic companies. If they devote all their resources to stagnating and highly indebted businesses, more and more insolvent companies remain in the economy. That is one of the learnings from the Japanese crisis. Research showed that 30% of businesses 15 years ago were insolvent. We are not there yet, but this is a risk that we have to monitor.
- Secondly, in this kind of situation, debt-holders are at risk. By 'debt-holders', I mean banks, especially in Europe. Bad loans are increasing in many countries. We will talk more about Italy this afternoon, but bad loans in European countries are sometimes higher than in many emerging markets. Again, this is a risk that we will have to monitor very closely in the months ahead.

#### *b. Political uncertainty*

In addition to the consequences of monetary policies, the second key risk is related to what is going on politically. One of the legacies of the Lehman crisis is that, after a long period of economic stagnation, social frustration increases, due to rising unemployment and income inequality. The problem is that we are seeing more and more consequences on the political side. As an illustration, the political risk index shows that, when political stages are more fragmented, it becomes more difficult for a government to rule a country as it is more and more challenging to form a coalition. From an economic standpoint, this means more uncertainty for businesses and households, making them prone to postponing investments and spending decisions.

The statistical relationship between the political risk index and GDP growth is closely linked. This is a very interesting trend. In Europe, for example, GDP growth has decreased by 20% over the past couple of years because of political risk. This shows that political risk is associated with lower growth and higher business

insolvencies. These, then, are the two key risks for advanced economies at the moment: political risk and the legacy of very loose monetary policies in Europe and in other advanced economies.

#### **IV. Emerging Markets**

##### **1. The Adjustment Process is Not Over, Especially at the Micro Level**

Turning briefly to emerging markets, many have been facing very difficult times over the last five years. There are plenty of rationales behind this. Some of them have been surprising and some not. The first is a very structural factor, as a lot of large emerging markets have had to face problems and structural weaknesses in terms of infrastructure - or structural problems related to corruption or high labour costs. This is not really surprising.

A second factor relates to corporate debt. We have talked a lot about what is going on in terms of GDP in emerging markets. It is true that, over the last five years, growth has been halved in emerging markets overall, but we talk less about corporate debt, which is a little like the hidden part of the iceberg. Corporate debt in emerging markets has increased fourfold over the last 10 years, and this is one of the key problems that we see at both the macro and micro level.

Last but not least, what has perhaps been the most difficult to predict is the commodity-price shock. GDP growth in emerging markets as a whole is well correlated with commodity prices. Of course, going back two years, we knew that oil prices were overvalued and that a triple-digit level for oil prices was too high. However, we did not expect it to fall to \$25 in less than two years. That is why the shock in emerging markets has been so huge and why the situation at the micro level is unstable and the adjustment process is continuing. Business insolvencies in Brazil, for example, have tripled since 2009 and the number is still growing. In China, if you look at the news and at some basic macro-indicators, the situation is doing better and is calmer, but not when you look at the micro indicators. For example, bad loans in banks are continuing to increase and the number of defaults in corporate-bond markets has been rising quickly since the start of the year. All of this shows that, at the micro level, the situation is still quite complicated.

##### **2. Differentiation is Essential**

###### *a. On a country-by-country basis*

In terms of a 'glass half-empty' approach, it is true that the gap now between GDP growth in emerging markets and in advanced economies is not as high as it used to be. Looking at it from a 'glass half-full' perspective, the gap between GDP growth in emerging markets and in advanced economies is still positive and will remain so in the years ahead. Beyond this GDP-growth level, however, what matters is growth differentiation. GDP growth is more and more varied from one country to another. The standard deviation of GDP growth in all emerging markets is increasing.

Another way to look at this is to take a synthetic view of growth and risk differentiation on a country-by-country basis. When there is an oil-price shock, countries that depend on oil suffer more than others. When the Fed increases its rates, the outcome is not the same in some countries versus others. Taking the example of a chart that has, on the x axis, GDP growth and, on the y axis, a proxy for external financing risk, which is the current-account deficit, it is possible to differentiate countries.

We see three kinds of countries: mature countries in a low-growth/low-risk environment; emerging markets that are growing moderately and where the level of risk is also contained; and a very large number of emerging markets where growth is higher but the level of risk in terms of current-account balance is also higher. This is a synthetic view of why country differentiation matters even more than it used to.

###### *b. On a sector-by-sector basis*

As I said, one of the learnings from the emerging-market crisis is that country differentiation matters, but we also have to look at the situation on a sector-by-sector basis. This is why we have developed new tools over the last months and quarters, in coordination with the underwriting departments. The output is our sector-risk assessment, which is based on the qualitative view of underwriters and on our payment experience on a sector-by-sector, region-by-region or country-by-country basis.



We also take into account a very large amount of financial data from all listed companies around the world. The situation differs between countries, regions and sectors. It is not surprising to see that commodity-related sectors, such as metals or energy, are suffering much more than others. On the other side, private-related consumption sectors are doing better and, on a region-by-region basis, we are still very cautious on regions such as Asia, the Middle East and Latin America. On the other side, the level of risk is still contained in central and eastern Europe and in advanced economies.

## **V. Fit to Win Has to Deal with All-time-high Country Risk**

Another synthetic view is a country risk map that shows how we see the world at the moment. In this example, we are not looking at the situation in terms of average corporate credit risk on a sector-by-sector basis, but on a country-by-country risk. This shows that the level of risk is elevated but differs greatly between countries. This kind of tool is used externally by clients, as well as internally in our processes, particularly by underwriters. I will now hand over to Nicolas, who will explain this in greater detail.

### **Strengthen Information and Risk Management**

Nicolas de Buttet  
*Information, Risk Underwriting and Claims Director*

#### **I. Coface has a Solid Risk-prevention Infrastructure**

Thank you, Julien, and good morning, everybody. I am going to show you what happened over the last two years with risk and the lessons we have drawn. More importantly, we will look at what has been done and what we will do to address the situation. I would like to start with risk management and remind you about the robust infrastructure that we have in place at Coface. We have been rebuilding this organisation since 2011 - based on information, risk underwriting, decision-making, claims and collection - in order to mitigate risks.

We rebuilt all these activities with the concept of being close to the risk, monitoring and adjusting our risks and strong governance. This has been done on an industrial scale. We have 50,000 contracts to deal with in 46 locations. We are working on five million credit limits a year. This organisation, then, has been built as an industrial one. I really want to emphasise that Coface has the largest geographical footprint in this industry. We will reinforce this organisation. We are finalising the close-to-the-Risk model. We believe that this organisation is the right one. We are investing in it but not changing it fundamentally.

#### **II. Increased Losses in Emerging Markets Highlighted Need for Continued Investment**

There have also been some issues over the last two years and I would like to look back and share with you what happened. The emerging-market crisis started in 2015. I want to highlight the sequence, because that is the way I experienced it: Russia, Brazil, the rest of Latin America, Turkey, South Africa, China and Asia, all within eight or nine months. This is something that we have never observed before. I have been in this industry for more than 17 years and have never experienced the phenomenon of having so many places in crisis at the same time. This was driven by the commodity-price shock and became apparent to us by claims rocketing in these places. We saw an 80% increase in claims between 2014 and 2015, in Asia and Latin America.

Coface is more exposed than its peers are to emerging countries. This had an impact on our loss ratio, particularly in Asia Pacific and Latin America, with ratios of more than 100% and 113%, respectively in 2015. In 2016, North America was impacted by a loss ratio of 86%, as the Latam crises had consequences for local players first and then for exports. North America was touched by the phenomenon due to its high level of exports to Latin America.

We are living in a volatile world but, at the same time, we had good performances in other markets. This afternoon, we will talk about Italy, where the level of insolvencies remains very high. They have decreased a lot in Spain, but not in Italy, nor in France - but nevertheless, we have succeeded in having a good loss ratio in those locations. This phenomenon in emerging markets, in such exceptional circumstances, has prompted a rethink, which is something that we want to share with you.



### **III. Past 'One Size Fits All' Approach Shows Limitations**

#### **1. Information**

The 'one size fits all' strategy that we used to have, and which worked well in mature markets, was not ideal for emerging markets in a crisis situation. It worked for emerging markets in a peaceful situation but not in a crisis, which is very different. We can rely on standardised, available information concerning the more mature markets and our supply chain is always fed as necessary, on time. However, when we entered crisis situations in emerging markets, it was revealed that this supply chain was not stable enough and we faced some difficulties due to the quality and reliability of information available.

#### **2. Underwriting Process**

As regards risk management – not only pure risk decisions but risk management of both commercial and risks – we have standardised market practices, terms and conditions in mature markets, so we know exactly what the consequences are of what we do. In emerging markets, however, it appeared that business practices were different and this could have consequences on the risk side at certain times.

In terms of the way our clients interact with us, being in a partnership mode in mature markets normally means that clients are trying to protect not just themselves, but us too. In the crisis situation in emerging markets, however, it was revealed that some clients are acting in a dangerous way, by buying credit insurance as a commodity, without trying to protect us.

#### **3. Collection**

We are also mitigating risks by collecting money and acting quickly whenever possible. In older markets, we can rely on predictable legal systems - in other words, we take action and we know that we will have a decision. In emerging markets, we cannot always get a court decision on time and it can take two years – it is very unpredictable. There are situations where even when we have everything we need and our lawyer is confident, we do not ultimately obtain the expected results, as local practices can vary.

In addition, there are different payment terms. As payment terms are longer in emerging markets, we get claims later than we do in mature markets, which has consequences on our loss ratios.

#### **4. People**

Another aspect is the level of experience in handling difficult situations. Some teams in emerging markets had never been faced with crisis situations before. As a reminder, we increased the number of risk underwriters from 19 to 45 in 2013, but over the next two years they did not have the opportunity to handle crisis situations. In mature markets, our teams have had more experience in facing these situations.

### **IV. First Series of Actions Implemented in Recent Months**

#### **1. Information**

After studying what happened, we knew that we had to take actions - and we have already started. I would like to outline the actions that we have already taken to address the challenges I just described. There is a lot to go through - and these actions have been put into place in just six or seven months. The first thing we did was to align our ranking methodology, in order to make sure that risk underwriters and economists use the same scale. It is very important to be able react to the same metrics and criteria and to be more coherent for our clients, as they need to understand what is happening at the macro and micro level.

#### **2. Underwriting Processes**

##### *a. Reviewed portfolio exposures*

The second range of actions, mainly on underwriting processes, began with acting on our exposure. This was hard work and we have achieved a lot but some of it was badly perceived by our clients. We focused on difficult locations - such as emerging markets, on difficult trade sectors - such as steel, commodities, construction and oil-related sectors, and on specific clients - such as commodity traders and single-risk clients. We decreased our exposure by 20-56% in certain markets. The magnitude of these actions was huge. We have already seen the first results from this, with 20% fewer claims from Asia and Latin America in H1 2016.



