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Coface SA (COFA.FR)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to Coface SA Nine Months 2026 Results Presentation. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Xavier Durand, CEO. Please go ahead.

Xavier Pascal Durand

Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

Thank you very much. Good evening, everyone, and thank you for logging in. We're happy to report our Q3 results for 2026, which I would qualify as another good quarter for Coface in an increasingly uncertain environment. You can see from the headline – sorry, we reported €155 million of net profit for the first nine months, almost €48 million for Q3. I mean, some of the same stories that we've been going through now quarter after quarter, with a few twists.

Revenue is up 1.7% at constant FX and perimeter. There is a rebound in the insurance revenue, which grew by 2.5% in Q3 at constant FX. We'll go through the details, but you'll see client activity a little bit better, client retention close to record highs. Pricing, while still negative, is a little bit better than it was in the prior years.

You see continued double-digit growth in our Business Information line, organic above 11% and with the acquisition of Cedar Rose last year, we're above 15%. That collection strong at 28%, and the rebound of factoring actually this year, which is up 7.3% for the year, and above 14% for the quarter. Total revenue growth for Q3 is 5.4% with all the activities contributing. So, that's, I think, a pretty good quarter from a growth standpoint.

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The loss ratio, as you see from the first nine months, at 37.7%, is improved by almost 2 points. The net combined ratio for the first nine months stands at 72.4%, so continued very strong performance. We haven't changed our reserving or our methodologies. The net cost ratio has increased by 2.4 points, and we'll go through the details here as we continue to invest with determination, in line with the strategy that we set up for Power the Core.

I mentioned the net profit, the ROATE for the first nine months stands at 10.7%. We have a new board member, John Gaines who is Head of Actuarials for Arch Capital's Mortgage Insurance business, replaces Yves Charbonneau in the same capacity. The one thing is, we want to stress that we're in an environment where higher commodity prices and higher interest rates, which is something relatively recent, are going to continue to put pressure on the solvency of corporates. We are at a record level. We've mentioned this several times since 2019, and we are seeing a flow of larger cases coming from larger companies being hit by this kind of environment.

In a higher interest rate world, and I'm going to move to page 5, we wanted to mention a few things. First of all, how our strategy is little by little transforming Coface. You can see it here on the left-hand side that the share of services and revenue from factoring continues to increase year-after-year by about a point every year. So, we went from 22% to today, from 8% to about almost 12% of insurance revenues.

Also, we'll talk about this, but German factoring is well-positioned. We see less liquidity in the European market, and there's more demand for our factoring business, allowing us to accelerate the growth and actually to cross-sell products because we do sell both factoring and credit insurance at the same time in the German markets and other markets related to it. So, I think what we've been doing over the last few years positions us pretty well to take advantage with some of those situations.

And then, there's three things I wanted to say about higher interest rates on the right-hand side [Technical Difficulty] (00:04:35) the market about exposure to France, and as you know, the election is coming up and the sovereign situation there. Just want to stress that France, while we are headquartered in France and we're originally a French company, we are a French company, our percentage of revenues derived from France is 14%. It's about 10% of our total exposures. And in terms of our investment portfolio, the French sovereign bonds are about 5% of our total. So, we do have exposure, but it's pretty well diversified in terms of geographies and industries.

We've seen a sharp increase in large cases for credit insurance. I think there's no particular sector or geography, it's just the, I think, the combined pressure of higher energy and commodities and higher interest rates. As you know that we've always had a pretty consistently conservative stance on risk, and we are focused on risk. So, we are aware of the situation, but I think it's clearly another phase in the cycle.

And then, in terms of our investment portfolio, as the yields and the spreads have been growing, this translates into a lower valuation for our investment portfolio, a higher cost of IFE, and Phalla will take you through this, with a temporary impact on the solvency, which is right in line with the simulations that we showed at mid-year, so, when we detail our solvency position. So, nothing new on that front, but as you can expect with a portfolio of three to four-year maturity, there is some impact.

On page 7, more detail on the growth. So, 1.7%, as I said, interest revenue up almost 1 point for the total year, but 2.5% in Q3. So, clearly, we started seeing an acceleration in Q2, and we're seeing it confirmed in Q3. Other revenue is up 10%, and it's really all the different business lines contributing here, with BI at 11% and 15% with the acquisition. As I said, strong debt collection at 28%, factoring almost 15% in Q3. So, there's really demand out there.

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And then, another point I just want to stress is that our insurance fees that we collect along inside our insurance contracts have held up pretty well at plus 1.2%. And you see the fees to premiums ratio on the left-hand side at 12.6%, which, if we compare that with the industry standards, is actually a very good number. So, I think the business continues to develop an ecosystem that allows us to justify those levels of fees because of the service that we provide to the clients.

On page 8, we describe the growth by region, and I think what you're seeing here is actually a pretty good description of the world economy. Western Europe, which includes France, is subdued and slightly negative. We don't see much client activity here. Good growth in specialties. Northern Europe, which includes Germany, is doing much better, and we've already started to see that in Q2 and it's confirmed in Q3. I mean, this is where factoring actually is located for us.

We see strong growth in factoring, strong growth in services, better client activity. And some of that is obviously driven by the government outlays in infrastructure and other things. Central Europe, very flat, remains a low growth economy. Better numbers in Med and Africa, both because Southern Europe is actually pretty resilient and also because the Middle East paradoxically has actually been a pretty good growth area for us.

North America, underneath the numbers, we are seeing some pretty good commercial momentum. Asia Pacific, that's a big region. That's 55% of global GDP growth. And we are seeing underlying the numbers, forget the accounting here, but we are seeing underlying some good growth levels in that part of the world. And a slowdown in Latin America in client activity. Strong new business, but a slowdown in activity, and I think a lot of what we read about that part of the world explains the situation.

If you go into page 9, and I think what you see here is a strong level of new production, so we are at a record over the last few years. We've actually accelerated in Q3, and so, the year-to-date new production is at a record level. We see continued demand for our products. It also is the payback of the efforts that we've led to continue to develop our distribution over the years. So, consistent with our growth strategy, Power the Core.

The retention rate stands close to its historical levels and to the record of the business. Pricing is still negative, but you can see that's slightly better than what we've had in the prior years. So, I'd say the market is still very competitive and so far has been quite aggressive, but we are seeing slightly improved ability to price.

And then, in terms of activity, it's better than the last few years, not anything spectacular. But I think you probably have in those numbers a little bit of the inflation that's coming back in the European market in particular, but in other parts of the world as well. So, I would say a pretty good growth quarter when you look at Q3 in general.

We go to page 10 on the losses and you can see the headline here. Really stable, I think is the way to describe it. I would say claims activity is back to historical levels. We're more or less at the same number of claims that we had in the first nine months of 2019. Amounts are higher, but there's been quite a bit of inflation since then.

I think what's new here is more severity and we've had a particularly benign, I would say, summer and things have been picking up a little bit since then. And I don't think that's really surprising given the environment that we are in. You see at the bottom right that we haven't changed our methodology. We opened the new vintage at 79.2% undiscounted. We continue to see significant throwbacks from prior vintages. And we haven't changed anything in terms of the way we think about the business. So, I would say from a Q3 perspective, it stands as another strong quarter for Coface.

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If we go to page 11, you can see the description of the different years and the nine-month year-to-date 2026. There's really not that much to talk about because everything is actually very stable.

And if you go to page 12, which is the quarterly view, again, I mean, a lot of stability here. Nothing material on the large four at the bottom. And on the top, the only place that continues to be volatile, that's not news because it's been like this for 10 years, it's Latin America. We keep oscillating up and down based on some large claims. And as you know, this is a place where we are the smallest, obviously, and also where we have large European contracts that derive fairly significant limits for large contracts globally. So, nothing here that is to be surprised about.

On page 13, you can see that our costs Q3 2025 – or Q3 2026 are up 5.3 points. We've been seeing that number evolve over the last few couple of years progressively, but also, it used to grow more than the premiums. Actually, this quarter you see the – on the top right-hand side of the chart, we see that inflation in premium and inflation in costs are almost the same. So, we're back almost to a neutral position here. What differs is that we continue to invest in the business, so we've got an increase of 2.4 points that is driven by the investments we make.