*b. Updated commercial and risk-underwriting rules*

At the same time, we changed some rules, including, firstly, some commercial rules for commodity traders. We realised that we faced more difficulties with these clients, so we changed our wordings, our terms and our pricing with them, to ensure that there is a clear share of interest between our clients and ourselves. Secondly, we found that too many decisions were being taken at headquarter level and that easier decisions could have been taken locally. That would have given more power to local teams and allowed central teams to free up 50% of their time, in order to more closely monitor and help local teams.

*c. Changed reserving policy*

We also worked on our reserving policy to make sure that the early signals we receive through our daily indicators are better reflected in our accounting-loss ratios.

### **3. People**

Ultimately, it is about people and making sure that people are aligned. We changed the bonus scheme in order to focus local teams around the world on the right target of profitable growth. This is not about looking for growth at any price, but profitable growth. Again, this was done in a very short period of time. These actions are ongoing and will produce further effects, not only in emerging markets but in others too.

## **V. Strengthen Information and Risk Management**

As Xavier has already outlined, there is more to come with the Fit to Win strategy, which is divided into three pillars: investing in information quality and data tools; reinforcing our processes in decision-making; and continuing to train people. Globally, we are adjusting our growth ambitions to focus on the reality of market risk. We are not reinventing or breaking our system, but reinforcing it where necessary.

## **VI. Fit To Win**

### **1. Invest in Information Quality and Data Tools**

*a. Revisit data-purchasing policy*

Let us begin by talking about how we are going to invest, in a focused and controlled way, in improving the quality of our information and data tools. We have conducted a bottom-up and top-down six-month study. Following the results of this study, we are revisiting our data-purchasing policies in 18 countries. In the past, our policy was more homogenous - i.e. spending the same amount of money according to the size of the market. In some countries – particularly emerging markets – we realise that we need to spend more in order to differentiate what we buy - by buying more and better information when possible. We accept this fact. Examples include information on banking, energy-supplies and customs. Some of this information did not exist before, or we were not buying before. These initiatives will increase the quality of information we have access to in these places.

At the same time, we are investing in our tools to get fresher information and to be directly connected, in real time, with some suppliers, particularly in emerging markets. This will make sure that we are able to react in real time whenever an indicator changes. With these two investments in quality and speed of information, we will increase our monitoring rhythm and the reliability of our information.

*b. Invest in information enhancement in key markets*

Buying information, however, is not enough. Sometimes information is unavailable, or we need something more. It's also about people. We have Enhanced Information teams of credit analysts who are able to contact the debtors in order to get exactly the information that we want – not just standardised information, but the precise information that we need. Going through the same analysis, we decided to increase the number of staff in 19 countries. Globally, this represents 10% of our workforce in Enhanced Information teams, but 33% in emerging markets. These analysts contact the debtors - given the information availability, the level of risk and the level of exposure that we have - targeting mid-market debtors. We are not contacting or visiting listed companies – there is no point in doing so. We visit those who no one else visits or sees. We have increased these efforts. In recent years, we have increased the number of contacts that we make all over the world by 800%. With this new investment in 25 people, we will continue increasing these contacts.



## 2. Reinforce Underwriting Processes in Higher-risk Segments

### a. *Develop more granular risk approach*

These are controlled and targeted investments which will help our risk underwriters in their risk-prevention activities - but this alone is not enough. We are also going to reinforce risk-underwriting processes. This is where we see a higher risk. It goes to the heart of what we are doing. Firstly, we are improving our exposure-monitoring system on all debtors. Previously, we used a Debtor Risk Assessment (DRA) system with 10 segments. We have increased this to 150 segments. In the past we allocated a maximum capacity for a debtor, relative to their DRA level. Now, when we allocate this capacity, we take into account the country level of risk and the trade-sector risk within that country.

It is a much more sophisticated approach. However, it is not for the beauty of being sophisticated. It is for the sake of being more granular, to avoid massive actions and to be precise and react promptly to any trends in local trade sectors. This will bring better quality for our clients and give them a better understanding of what is going on. We cannot just say, 'This country is getting worse'; we have to say, 'This country is deteriorating, although textiles are improving.' We will now be able to do this.

### b. *Increase differentiation by client/sector*

We will adjust our commercial and risk strategy – and this is crucial – taking into account that clients are different. We will focus our risk and commercial teams on always balancing risk, terms and price. Rather than working on just one or two of these pillars, they need to work on balancing all three together. For example, by not changing terms without touching the price or the risk. This means that our risk-appetite strategy will be more differentiated.

### c. *Better connect the organisation*

Ultimately, this means connecting our organisation and connecting our people: connecting risk and commercial teams and risk teams with economists. This will ensure that all stakeholders in the risk-management cycle are focusing on the same profitability metrics.

## 3. Upgrade and Enhance Risk Talent and Resources in Key Areas

### a. *Reinforce teams and leadership*

Reinforcing processes is important, but so are people. Fit to Win will really upgrade our talent and resources in risk management – again, in a focused way. We sometimes find that local teams in some situations – due to volume, complexity or lack of experience - need some support. We are therefore creating two new central teams, based in headquarters, for risk underwriting and collection. They will support local teams. These two new teams will be comprised of senior experts who will study different situations and design and process actions with the local teams. They will support local teams and control the achievements. It will not be about people in headquarters saying, 'You need to do this and that', but people working with the local staff, sharing their expertise and experience with them. They will be based in headquarters but they will fly all over the world. One day they might be an Indian risk underwriter; the next day, they might be a Chinese or an Argentinian one. This team will be in place and working with local teams by the end of the year. It has already started with some of them.

As I mentioned, we are adding 25 people in order to improve quality of information. We are also reinforcing leadership with some top leaders from all over the world, such as Bhupesh Gupta in India. These are not necessarily people from the pure risk side, but leaders in our organisation who know what risk is and who have this experience. They are able to drive the change that is required.

### b. *Train teams*

New teams are not enough, because we need to upgrade and improve training for everybody. We are launching two e-learning schools through the internet and this will be part of an ambitious programme to train more than 1,300 people all over the world. It is an e-learning programme because it needs to be delivered locally. It is also a mandatory programme, which all our teams have to complete in order to improve their skills, based on what they already know and where we want to them to get to. These programmes have been created in-house by our leading experts and designed to explain what everybody needs to do and know - and how they should act.



## VII. Summary

In summary, I have outlined here what we are doing, and will do, to strengthen our risk-management systems. We are focusing on five areas:

- Increasing our expertise.
- Having a tailored and agile organisation.
- Investing in information in selected places.
- Reinforcing and aligning risk and commercial underwriting.
- Increasing local leadership.

I am very confident that all of this is achievable and will allow Coface to return to a normalised loss ratio over the cycle and to achieve an 83% combined ratio. Thank you for listening. I will now hand over to Carine, who will outline the operational-efficiency programme.

## Improve Operational Efficiency and Client Service

Carine Pichon  
*Chief Financial Officer*

### I. Coface has Demonstrated Good Internal Cost Control

Good morning, everybody. I will now introduce the second priority of the Fit to Win plan, which is to improve operational efficiency and client service. Before going into detail, I would just like to remind you that we have already proven that we have the capacity to closely monitor our costs. Over the past five years, we have been able to decrease our global internal costs by around 3% - and it is even more relative to the inflation on which most of our costs are based. In doing so, we have also been able to decrease global staff numbers by around 12%, specifically by rebalancing our staff and investing in markets where there was a need - particularly in central Europe and Asia Pacific.

### II. Environment Requires Continued Efficiency Gains and Stronger Focus on Client Service

Nevertheless, the current environment requires us to go further from an efficiency point of view:

- First, we are facing a transfer of the State Guarantees activity. This means that we have to offset the €30 million shortfall in margin and costs, because of the reduction in scale.
- Secondly, we are now in an environment of slowing growth. We can no longer count on significant growth and we need to consistently adapt our cost base to this reality.
- This is particularly the case for mature markets, where we face revenue challenges. In Western Europe, we saw a decline of around 10% for the first six months of 2016, leading to an increase in cost ratio of around 5 percentage points in this region. Even if the figures are different, the trend is the same in Northern Europe, where we saw a decline in the first half of 2016 of around 5%, albeit with an improved cost ratio. We therefore need to consistently adapt our cost structure.
- A fourth challenge, which is also an opportunity, is new technology. We think that it presents an opportunity in terms of how we access corporate financial information and data. It will also help us to enhance our underwriting capability and client experience, by driving some cost savings.

### III. Fit to Win will Utilise State Guarantees Gain to Invest in Efficiency While Enhancing Client Service Levels

#### 1. Actions

Our operational-efficiency programme is quite well-balanced. The contributions from each of the four initiatives, to the €30 million savings that we plan in 2018, are balanced. In terms of how it will work, we will reuse the State Guarantees gains to invest in efficiency. We will invest around half of the €70 million in technologies and processes, and half in driving people change and skill upgrades, mainly through voluntary actions.

#### 2. Drive Sourcing and Real-estate Utilisation

The first initiative is our plan to drive sourcing and real-estate utilisation. We have already built an integrated, global procurement organisation, which is now sized for global management of the function. We have eight purchasing specialists at HQ level and an international network of purchasing correspondents.



Within this global lever, we have several initiatives, two of which are as follows:

- First, we will aggregate the purchasing of key expenses. For instance, we buy quite significant amounts of financial data, in order to assess and underwrite our risks. In some cases, we have the same suppliers, but in different countries. Instead of having separate negotiations with the same supplier in each country, we will group them and achieve leverage in our negotiations through scale.
- Another important initiative is around driving a consistent purchasing process, which includes systematic benchmarking and the four-eyes principle. As you know, when purchases need to be made, cost savings can be achieved through discussions between operational departments and purchasing specialists. This will also include a consistent Request for Proposal process.

All in all, these initiatives will lead to the key goal for this lever, which is to achieve a 5% decline in the cost base in 2018.

### **3. Leverage Centres of Excellence to Drive Efficiency**

#### *a. Opportunity to in-source IT contractors, offshore to Romania*

The second lever is the fact that we want to leverage our existing centres of excellence to drive efficiency - i.e. we want to transform our operating model. The first priority is around the opportunity to insource our current IT contractors, offshore to Romania. We currently have several contractors based in France. Our aim is to discontinue these relationships and to recruit in Romania. This means that we will gain cost savings through using internal people in Romania, rather than paying external contractors based in France.

#### *b. Complete rollout of close-to-the-risk model in France and Germany*

Secondly, we will complete the rollout of the close-to-the-risk model in France and Germany. The principle aim of this is clearly to improve our loss ratio, by having people underwrite limits locally in the country where the risk is - even for French and German corporate exporters. Clearly, this will also have an impact on costs as, by doing that, we will reduce the number of people in the French and German underwriting teams and recruit in other countries, where wages are lower.

#### *c. Evaluate further leveraging centres of excellence*

Thirdly, we will continue to use and leverage our existing centres of excellence. We did it four years ago for India, Peru and Morocco, where we identified low-value-added tasks in information processes. We have regrouped all these tasks within these centres of excellence. Our plan is to continue to identify further tasks that could be transferred to these centres.

### **4. Simplify and Automate Processes**

#### *a. Drive a Lean process management culture*

Our third target is to simplify and automate processes. We recently recruited somebody to head up the new Lean Management department. By 'lean management', we mean that we will review each of our key business-critical processes, from beginning to end, and eliminate all layers that are not useful. This will eliminate waste and allow us to focus on value-added tasks for clients and improve our processes globally.

#### *b. Standardise IT applications on business-critical processes*

Another item that we aim to work on, is around standardising IT applications, thereby reducing complexity and risk of obsolescence. It will also ensure better connectivity between systems, both within the company and with clients.

### **5. Streamline Organisation**

#### *a. Geographies*

The fourth lever is around streamlining our organisation. There are different ways in which we can do this. From a geographic point of view, we will continue to follow and support all our clients around the world but we think that we can do this in a more simplified way. For example, in the Baltics and the Adriatic, we do not need as many legal entities as we currently have, so we will execute some mergers, while continuing to support and operate for our clients. We will also simplify our infrastructure in West Africa.

*b. HQ functions*

Another way of streamlining our organisation is through a review of our HQ organisation. We have decided, for instance, to merge three project-management teams into one single team. We are looking into each of the organisational processes in order to streamline them.

*c. Social structure*

The third element is related to social structure. We have reviewed and will realign our social-benefits policy to market practice and realities.

*d. Drive productivity while ensuring skill and talent vitality*

By doing all of this, we will drive productivity, while assuring the vitality of skills and talents. We will reallocate resources to higher-added-value work. We will continue to hire in critical areas, to refresh skills and talent. In terms of outflow and inflow of people, the expected outflow, including external contractors, is around 410 full-time equivalents (FTEs). We will invest, as I said before, to refresh skills and talent, leading to inflow into the company of around 162 FTEs. This will result in a net decrease of 248 global staff. We will do this by prioritising early-retirement plans, voluntary actions and natural attrition.

#### **IV. France Case Study: Streamline Commercial Organisation**

I have a case study of streamlining in our organisation, which was done quite recently in the French commercial organisation. We had a complex organisation based on geographies, with six layers between the top and the bottom of the hierarchy. In each of the French regions where we operate, we had numerous functions, including back-office functions. We decided to refocus on the region's commercial discussions with clients – i.e. what is key in terms of proximity for clients – by merging eight regions into three: Ile de France, West and South. We merged all other functions into central teams: Broker Sales, Commercial Underwriting and Account Management. From a very complex organisation, we have made a transformation to a much simpler one, which is more based on functions. This is clearly an example of what we will replicate in other countries.

#### **V. Summary**

We have defined several clear initiatives, which should lead to the €30 million savings that we plan to have in 2018. These initiatives will include the continuation of a dynamic out and inflow policy, to reallocate and maintain skills and talent vitality, with the prioritisation of voluntary attrition. This will help lay the foundations for further digital transformation. We will now go to the Q&A session.

### **Questions and Answers (First part Q&A)**

#### **Jean-Pierre Lambert, KBW**

I have a question on risk management and the two graphs that you produced on pages 31 and 33. Your loss ratio has been going up despite the fact that you cut your emerging-market exposure. How do you connect the two? What would it have been, had you not cut? How do you see the outlook for your loss ratio?

#### **Nicolas de Buttet**

As I mentioned, we took some progressive measures on exposure to emerging markets throughout 2015 and 2016. This was done not in one stage but in several different stages. The consequences that you can see on the loss ratio come later on. It depends on the payment terms that we have with our clients. It is a gradual effect that you will see in the coming months and years, not a direct effect.

#### **Xavier Durand**

Yes, it is a timing question.

#### **Michael Huttner, JP Morgan**

On the staff numbers, just to recap, I may be wrong but I understood there were '25 plus 6' new staff coming in, making 31 - and then a saving of 246. Is that right? I repeatedly heard from Nicolas's presentation that it was 25 plus 6, making 31. Is that right?



**Xavier Durand**

No, Nicolas was referring to 25 additions to our Information Enhancement staff and to the creation of a specialised team of six people at the centre, who will be chosen from among our experienced existing staff. They will be organised into a pool of resources to help, support, train and coach the countries.

**Michael Huttner, JP Morgan**

Is it just 25 new staff then, not 31?

**Xavier Durand**

Correct.

**Michael Huttner, JP Morgan**

Is the 248 a different number from the 25? 248 is the net number that Carine mentioned.

**Carine Pichon**

The net 248 between outflows and inflows of staff includes all efficiency measures and all investments that we need in information. For example, the 25 staff mentioned by Nicolas in his presentation are included in the inflow target of 116. This is a global efficiency plan thus it is included in the net investments in Risk Management and Information.

**Benoît Pétrarque, Kepler Cheuvreux**

First, on the strengthening of Risk Management and Information, when are we going to get the full positive effect on the claims ratio in terms of timing? Will that take 12 months, 24 months or three years? Could you give an indication of the timing effect here?

Second, on your 83% combined ratio, I guess the cost side of the ratio is pretty straightforward. I do not know how much it will be - but probably 31%, which leaves you with a 52% net claims ratio. This is much higher than what you have been posting across the cycle up to now, so I was wondering how you came to this 83% figure and what the thinking process was behind it. You are going to change a lot of things but where do the gaps come from?

Then, in terms of capital optimisation, we can do the maths ourselves and I think the figure is roughly €220 million - but what about the timing of this? Is it just a matter of going to the reinsurers, signing a deal and getting the positive effect of Solvency II? Is that next year or in three years? What will be the timing of the capital optimisation?

**Xavier Durand**

We are going to have a lot more detail this afternoon on a lot of these points. Carine's presentation will have a lot of information that pertains to this. When it comes to these elements, it would probably be better for us to go through this first, if that is okay with you?

**Carine Pichon**

I will address all of these points in my presentation, if you don't mind and we will then have a complementary Q&A session just after. So we can come back to this.

**Guilhem Horvath, Exane BNP Paribas**

First, you mentioned that the team was fully supportive of your plan, but you also mentioned that one of your colleagues was negotiating with trade unions. What proportion of the 173 is not voluntary or natural? How confident are you that you can reach the entire FTE reduction within the €35 million?

Secondly, in terms of your incentivisation to reach the targets, what plan is set for you to reach the targets? Do you have a stock-option plan, or a long-term investment plan (LTIP)? - and what are the vesting conditions?



### **Xavier Durand**

You are right to point out that the changes we want to make to our organisation require (in some countries, but not all) consultation with Works Councils, or other organisations. I would make a couple of points on this:

- The first point is on the net magnitude of what we are doing here, relative to the total size of the company. We are talking about a net impact on full-time employees of about 4% of the employee base.
- Secondly, this is spread over a number of countries and is not a one-place event.
- Thirdly, it will happen over time, so it will not be a one shot action tomorrow. It is something that will happen throughout the duration of this plan - and that is an important factor.

This is why we think we can achieve this plan by prioritising natural attrition, early-retirement plans and voluntary attrition, as opposed to any other types of measures. So we think we will be able to achieve these numbers. However, it is a market-by-market, country-by-country initiative.

In terms of your question on the incentives, the answer is 'yes'. To take my own personal case (which is public information) as an example, outside of the base, I have a variable compensation which comprises a bonus and an LTIP, which is paid in stock. The LTIP is completely aligned with the performance of the stock price. In terms of bonuses, they are aligned with the metrics that we have been talking about – such as the combined ratio and the profitability of the business.

### **Thomas Fossard, HSBC**

First, in terms of the differentiated growth strategy, could you tell us a bit more about how this is going to impact your premium growth over the coming years? Should we expect some decline from that angle?

Secondly, on distribution, you alluded to changes in the way you approach the business in Germany and the US. For example, in the US, there has always been a big question mark around how to access the business through brokers, or tied agents. What are your thoughts here?

Finally, with regard to the cost of running the platform, there is a huge fixed-cost base in terms of IT, data acquisition and risk management. This is not something that you can change that much, depending on the level of premium that you are getting. Could you tell us how much are the fixed costs linked to the core engine of Coface - i.e. running the database on an IT basis and all the people involved in collection and information enhancement?

### **Xavier Durand**

Starting with your first question on the differentiated growth strategy and what it means in terms of our growth trajectory, I made the clear comment this morning that we are going to be looking for value creation, as opposed to just growth. In our business, there is always a trade-off between the amount of premium that we get, the amount of claims that we get, and the amount of expenses that we pay for either the growth or the level of risk. Thibault is going to take us through a whole section on growth, with more details on what we mean here, so I suggest we hold that question, if that is okay with you, until we go through that section.

The same applies to the question on distribution in the US and Germany. We will be showing you a case study on Germany, and Thibault will have a slide on what we call the 'underpenetrated stable markets', such as the US.

When it comes to the fixed costs of our business, as in every other sector, there is no absolute definition. I do not think, however, that we are approaching it this way in the plans that we have put together at this stage. We are looking at the overall cost base and the trade-offs that we need to make, market-by-market, in terms of how much infrastructure we need, versus the amount of volatility that is in each of the markets and the implied risks that we are taking. What matters is being consistent. Then there is the question of growth. If growth leads to profitability, we should invest – but if means not being able to reach our thresholds, we need to focus on serving the clients that we have globally, as a priority, to bring the best possible value for the company.

### **Thomas Jacquet**

I have two questions from the web. One is more related to this afternoon's presentation, so I will keep it until then. The other is around the potential use of artificial intelligence in your risk-arbitrage decisions. Do you



see scope for the use of tools such as Watson? Do you have any deployment date? What can you say about this?’

**Xavier Durand**

As I mentioned in my presentation, technology is impacting many areas in terms of how we do business. As you know, it is a fast-moving space and one that requires investment. For a company like ours, what matters is being tuned in and understanding what capabilities are out there in the market that we can leverage for different things, in terms of how we operate the business, how we communicate with clients, how we sell products and how we make credit decisions. We will detail this a little more this afternoon, but Thibault Surer will be developing what we call an Innovation Lab. We have a number of initiatives that we are following in the digital space and he will spend some time talking about this.

For us, however, it is about making selective investments, by testing things to see if they have promise, before investing the money. Innovation is a very hard thing to peg, so it is about testing and learning more cheaply. When it comes to artificial intelligence, there has been a lot written about its potential promise. However, it is still early days, and the question for us is, ‘Practically, what can we do with artificial intelligence - and at what cost? Is it going to transform our business? That is something that we want to stay on top of, but it is currently more at a lab stage.

**Hadley Cohen, Deutsche Bank**

A lot of my questions have already been asked but I have a follow-on question. If I think back a few years, Coface faced some issues in 2008/2009. You then developed the DRA system - the most innovative, best-in-class system - which was sold almost as fool-proof. Since then, you have had some issues in emerging markets and you have lost the French State contracts. You are now in the process of developing this more granular system. How do you foresee the potential future risks going forward?

Second, and slightly off-topic from what you are talking about today – is there any impact for Coface from the Hanjin issues?

**Xavier Durand**

I will let Nicolas talk about Hanjin and then I will pick up the first part of your question.

**Nicolas de Buttet**

The impact from Hanjin is close to zero for us. We have been doing our job, which is monitoring this risk, for a long time. We detected that we needed to get out of this more than a year ago.

**Xavier Durand**

We have tried, in this presentation, to explain what has happened with our risk infrastructure. We experienced emerging-market risks that were quite benign for a long period - and the company was profitable in these regions during this time. We probably overstretched in terms of our growth and the infrastructure that we had in place was not battle-tested - because there had been no battles to fight. What we will have in place following the implementation of this plan are two things. The first is a more robust and more highly-tested system. The second is a differentiated growth strategy that better aligns our level of exposure to what we foresee as the real level of risk out there. It is not possible to completely offset the cycles, as there will always be cycles in this industry – as there are in every other industry. The question is ‘How do we perform in these cycles bearing in mind what is expected and what the average is in the market? From this standpoint, I would just remark that one of the reasons we have been particularly hit is because our exposure level is much higher in proportion to our total balance sheet, than it is for other players.

**Guilhem Horvath, Exane BNP Paribas**

Your RoATE target is quite an ambitious one. Even using reinsurance, reaching 9% seems challenging. What happens if you are not within 0-3% growth? What is your assumption in terms of return on investment? What am I missing in terms of other profit sources? What is your ambition in debt collection, for example, which could support this target?



**Xavier Durand**

You will have noted that we did not define a growth target, because it would not be consistent with our intention to prioritise value creation over growth for growth. We do not want to be held to a number, depending on where the cycle is and what is going on in the market, on the growth side. We have a significant revenue stream coming from services, be it information - or for that matter, debt collection - and we intend to continue to drive a healthy revenue flow from that part of our business. Thibault will also be presenting on this aspect. Overall, it will be our role to adjust the company to reflect the reality of the circumstances that we face in the market. Again, value creation over growth for growth is the right thing to do, in terms of capital optimisation for the business.

**Michael Huttner, JP Morgan**

I am a bit worried as I was expecting something more precise in terms of answers. A lot of the answers have been to say, 'This afternoon, we will discuss this.'

You mentioned the figure of 4%. This does not sound big to me, in which case it is a small effort and you are absolutely right in saying that today is almost a nice opportunity to revisit the company - but not absolutely necessary. It is a small thing in terms of the company. Maybe I am wrong to be worried. I just cannot pitch the effort that you are making at the moment. Is it something really big and you are seeing lots of movement? In that case, I would worry that Carine should really have somebody to run this project for her. Is it something so small that you can do it on in between days, as it were? I am unsure about this at the moment, so maybe you can help me out a little.

**Xavier Durand**

As these questions pertain to things that we are going to address this afternoon, again I think it would be putting the cart before the horse to have the discussion before we have the presentations.

When it comes to being worried, it sounds like you are either worried that we are not ambitious enough, or that we are too ambitious. Between the two, what we are trying to do with this plan, is to be ambitious in terms of goals, while being realistic based on the reality of the markets and what we think is needed to achieve the targets. Again, this is not a structure created from the top down, but something that we have examined on a market-by-market basis.

The other thing that I would say, is that I am talking about a net effect of about 4% on people. There is a lot of movement to reach there, in terms of displacing resources from one place to another, so there is a profound transformation of the business taking place.

Another thing I want to add is around governance for the execution of the plan. Thibault has put together a central team that is linked to the regional teams in each of the geographies where we operate. This team will be our project-management office, as it were, throughout this plan. They will be tracking a pretty long list of actions leading to the execution of this plan. This organisation is our governance mechanism to ensure that we have a line of sight to what we want to do, what is going to happen, what needs to happen and in which order.

What I want to say is that we have clear goals. Our objective is €30 million – so it does not get any clearer than that. We have a clear line of sight, thanks to our control mechanism, to ensure that we get there. Hopefully, this addresses your worries.

**Thomas Fossard, HSBC**

You indicated that you had the largest geographical footprint in the credit-insurance space. Should we expect some retrenchment from a couple of countries, or a regrouping of different offices to serve regions? Secondly, in terms of your priority of value creation over growth, does that implicitly mean that you think that Coface's past commercial strategy perhaps under-priced risk, or implemented a market-share-gain strategy?

**Xavier Durand**

As Carine stated, our global footprint is a differentiator. When we talk to a global company, the fact that we are able to support them around the world is a differentiator for us, compared to a number of other players.



We have gone through the pain of establishing this infrastructure and it has value. We just have to make sure now that 1) it is robust and can perform its task of controlling the risks in each location, and 2) we adapt our growth strategy to meet the reality of the risk in each of the markets. I am not talking about a major change in geographies but an adaptation of the strategies that we use in each market – adaptation which addresses how much growth versus how much risk we want in each one.

Secondly, as Carine pointed out, in some places we do not need as much infrastructure as we currently have. We will therefore be looking at simplifying and reallocating our resources in a better way. That is part of the agenda and I think it was very clear in her presentation.

### **Carine Pichon**

Thomas, could you please repeat your other question?

### **Thomas Fossard, HSBC**

The question was on value creation over growth. Is that a recognition that Coface was a bit too aggressive on prices in the past?

### **Xavier Durand**

I said at the outset, not all growth in this industry has been good growth. This is probably true not only for Coface, but the rest of the market. It varies by geography, but we have sometimes seen an increase in the level of underlying risk for the same amount of premium. This was justified when the markets were benign but not when the volatility in these markets rose, as it did, quite dramatically. As always in the insurance sector, when something like this occurs, repricing needs to happen. It is a market-by-market and competitive-situation-by-competitive-situation. This forms a precise part of the strategy that we are going to be driving forward.

## **Differentiated Growth Strategies**

Thibault Surer  
*Group Strategy and Business Development Director*

### **I. Overview**

This session is dedicated to our growth strategy. I will begin with an overview of the differentiated strategy we have designed to continue developing our business, in a profitable and selective manner. We will then review three case studies:

- The first will be presented by Bart Pattyn, our Head of South America. He will discuss the environment he has been facing in terms of volatility and how he has dealt with difficult situations in Argentina and Brazil.
- I will then walk you through a quick study of Germany, as an example of a mature market. Here you will see how, by enhancing the productivity of the salesforce and using new techniques, we have managed to reverse attrition in this country.
- We will then have a third case study, from Ernesto de Martinis, who will give us an overview of what he has achieved in Italy, where he had to cope with risk and elaborate a new distribution strategy.

### **II. Building our Business through Selective and Profitable Growth**

What are we talking about when we say 'differentiated growth'? We are not going to do the same thing everywhere. This is something that we have been talking about in several instances since this morning, but really the key ideas are:

- First, we are going to adapt to and treat different regions specifically, depending on the economic and competitive environment of each of these regions.
- Secondly, we will adapt to our clients. We will adapt our products, our services and our distribution to the different types of clients that we want to serve.
- Thirdly, we will build on our existing relationships, be they with clients or with brokers. We will prioritise these types of relationships, as opposed to going into new areas and unknown situations or clients.
- We need to align everybody throughout the organisation, because much of the success of this strategy is based on execution and management. We therefore need to ensure that everybody is accountable for the proper execution of the strategy and the results that we expect from it.



- Finally, we are not going to define and set quantitative objectives when it comes to growth. Our aspiration is to reverse attrition in mature markets and readjust our ambitions to the reality of the various emerging market that we are serving.

### **III. Market Growth Driven by Both Economy and Risk & Commercial Decisions**

We talked this morning about the overall growth rate of this industry, which is 3%. Behind this 3%, we have lots of different levers and situations. I now want to explain to you why these different levers do not apply to, and do not have the same weight or importance, in every country we serve. Some of these levers are more important in emerging markets. Some are more important in mature markets.

- The 3% growth rate that we have in mind, when it comes to credit insurance, is primarily supported by the overall economic environment. Depending on the GDP growth rate and on the increase in overall international trade, the level of activity in credit insurance is going to be lower or higher.
- The second lever can be either new clients, or increased/decreased exposure with existing clients.
- The third lever is pricing, which is quite important. We have been experiencing negative pricing trends in recent years, particularly in mature markets.
- Finally, what we see more specifically in emerging countries, are risk action plans that we have been forced to implement, in order to better control our risks.

Overall, all these different levers concur to a 3% growth rate over time.

If we consider these levers in terms of mature markets – for example, Western Europe – we have to think about lacklustre growth rates and high levels of penetration of credit insurance, which leaves little room for manoeuvre in acquiring new clients. Fierce competition has led to price pressure.

Conversely, in emerging countries, the challenges are a little different. Besides lower product awareness, the level of volatility inherent to these countries necessitates different types of risk action plans, to better control our risks.

All in all, what I want to point out here is that, if we want to have a solid and robust commercial and growth strategy, we have to differentiate it by geography.

### **IV. Differentiate Growth Strategy by Geography**

#### **1. Geographical Vision and Market Features**

As the countries that we serve are at differing stages, with varying degrees of volatility and levels of credit insurance penetration, we have grouped these countries into four main clusters.

- The first is what we call mature countries, characterised by a high level of penetration of credit insurance and price pressure, due to competition between credit insurers and brokers. This is typically the kind of situation that we see in Western Europe, for example in France, Germany, the UK and Italy.
- The second cluster of countries are the underpenetrated countries. Here, we are talking about the US and Japan, and rapidly developing countries where credit-insurance products are not well penetrated. In these countries, there is low awareness among corporates about how they can use credit insurance.
- The third cluster is 'emerging stables'. These are countries that are in transition from emerging to more developed economies. In this cluster, we see an underlying growth rate that is quite substantial. Information on these countries is becoming increasingly available and competition is growing fiercely. We are observing this situation in Central Europe, for example.
- The final cluster is 'high risks', which include many Latin America and Asian countries. Here we see a high level of volatility in the underlying economies, scarce – if any – information, and sometimes, unfortunately, a high level of competition. Many credit insurers have already flocked to the larger of these countries and are creating capital overcapacity, resulting in fierce competition between players.

#### **2. Strategy**

For each of these groups of countries, we have developed a specific strategy:

- For mature countries, we are focusing on driving sales efficiency, as it is one of the best levers for improving our market share in existing markets. It is also the best way to counteract price pressure and to maintain a level of profitability in our relationships with clients.
- In underpenetrated markets, the name of the game is clearly investing in distribution in order to increase the points of contact with existing and future clients.



- In 'emerging stables', where we have had quite good success, the key point and the main element of our strategy is the industrialisation of our commercial processes. What I mean by that, is that it is the best way to accompany the evolution of these countries towards a mature stage. It is the best way for us to increase our scale and continue growing, while controlling costs and risks.
- In high-risk countries, we face a very different situation. Our main priority will be risk control. We will not invest in growth until we have proven that we are able to generate profit in these countries. As a result, we will be extremely selective in our clients and will invest heavily in information.

## **V. Differentiate Approach by Segment**

Another dimension to differentiate our activities are the four main client segments that we are prioritising. Two of them, large accounts and mid-market, are from our historical client base. The other two, SMEs and financial institutions, are areas where we are already present but that we think have potential for us to target and develop.

### **1. Large Corporates**

In terms of large accounts, we have been serving clients for years, on the back of our large network and our ability to develop tailored solutions. What we want to do going forward, is to invest in our IT systems. We want to provide our clients with a more centralised way of looking at their programmes and at the different policies that we put in place on their behalf. We want to be able to improve our reporting and to increase client retention and appreciation of our services. Recognising that, while some large accounts are quite profitable, some are, because of the level of competition, potentially less profitable (or even lossmaking). We will pay strong attention to the level of pricing, whenever we have to reprice these relationships.

### **2. Mid-market**

The mid-market is our largest franchise and we have been serving clients in the segment for a long time, with a full range of products. What we want to do going forward, is to increase our level of service through better credit-process management. What I mean by that is faster decisions, more direct access to decision-makers within Coface, better communication around the decisions that we make and the level of limits that we put in place, and improved invoicing. This is something that is quite important. In several instances, we have heard of clients – not only our clients but clients in general – being unsatisfied with the level of service that is provided to mid-market companies. We want to enhance our services and make them a differentiator vis-à-vis our competitors.

### **3. SMEs**

The area of SMEs is one where we have made some inroads. It is not new for us and Ernesto will give you an example of what we have done in Italy. The real challenges in the SME segment are twofold:

- First, clients are expecting a very easy-to-use type of product. They do not want the burden of putting in place a whole new administrative process to monitor the situation, so we have to find a solution that provides them with simple products.
- The second challenge that we face is around distribution. Given the level of premium, we have to be extremely selective on the type of distribution that we want to put in place, in order to align the cost of distribution with the potential of the premium.

As a result, what we want to do in this segment is to innovate on the product side and on the distribution side, by leveraging digital distribution and specific partnerships.

### **4. Financial Institutions**

Financial institutions are also a strategic segment for us. This is another area where we have been carrying out quite a lot of activity. We think that we could further penetrate this segment and our strategy will be twofold:

- We will consider financial institutions as clients and provide them with a complete range of products, in receivable-finance and payable-finance guarantees, that match their needs to reduce risk-weighted assets and capital consumption.
- The second route that we are following, is to look at financial institutions as distributors. Most of them, particularly retail banks, have large networks that can be used to sell our products to their clients, against a fee.

## **VI. Drive Sales Efficiency and Innovate to Differentiate in Mature Markets**

How does this segmentation of geographies and clients translate into an action plan per region? In mature markets, we have three priorities:

- The first is to increase client retention and satisfaction. This will be achieved through an improved credit-management process, as I already described.
- The second is to drive sales efficiency and by that I mean improving salesforce management. In a mature market, driving sales efficiency is absolutely critical for our success and our presence in the long term. I will come back later to the very precise example of Germany, where we will see how the salesforce has been segmented and differentiated between hunters and farmers, and how incentive plans have been redesigned. This is really what we are talking about in terms of improving sales efficiency. The second element of sales efficiency is our distribution strategy and how we manage the broker network. Again, Germany is a good example of what we are doing.
- Finally, SMEs are going to be an important target for us and we are going to innovate in terms of product and distribution solutions.

## **VII. Invest in Distribution and New Client Acquisition in Underpenetrated Markets**

- In underpenetrated markets, the name of the game is multichannel distribution. This is a real challenge but also a necessity if we want to increase our penetration and find ways not only of reaching our current clients but also increasing awareness and creating new clients. In the US, we are already managing a direct salesforce, an agent salesforce and broker relationships. This is something that we have to combine. In reference to a question that was raised this morning, this is a subject that we are working on. We have a new Head of North America, and clearly one of the priorities that we will be addressing is how to balance these different channels and make a truly multichannel strategy successful in the US.
- The second lever is a sector-specific approach, which is something that is quite necessary. In Japan, for example, we are developing a specific solution for energy distribution for the food sector, which means that we tailor the wording of our policies to the specific needs of these clients. We have also put in place some specialised reps to promote and sell these products.
- Finally, since there is a strong financial sector in these geographies, we will make financial institutions in the US and Japan priority targets.

## **VIII. Seek Scale through Safe Growth in Emerging Stable Markets**

In emerging stable countries, we have had some good successes and have been happy with the results that we have had in these regions. What we want to do, is to maintain this trajectory and to keep on growing while maintaining strong control over risks and costs. In terms of how we will do that, the main focus for us is to industrialise our commercial processes. By this I mean that, as these countries develop, mature and increasingly resemble Western European countries, we have to adapt our commercial processes. We have to industrialise, to put in place more sophisticated account management and new ways of managing and retaining our sales talent. In parallel, we need to continue investing in information, because this is something that, in the long run, will be critical. As these countries mature and become more developed, we will also see the emergence of situations with large accounts and financial institutions, which will also be clients for us to target in these countries.

## **IX. Stabilise Risk and Demonstrate Ability to Make Returns before Growing in High-risk Markets**

High-risk countries represent a real challenge for us, because of the significant level of risk that they conceal. Nevertheless, we need to be present and operate in these countries, not only because of their demographics or where these economies will be in the long run, but primarily because our global accounts operate in these countries and expect us to serve them in these geographies. As a result, we have to develop and adjust our capabilities to the reality of these markets.

Our main priority will be to control risks. As I mentioned earlier, we will not invest in growth in these countries until we have proven that we can control risk and make profit in them. What we will then do is to be extremely selective in terms of clients, with a primary focus on countries and sectors where we have experience. Beyond that, we can also make a difference and select clients depending on the type of business that they carry out. For example, in countries where we have limited information, it is best not to invest too much in developing domestic business but rather focus on clients that are exporting towards countries where we have a strong information base and we can control risks.



We will also invest in information. This will be a substantial investment and absolutely critical for our underwriting capabilities and risk control in these regions. Finally, our priority will be to continue serving our global accounts that are present in these countries and that request our support in carrying out their trade there.

## **X. Invest in a Dedicated, Specialist Financial Institutions Team**

### **1. Positive Environment**

I mentioned earlier that financial institutions are a critical segment for us and we are doing some business in this area already. We believe that financial institutions represent growth potential for us, because it is a growing market and activities with financial institutions are increasing:

- If you think about receivable finance and, more specifically, factoring, the revenues of factoring companies around the world have grown by almost 10% over the last five years. In countries such as France, business has doubled since the last financial crisis.
- Secondly, the evolution of the regulatory environment is quite positive for credit-insurance products. Because of the constraints on risk-weighted assets and capital consumption, credit-insurance products can be a good mix and a good addition to the product lines of financial-institutions.
- Finally, we are seeing the emergence of new players, such as fintechs. We think that fintechs are also a good target, as they can provide us with access to clients with whom we would not otherwise have been in contact. We can also partner with these fintechs and find some good local distribution solutions.

### **2. Growth Strategy**

In terms of what we are going to do, first of all we are going to leverage our experience in this sector. Secondly, we are going to put in place a specialised financial-institution support team, bringing together competent experts who have been in contact with financial institutions, who know the structuring of products, who know how to commercialise products with financial institutions and who know how to specifically address risk-related situations with financial institutions.

## **XI. Innovate to Differentiate**

### **1. Products and Services**

Finally, I would like to touch on our innovation strategy. Our growth strategy will be supported by an innovation strategy, focussing on three areas: products and services, information and distribution.

On products and services, what we are currently putting in place is a new process of innovation. In short, we are going to be logging all the innovative projects that are of interest for us, and we are putting in place a process whereby we assess, screen and segregate these projects against criteria, such as profitability, feasibility, acceptability by clients and level of risk etc, in order to funnel these projects down to three or four business cases that we test through an innovation lab. Our purpose in putting in place this process is, first, to define a new and more rigorous innovation-evolution process; second, to limit our investment and not put money behind projects that are unlikely to go to market; and third, to shorten the time to market.

### **2. Information**

I am not going to return to why information is critical for us but, in short, there are different levels of information: the information that we buy and the information that we enrich. We are going to invest in new technologies in order to improve this enrichment and our access to non-conventional types of information. For example, we will be using web-crawling solutions in order to tap into new types of information and to continue enriching our information. This will improve our underwriting capabilities and help us to develop information as an independent business.

### **3. Distribution**

In terms of distribution, we will favour partnerships primarily with fintechs, our main objective being to access new clients and to use fintechs as a digital distribution channel.

That, then was a short description of what we have done in terms of thinking around strategy. Now I would like to illustrate this strategy through case examples, starting with Bart, who is going to talk to us about Latin America.

Bart Pattyn  
*Regional CEO – Latin America*

### **I. Current Crisis in Latin America is more Severe than in 2008/2009**

Thank you, Thibault, and good afternoon, everybody. It is a pleasure to be here, even though I am aware that I am the guy who is going to talk about the difficult part of risky emerging markets. As Xavier said this morning, we face quite a bit of turbulence in all emerging markets. Specifically in Latin America, the volatility has been worse this time around than in the global financial crisis of 2008/2009:

- In terms of the volatility of currencies, the crisis has been twice as deep and twice as long as what we experienced eight years ago.
- The commodity-price shock had a domino effect on many different sectors.
- In addition, we had problems in agriculture, with weather effects such as El Niño. We had problems in the construction sector, because government spending dried up and we had problems in consumer sectors, because of unemployment.

All of that generated quite a number of payment incidents across the region, creating a deep crisis.

### **II. Ten Action Plans Implemented since the end of 2014 Showing Positive Results on Loss Ratio**

We began preventive actions in 2014. The first thing we did was to reengineer our DRA, with the purpose of making it more granular and more predictive. Secondly, we took specific actions on exposures in poorly performing sectors and targeted sectors that were generating our claims. An example is the dramatic reduction in exposure that we implemented in some sectors in Brazil. The impact of these actions started to become visible from the second quarter of 2016, when our loss ratio was better than it was in 2015.

### **III. Fit to Win in Latin America**

#### **1. Overall Business in the Region**

Before going into detail about all the different countries, I will give you a flavour of the overall business in the region. Trade-credit insurance in Latin America is a young sector, that has only been in existence for about 15 years - so there is no deep experience available in the market. It is still rather a small sector, of about €250 million, and one that has seen double-digit growth over a decade. The main markets are in Brazil and Chile, each at €70 million, Mexico, at €50 million and Argentina, at €30 million. In all fairness, the other countries are relatively small.

What is very specific for Coface in Latin America, is that we have invested in a production facility in Peru, where we generate 34,000 reports on companies every year, covering 18 countries. It is an asset that helps us.

In recent years, our strategy was targeted at accelerating growth and increasing the penetration rate of our products in the area. This was based on a consensus between economists, and our people, that we had high sustained economic growth which was expected to last. The current crisis, unfortunately, put that strategy into question.

#### **2. 'One Size Fits All' Not Adapted to Market Realities**

With Fit to Win, we are adapting our priorities to the realities in each of the markets. These realities are very diverse and one size does not fit all:

- Brazil is going through a profound political and economic crisis. Companies in Brazil are large but they are domestically-orientated. They have high production costs and, as a consequence, are undergoing a certain deindustrialisation which is creating specific consequences, such as unemployment.
- Argentina has gone through 15 years of high inflation. It has lost competitiveness in its exports and there is a lack of back credit available. This creates a context that is totally different to the one we have in the market of Brazil.
- Chile, on the other hand, is quite stable as an economy. It is an open economy and one that is export-driven. As a consequence, what we need to do in Chile is, again, very different.
- Peru, as a trade-credit-insurance market, is just starting, but it has very low production costs – the exact opposite of what we have in Brazil. This is why we have our production facility there.



- Mexico, once again, is very different, because it is integrated with the US through NAFTA, so it is in a different economic cycle.

What we need to do, is exactly what Xavier said this morning - to differentiate our growth strategy and to have different approaches in different markets.

### 3. Investment in Infrastructure

How, then are we going to do that? What have we been doing and what are we doing right now? Our actions are based on two pillars: first, investing in infrastructure to manage information and to manage the risks that we have on our book. As regards information, we will continue to invest in Peru. We will increase the number of people and increase monitoring, to follow up what is happening with companies in the entire region. The objective is to have the best available information in the industry. In this way, we will invest further in risk management throughout the region - firstly in Enhanced Information Centres, where people are available to visit companies in each country, in order to have first-hand information. We are also increasing our underwriters, in order to have better risk-monitoring and make faster decisions. Thanks to these two elements, we should be better prepared for the next crisis - as given that Latin America is volatile, there will be a next crisis.

### 4. Better Alignment of Risk and Commercial Strategy

The second part of our development is to align our strategies between risk profiles and commercial objectives. In this regard, we have different objectives:

- In Brazil, we had (and still have) an issue with risk. We therefore need to surgically adjust risk exposures per sector, to get them to the correct levels. At the same time, we have been working on the structure of our pricing, which we are increasing. It is taking some time, but it is working.
- In Argentina, our challenges are very different. The risk profile is quite acceptable and we have good growth, but with inflation, there is an exponential growth in costs. We are therefore very careful with cost management, to ensure that our team is appropriate for the growth and development that we see.
- Chile, again, is different. In Chile, the cost structure and loss structure are quite good. The challenge is to have sustained, profitable growth and diversified distribution. Chile is one of the only countries to have a fully brokered market.

The other countries are a combination of these three elements.

With better client selection and a targeted approach on what we want to do around retention and new business, we are sure that we will be able to better control the risks that we have on our book. Our purpose is value creation.

## Germany – Case Study

Thibault Surer

*Group Strategy and Business Development Director*

### I. A Mature Market Environment with Strong Price Pressure

#### 1. Market Background

Thank you, Bart, for walking us through this case study.

Let me talk to you now about a very different situation, which is Germany. If you recall the different clusters of countries, Germany is on the mature side. I want to show you the type of management-related actions that we can put in place to continue growing in a market that is in attrition.

In terms of the German market, we are talking about a large economy, low growth rates and low inflation, as well as a low level of insolvencies. There is therefore limited demand from clients. This is a large credit-insurance market with an €800 million premium. We have a 20% market share. More importantly, what we have been observing for the last three years, is a decrease in the size of the market by roughly 3% per annum.

## 2. Forces at Work and Implications

In terms of forces at work, we see an increased level of requirements from large clients, be it through industry-specific solutions or, more importantly, through the growing share of self-insurance. We see situations where large accounts are managing their risk-management process on their own - or buying debt collection or information only from third-parties and asking for excess coverage.

The second main force at work is the level of competition, be it from credit-insurers or brokers. We are seeing a very high level of competition among the different players and, as a result, substantial price pressures.

## II. Commercial Transformation Programme Launched in 2014

### 1. Reorganise Salesforce

On the back of these observations, in 2014, the German team embarked on a large transformation of their commercial processes. There were three main levers and three main priorities that it pursued: a reorganisation of the salesforce, an adaptation of the product offering through improved segmentation and a better distribution strategy.

On the reorganisation of the salesforce, a number of different measures were put in place, which, combined together, had a large impact:

- The first measure was to put an end to the agent salesforce – not only because of its poor performance but also because it was competing against the direct salesforce of our German entity.
- Secondly, they reorganised their own salesforce and decentralised the commercial teams. Instead of having a centrally-driven commercial salesforce, it was allocated to the larger regions - except for large accounts, for obvious reasons.
- Another element of the salesforce transformation, which is quite interesting, is the separation between hunters and farmers: hunters being allocated specifically to client acquisition, and farmers being more in charge of servicing existing clients and managing the upselling.
- Last but not least, they totally transformed their compensation mechanism, by individualising objectives and compensation, as well as varying the level of bonuses.

### 2. Adapt Product Offering and Services per Segment

- The second element is better segmentation. They carried out a very granular segmentation of their client base. They also refocused quite a lot of their activities on the *Mittelstand*. Coface is traditionally well-positioned in terms of large accounts in the German market. The idea was also to rebalance and refocus towards *Mittelstand* companies.
- They developed a sectoral approach. Interestingly, one by-product of this segmentation has been to obtain clear definitions of the level of services provided to clients, depending not only on the clients' needs, but also on the ability and willingness of clients to pay for these services.

### 3. Rebalance Distribution towards Brokerage

- The third lever was a strong focus on brokerage, through a selection of the top 15 brokers with whom they established preferred partnerships.
- At the same time, there was a redefinition of the broker commission levels, in order to make sure that the levels of commission provided to these brokers were aligned with the value that they provide. In short, if the broker is merely a door-opener, the level of commission is definitely not the same as that provided to a broker who also does some kind of claim-handling.

## III. This Programme Has Already Generated Visible Results

There have been three impacts from this salesforce transformation:

- First, an increase in salesforce productivity, which grew by 30% between 2014 and 2015.
- Interestingly, there was an impact on the level of new production, which grew by 20% between 2015 and 2016. This is quite an impressive figure in a market that is under price pressure and observing some attrition.
- Last but not least, client retention and satisfaction levels rose from 92% to 94%.



This, then, is an example of what we can do in a mature market. It shows that better salesforce management, transforming the sales activity and driving efficiency can have a substantial impact on the bottom and top lines. I will now leave it to Ernesto, who is going to walk you through the Italian example.

## Italy – Case Study

Ernesto de Martinis  
*Country Manager - Italy*

### **I. Italy: a difficult environment with positive trends**

Thank you, Thibault. Good afternoon, everyone. As Thibault was saying before, this is an example of how we can reach profitable growth in a tough economic environment, in a mature market like Italy, where the competition is very aggressive.

Let me start by giving you a brief overview of the Italian economy and its credit insurance market. Italy has been experiencing a difficult economic environment since 2008. There has been a strong decline in all the main macroeconomic indicators and insolvencies have been increasing, quarter after quarter. A slight improvement only became visible in 2015, but we are very far from pre-crisis levels.

The credit insurance market in Italy is dominated by the sector's three global players, who account for more than 80% of market share. Coface has a large presence in this market, with 28% of market share. Despite the difficult context, we have been able to achieve very positive results, through a strategy focused on risk management and distribution. In terms of risk management, we invested in building an efficient risk infrastructure which redefined the entire risk prevention and risk assessment chain. We created a field credit analyst team, able to collect fresh and updated information in the field. In Italy you cannot rely on available financial data, you have to go and check for yourself. To this end, we recruited 12 credit analysts, located in Italy's main regions.

### **II. Strategy Focused on Risk Management and Distribution**

At the same time, we reviewed all the processes of our underwriting capabilities. We set up a more sophisticated risk assessment algorithm - obviously with a more prudent approach considering the difficult external economic environment. We also set up a more specialised risk underwriting team and doubled the number of our risk underwriters. We made considerable investments in risk management, with the aim of better preventing and assessing risk.

We also invested in distribution and strengthened our agent network, as we consider it to be the best channel for distribution in this market. As you know, the Italian non-life insurance market is driven by agents. They intermediate more or less 80% of premiums. They are independent, but we consider them as a direct salesforce, due to the fact that they work exclusively for us. During the period, we opened nine new agencies, in the north of Italy – the region with the highest potential - and we reinforced our existing agencies by hiring additional sales and customer service staff.

Looking in more detail at our distribution model, we implemented a clear distribution strategy, per segment and channel. Agents are at the centre of this business model. They are strongly focussed on the target of SMEs, which represent the most underpenetrated, yet the most profitable target segment in Italy.

We will continue to invest, to open new agencies and to reinforce existing agencies. For large clients, where the penetration rate is very high and served by international brokers, our strategy is to enhance service levels, with the aim of improving retention.

### **III. Bank Networks for targeting Smaller Companies**

Finally, we are exploring a new segment, comprised of small companies and SMEs with less than €2 million in turnover. We are trying to approach this segment in partnership with banks. We consider them to be the best distribution channel for this segment, thanks to their nationwide capillary network in the field.

We implemented this strategy a few months ago, in April 2016. We began with an important, international bank, UniCredit, and two smaller regional banks, Unipol Banca and BPER. The first results are very promising. In fact, we have signed more than 130 contracts, with over €1.6 million in premiums, mainly in



the small and SME target segment. Here the key success factors were distribution (through our partnerships with banks) and our product offering. In terms of our product offering, we launched a simplified solution, EasyLiner, a few months ago. It is a new concept, with a simple, digital process, which is easy to sell and meets the needs of banks. We will continue to explore this segment.

Finally, I would like to show you some of the positive results that we have achieved thanks to this strategy, and which can be summarised by positive growth and technical results. Our strategy, focussed on risk management and distribution, provides clear evidence in support of the key elements of the Fit to Win strategy that Xavier described this morning. This includes investment in risk management and distribution to better serve and penetrate the SME targets. Thank you very much.

### **Thibault Surer (Wrap-up)**

Thank you, Ernesto. As a wrap-up, I would like to stress a few points that we have touched on throughout this presentation. Our ambition is to keep on building our business, selectively and profitably. In terms of ambition, we want to reverse the attrition that we are observing in mature markets, adjust our ambitions and objectives to the reality of emerging markets and keep on growing in other markets.

The question is, is it realistic? Basically, all of this strategy has been built upon our skills, our assets and our experience, so we feel that it is realistic. In terms of ambition, is it ambitious enough? We believe that it is ambitious enough, as we are facing a difficult situation, in terms of pricing, in Western Europe. We also know that we will have to adjust our exposures in emerging markets, in order to control our risk levels. So we have quite a lot of work to do, in order to realign our commercial approach to the level of risk that we are targeting.

What will we do differently? We will be selective - and I think that this is something that we communicated in several instances today. We will adapt to each market situation, but probably more importantly, because a lot of this strategy is based on execution and management, we will reinforce accountability and responsibility at all levels, throughout the organisation.

Thank you for your attention. I will now hand over to Carine, who is going to talk about financials.

## **Financial Targets and Capital**

Carine Pichon  
*Chief Financial Officer*

### **I. Financial Challenges**

In this final section of our Investor Day, I will give a little more detail, and summarise on, our financial targets. I will also explain what we plan to do on the capital optimisation plan.

What we have presented today, clearly addresses all of our financial challenges. We are currently facing an increasing net loss ratio. At the end of H1 2015, we were at around 53%. This rose to 61% at the end of H1 and we have planned for and reconfirmed the guidance for the end of the year, to be between 63-66% of net loss ratio. We also have the €30 million shortfall, which I have already discussed, following the transfer of State Guarantees. There is also the turnover decline of around 3% for the first six months of this year, mainly driven by risk action plans in emerging markets, global price erosion of around 2% over the last few years and the fact that, more recently, we are seeing a global slowdown in client activity. We are also facing structurally high capital intensity.

### **II. Fit to Win Transformation Drivers**

The Fit to Win plan clearly addresses each of these financial challenges.

To start with the loss ratio, this morning we had a presentation by Nicolas explaining the plan to strengthen risk management and information. On the €30 million shortfall, we have our operational efficiency programme, which I presented this morning. This will allow us to offset 100% of the shortfall in 2018. From



a turnover point of view, we have our differentiated growth strategy, which will be implemented based on each market reality.

In addition to this, the second pillar of the plan is to steer business through a more efficient capital model. This plan includes ambitious but realistic targets. To come back on what Xavier presented this morning, if we come to where we are as of today at the end of H1, our return on average tangible equity is 3.3%. If we exclude the effects of the transfer of public guarantee, meaning on a pro forma basis, we are at 2.2%. Each of the priorities of Fit to Win will contribute to achieving the 8% return on average tangible equity through the cycle.

### **III. Gradual Effects**

What will primarily drive the improvement on the return on average entity, is our capacity to strengthen our risk information and risk management. After that you have the operational efficiencies, with the cost-saving plan we have presented, and then selected growth to increase profitability, as we also mentioned this morning. We want to create value first before growing, and not growth for growth. We will have selective growth and selective profitable growth. All of these priorities will lead to the 8% we plan through the cycle.

I would like to insist on the fact that the effects of the Fit to Win plan will materialise gradually. When you look at each of the improvements that are expected, starting with risk management and information (an illustration of the loss development curve can be seen on the right-hand side of the graph) we know that, on average, we need around two years to see the full effects, or full payoff, from the developments of one underwriting year.

In terms of operational efficiency, here you have the trajectory of the ramp-up in savings. We said that we plan to achieve €30 million of savings in 2018 and €10 million in 2017, but clearly not in 2016. We will also reinvest the €70 million gain on the State Guarantees transfer. Here, you also have the split of this cost from a P&L point of view, year by year, as we will start the implementation of this efficiency plan from today. We plan to have €40 million of costs for 2016, which will be booked in this year, then €21 million in 2017, followed by €6 million and €3 million in the subsequent years. As you can see, the effect of this plan will materialise over the coming years.

### **IV. Growth Strategy**

The third priority is our growth strategy. This will also be progressive, as per our business cycle. Between the time when there is a prospect, through to negotiations and signature with the client, and then finally booking a premium, is, on average, two years in our industry.

Up to now, I have not mentioned anything about our financial portfolio, or asset management portfolio. This does not mean that we do not have one, because we have on average around €2.4 million in assets. However, we do not expect it to contribute to increasing profitability over the coming years, as we are in a low investment interest rate environment. Our target therefore remains the same as it has been over the past few years – to retain a resilient and secure yield on our investment portfolio.

What are our key priorities? Just to remind you why our portfolio is secure, the average rating of our bond portfolio is A, the duration is 3.4 years and the solvency capital requirement for our financial portfolio is around 10% of the total investment value. That is an advantage. It means that we have very low sensitivity to market shocks. Here (on this slide) you have what would be the impact on our solvency capital ratio if we were to face a 100-basis point increase in interest rates, for instance, or spread. You can see that even with that, it would only represent a decrease of 3 percentage points to the solvency ratio - so a very low impact. However, this does not mean that from a tactical point of view, we will not proactively manage our investments. Quite recently, we decided to slightly decrease the cash in our investment portfolio, in order to invest a few per cent in real estate. We are aiming for a resilient, secure yield on the global investment portfolio.

### **V. Capital Management Goals**

With the second pillar of the Fit to Win plan, we want to steer business towards a more efficient capital model. What does this mean? We have two key management goals from a capital point of view. The first one is clearly to ensure solvency and rating. We have already published what our comfort scale is in terms



of solvency ratio - between 140-160%. We are well positioned here, as at the end of June 2016, we were in the upper part of this comfort scale, at 155%.

We also want to conserve the ratings we have with our two ratings agencies. As of today, the capital we have is in line with this first goal and in line with supporting the progressive goals we will have for the next few years. This means the underlying scenario, which is between 0-3%, on average, for the next three years. We have the correct level of capital but we think we can optimise our capital management and our capital structure. It is not the first time we have done it. It is something we did in Q1 of 2014, by issuing hybrid debt. More recently, you will remember that at the beginning of the year we issued a contingent equity line. What we are looking at now, is a kind of innovative reinsurance, which leverages reinsurance as a tool for risk and capital management.

Why? As you are aware, we are a monoliner. We are operating in the field of credit insurance, which is not the case for reinsurers, who are multiliniers. They benefit from their cost of capital, from their calculation of their need for capital and from their efforts in diversification that obviously we do not have. That is why we think we can work with them there, to leverage or optimise our capital. Our objective is to work with a broad and strong reinsurance pool – and this is the way we are used to working. It is an additional reinsurance, but one that is fully integrated through existing reinsurance schemes. The effects of this new reinsurance treaty will start in 2018, up to 2020.

We are also still working on Solvency II and the fact that we want to implement a partial internal model - but we see that more as an option, so we have not integrated it into the financials for the next few years. I will also not comment too much on the cashflow management we have within Coface, because this point has been dealt with in previous years. I would just like to remind you that we already have a centralised reinsurance scheme for all the companies in Coface. In Europe, we only have one legal entity, because all entities are branches, and we have already implemented centralised investment and a liquidity pool. There are therefore no questions relating to cashflow transfer within entities in Coface.

## **VI. Improving Returns for Shareholders**

On capital management, I have just described our reinsurance scheme. This will further improve returns for shareholders. As I said before, the business operation will lead to around 8% return on average tangible equity through the cycle. This new scheme will then increase this 8% by 100 basis points, leading to the 9% you see here. From a dividend policy point of view, we consider that ours will be attractive, meaning that we will continue to distribute over 60% on normalised earnings to the shareholders. If we have any excess of capital, our plan is to return it to the shareholders via special dividends, or buy-back. When that time occurs, we will see what is the best deal for everybody. That covers the plan to return shareholders' capital.

As a summary of the financial targets we have defined in the Fit to Win plan, clearly they are very ambitious but realistic targets - to have more than 9% of return on average tangible equity across the cycle after capital optimisation, including a net combined ratio of around 83% across the cycle. Our dividend policy will be attractive, with a pay-out ratio of more than 60% on normalised earnings, while keeping a solvency ratio in the upper end of the 140-160% target range and a minimum single-A rating.

## **Questions and Answers (Second part Q&A)**

### **Michael Huttner, JP Morgan**

China and Brazil, about the fact that all the results come in 2017 instead of 2018, would you be tempted to put it in reserves and wait, or will you actually report it? That would be my first question.

The second question is, that I do not quite understand the reinsurance and the move from 8% to 9%. Is it correct that you only get the benefit of increasing return on average tangible equity if you actually return the cash? Or is there a mechanism where reinsurance transforms the capital into earnings?

### **Carine Pichon**

I think your first question was on loss ratio, related to China and Brazil. You are right in that we have taken a lot of measures, even back at the beginning of 2015, for Latin America. In Asia, these measures were taken

later on – in December, for China. Also, in Q1 we told you that we had adjusted some of our commodity and trading exposure, not just in China but across Asia. We are expecting to see some improvements resulting from this, but they will take some time.

The positive improvement of loss ratio will be progressive, up to the date when we think it will be embedded in the 83% of combined net ratio. You have to look at the trajectory.

Was the second question “How will the return to shareholders work?”

**Michael Huttner, JP Morgan**

Yes, how does it work?

**Carine Pichon**

If we have excess of capital and, thanks to reinsurance we think that at a certain point we can achieve this on the comfort scale that we have, our plan is to return it to the shareholders. It could be a special dividend in cash, or it could be through share buy-backs. We have not yet defined this point because, as we explained, it will not be before 2018 - and then the following years - but that is how it will work.

**Benoît Pétrarque, Kepler Cheuvreux**

Just to come back on reinsurance, if you were to sign a contract with a reinsurer, say in 2017, you would only get the full effect of Solvency II in 2018? Is that correct? Or do you get partial effects over time, over the two years?

**Carine Pichon**

If we take the assumption that the reinsurance starts at the beginning of 2017, it would be a progressive effect, from 2018, through to 2019 and 2020.

**Benoît Pétrarque, Kepler Cheuvreux**

Just to come back on the question of the 83%, how does that build up between cost and claim ratio? Why did you set the claim ratio across the cycle at 52%? I do not know exactly where you are, but what was the maths behind the credit cycle leverage here?

**Xavier Durand**

On the loss ratio, it is based on the mix of countries and businesses that we are in. It recognises the fact that in mature markets, while there is less risk, there is also more competitive pressure and that in emerging markets there is more risk volatility. Again, we did not want to peg any of these numbers too precisely because, as I said, there is an arbitrage that we have to make, depending on the circumstances, in terms of the amount of money that is invested in the infrastructure and the amount of risk that we expect to get in our book. It is commensurate with the amount of growth that we want to go for in each of the markets. These three things work together, and that is why we are taking a more market-by-market approach. This approach will need to be flexible and agile. Making exact predictions on the future of every market around the world is clearly not possible, which is why agility is needed.

**Guilhem Horvath, Exane BNP Paribas**

My first question is on reinsurance. I suspect that if you are speaking so clearly about this kind of deal, it is because you are about to sign one. It would be strange to speak about what you intend to do, if you were not already well advanced in the discussion. How advanced are these discussions?

My second question concerns the restructuring costs for 2016. Did you already say that you would account for this €40 million (I do not know how much) in 2016? Is this included in the warning, or have I forgotten something? You are basically paying today for the State compensation that you will receive in 2017 - is that right?

**Carine Pichon**

Let us start with the restructuring costs. We will book €40 million, as mentioned in one of my slides, for restructuring and set-up implementation costs in 2016, then €21 million in 2017 and the remainder over the following two years. In terms of the €70 million of gain on the transfer of public guarantees, this will depend on whether the transfer takes place this year - which is the basic scenario - or at the beginning of 2017. In



any case, and I think it is important to say this, from a dividend point of view, when I say that we will distribute normalised earnings, it means that we will offset. So, as you can see, we have €70 million of gains, then €40 million of costs, so all in all it is offset. We will extract this effect from the basis of the distribution, to ensure that we will not have a huge lead-on one day and then a lower one, so that we can normalise the dividend we pay over the two years.

On reinsurance, we are at the stage where we want to be in the negotiations. You are right. I cannot give you more information, but we are at the level we want to be at.

**Thomas Fossard, HSBC**

On the dividend side, the pay-out ratio is confirmed at 60%. Could you tell us what could endanger this 60%, depending on the capital scale you are on? You have a different, lighter colour on your scale, so would 140% already endanger the 60%? Or does it mean that it would be in danger at 120%?

My second question is, provided that you are getting the structured reinsurance in place, what would that imply in terms of cession ratio by 2019?.

**Carine Pichon**

Regarding your first question, as long as we are between 140-160%, we are aligned with the dividend policy of 60%. If we are lower, then we will see, based on the stress scenario we have and so on.

Your second point was about how much cession weight we will have with the reinsurer. That is something we are looking at and defining in terms of the correct level. In any case, it will clearly be in double digits.

**Thomas Jacquet**

We have a question on the web, mentioning the fact that loan distribution is being disrupted by a lot of new players, such as peer-to-peer lenders, private equity funds and even insurance companies. Most of these players do not have your vision on how to assess underlying risks. The question is, are you prepared to sell information from your database to these guys, or do you not think of this as an opportunity? Do you plan to sign joint ventures with these peer-to-peer lenders?

**Xavier Durand**

That is an interesting question. I think I mentioned in my presentation that the emergence of these new actors, and these new ways of lending, is an opportunity, in a way - and a transformation. It offers more opportunities for us to provide credit insurance. When it comes to selling information, which is the raw material of what we do, the question is not to jeopardise our own model and our own ability to insure. We must not commoditise our own business. I think it is a trade-off which depends on the circumstances, the terms and what exactly it is that we are supposed to provide. We will have to take this on a case-by-case basis.

**Benoît Pétrarque, Kepler Cheuvreux**

Just a final question on my side. You target 9% return on tangible. Why not 11% and do more reinsurance, more optimisation of capital? What is keeping you from doing more than that? 9% looks low.

**Carine Pichon**

I mentioned that we have two key capital management goals. One is to ensure solvency and the other is to ensure our ratings with rating agencies. If we set our target higher, it will be more difficult. Both of these constraints have been included in setting this target.

**Benoît Valleaux, Natixis**

Within your combined ratio, or loss ratio target, what do you expect in terms of sustainable reserve release? In the past, you planned to improve recovery rates. Do you still see some room for improvement, and how does this contribute to your financial targets?

**Carine Pichon**

We readjusted our reserving policy in Q2, to adapt to what we have specifically seen in emerging markets. It is difficult to precisely say, for the moment, what the results will be of readjustments made in previous years and so on. We do expect, however, around 53% of net loss ratio through the cycle. That includes, as



you know, several underwriting years, so it is not a precise science. I would like it to be, but we are dealing with €500billion of total group exposure, so that is why I am cautious. There is still a plan to continue improving debt collection, so it is still ongoing.

**Nicolas de Buttet**

As regards collections, we are faced with the fact that debt collection cycles could be longer in emerging markets than in mature ones. We are investing in a senior expert team to leverage debt collections and give help and support to local teams on difficult cases that require expertise and experience.

Another point is that we are using our purchasing programme to challenge our subcontractors that work on the debt collection side. They have been challenged both on their performance and on their costs, so this should have some impact.

**Guilhem Horvath, Exane BNP Paribas**

I have two follow-up questions. The first is on the partial internal model. What happened between two years ago and this year? I think it was well on track in the past and now it is an option? Did discussions with deregulators stop? Why is it not validated already?

The second question is about the solvency range. If I read the press release correctly, I think you want to be on the upper end of the range, but then if you go above 160% you have to give the cash back to shareholders? So what happens if you are in the lower end of the range? What is the strategy there?

**Carine Pichon**

On the internal model, it was easier two years before the implementation of Solvency II. At that time, all the discussions we had with the regulator were very positive. Then, when the deadline was arriving and it was time for the regulator to sign, the discussions became deeper and more structural. It is still our target, but we want to have constructive discussions with the French regulators. These discussions have not stopped at all, but from a realistic point of view I think it is better not to take that in our financials for the years to come. The second question was, sorry, the –?

**Guilhem Horvath, Exane BNP Paribas**

Why you have the range for this?

**Carine Pichon**

The idea, as you have understood, is that if we are above our comfort scale we will look at returning any excess capital to our shareholders. The idea will be to come back within the comfort scale, based on the stress scenario that we do at that time. It's clear if it falls down to 120%, we will have to see how much we return. We would give the precise figure at that time.

**Thomas Fossard, HSBC**

On the reinsurance side again, do we have to take into account some upfront costs for the structure in 2017?

The second question is, how will the initiative to build up Coface Re be embedded into the plan? It is not mentioned as a potentially efficient method of providing efficiency gains, tax benefits or reinsurance savings. What is the place of Coface Re over the next three years?

**Carine Pichon**

Coface Re is an internal tool which has existed for over a year. It has never had the aim of improving reinsurance, because reinsurance was already optimised. It was just to simplify the fact that we positioned some staff in one unit structure. One of the main objectives was also to facilitate dividend returns for shareholders. As you know, in France there is still a kind of equalisation reserve, which makes it more difficult for us to pay dividends. Coface Re was an internal optimisation which allowed us to return dividends in an easier way - so clearly that was a main objective of this company. As regards to the new reinsurance scheme, the upfront costs will be in 2017 and then the effects will start in 2018. The cost of reinsurance has been included in the net combined ratio of 83%.

**Thomas Fossard, HSBC**

I think my question was really about the upfront costs to be incurred in 2017, so at the time you put the structure in place. Why is the 83% a combined ratio target for 2019?

**Carine Pichon**

The first thing is that we will, as you said, have costs in 2017. I cannot give these to you at this time, because we are in discussions and negotiations with the reinsurers. However, what I was saying is that through the cycle, the cost of this reinsurance is included in the 83%. Specific amounts for 2017 cannot be disclosed until the negotiations have been finalised.

**Michael Huttner, JP Morgan**

On the factoring, can you say how much money and what is the contribution to your return? I have never seen any profit split from the factoring business you are doing.

The other thing is that you are the only company that has a blackout period that ends before the quarter end - so when I make my number estimates, I have to imagine what the last few days will bring. Could we move it to just after the quarter end? It would be very helpful.

**Carine Pichon**

I am listening to the specialists, who are saying no, but maybe –

**Thomas Jacquet**

Michael, the end of the quarter is on 30 September and the blackout period starts on 3 October, so you have three days. The reality is that we publish very early. We are among the first companies to publish and I think it is good that we are able to give you information as soon as we have it.

**Michael Huttner, JP Morgan**

And on the factoring?

**Xavier Durand**

We like the factoring business and we are a significant player in Germany and Poland. It provides us with another tool when it comes to talking to clients, because we have options. We can be an insurer and we can be a factor. Our factoring service is sold by the same salespeople and it differentiates us in the market. My short answer to your question is that we like this business but we do not break out its profitability or contribution in terms of each of the markets we play in.

**Michael Huttner, JP Morgan**

I wish that you would disclose. It just seems very odd, because you remember that we had the problem for many years of always asking what the profitability of the government guarantee was, and then you lost it, and we thought, 'Oh, okay.' It would be quite nice if we had at least an idea if the same thing were to happen to this. Thank you.

**Thomas Jacquet**

We have a follow up question from the web. Looking at the top line, we have a starting point of -3.6% in H1 2016. All the actions you describe seem to be back-end loaded - so what should we take as a conclusion for 2017? What is the chance that we will be in a 0-3% range next year?

As a follow-up question, what should we expect for 2017, especially if the top line is below 0% growth?

**Carine Pichon**

On top line, you are right. The starting point is the fact that we are currently, as at end of June, declining. If you look at each cluster of the growth we are expecting, starting with mature markets, clearly our aim is to have a turnaround and return to stable growth. If you look at what we call 'emerging stable' countries, mainly Central European countries or [inaudible] countries, the steady growth we saw in previous years. For high-risk profile countries, such as Brazil, our aim is clearly to put selective growth first, so there may also be some decline effects as we restore profitability. The highest part of the growth will come from non-mature markets with low-risk profiles, such as the US and Japan.



That is how we can build growth and return from decline. As I said, it is progressive and it is under two years - so it would be progressive to achieve 0-3%.

**Xavier Durand**

Just to be clear, we do not want to set ourselves a specific growth target, because we want to be agile and focus on value creation, as opposed to growth for growth's sake. We do not want to hold ourselves to a specific number. That being said, these trends that we described extensively this afternoon, and all the work that is going to happen, will take time. We have a pretty thorough and comprehensive agenda here, which will take time to implement.

**Thomas Jacquet**

If there are no further questions, we will conclude this presentation. I wish you a very good day. Thank you.

**Xavier Durand**

Thank you very much. We appreciate your presence.

**(End of transcript)**

---