About 1 point of that is distribution in insurance and 1.4 is investments in our services business. And we get 1 point of that back through the increase in turnover of the services business, which drives the cost ratio from 35.4% to 36.8%. So, we continue to invest in the business. I think it's focused on distribution, it's focused on digital data, on technology, on connectivity. It helps us develop the skills and the tools to run the business well, both on the insurance side, obviously, but also to offer a broader set of products to our clients across the different product sets.

That's pretty much what I have to say about costs. And I'm going to turn it over to Phalla to take us through the second part of the presentation.

Phalla Gervais

Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

Good evening, everyone. So, I'm on page 14 on the reinsurance side. If you look at the reinsurance results, minus €74 million, this is better than last year. If we look inside this number, the premium cession rate is very stable, and we have a slightly higher claims cession rate. And this is due to the fact that we had some [ph] facultatives (00:23:36) with a higher cession rate that we have been passing on to the reinsurers, especially in Q2 actually. While in Q3 only, I think, we're back to normal. So, nothing else to be added. I think we still have high level of commissions that we used to have, but for now probably two or three years and we are enjoying it.

Lead us to page 15, net combined ratio at 72.4% compared to the 71.9%, which is a slight increase but not that much year-over-year with the increase coming from the net cost ratio, as Xavier explained, related to the investment we've made. If you look at the bottom side, which is the net combined ratio by quarter, really nothing to be added here. I think we are increasing from 73% to 74.6% and coming from the net cost ratio, but nothing major to be highlighted.

Moving to page 16, so the financial portfolio, the mark-to-market at €3.17 billion, we were at €3.19 billion at the end of Q2. Here, of course, you look at the asset allocation. We're still very high in terms of asset classes related to the cash and monetary funds and liquid assets at 15%. We have divested a little bit our investment in real estate funds, I think moving from 3% to 2%. And of course we have an impact, the mark-to-market on impact coming from the interest rate increase related to our fixed income assets.

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And in fact this amounts, I think we amounted €71 million and, of course, it's unrealized losses that we booked in OCI, so in equity. On the right-hand side, which is the investment income, if you look at the recurring income, we're moving from €77.7 million to €79 million. So, still accounting yield is still increasing slightly. We're now invested new money at 4%. Of course, we are taking full advantage of the increased interest rate.

If we look at the FX, something that line as we always comment every quarter now, the FX effect of minus €6.7 million, out of which minus €11 million is coming from the hyperinflation in Turkey. We're used to it now. And we have some unrealized FX gains €4.3 million, that is offsetting the minus €11.7 million of FX unrealized loss on the IFE line. Nothing to be added. Of course, the IFE, the discounted effect on the liability side is increasing because of the interest rate increase. But again, this is timing, as we already explained, I think over two years' time it will go back to normal.

Lead us to page 17, net income at €155 million. Look at the operating income is down 7%. I think it was down 9% at the end of Q2, and the net income is down 11.8%. I think it was down 30% at the end of Q2. Book value per share at €14.3. Today, we're trading at €15.7. So, still above the book value per share.

Page 18, return on average tangible equity, IFRS equity is moving from €2.2 billion to €2.1 billion. Of course, we paid our dividend. We have a net income for the period. And here, you can see the mark-to-market impact related to interest rate increase, minus €71 million. And again, I just want to highlight that we are in the buy and hold strategy, which means that at the end of the day, in two or three years' time, this will recover, the same way that we have recovered our mark-to-market – negative mark-to-market impact at the end of 2022 when we have this huge interest rate increase. So, it's not new, but it's recovering over time. Return on average tangible equity moving from 11.4% to 10.7%. This reflect the net income decrease from last year. Xavier?

Xavier Pascal Durand

Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

So, look, in terms of this pretty short presentation, there's actually not that much news. Just in terms of the takeaways, another good quarter for Coface, I would say, in a tougher environment. I mean, when you look at the environments, we've been describing this now for years. Every year you see the list of potential risks getting longer and the – and none of the prior risks being resolved. So, whether it's trade wars, whether it is geopolitical events, whether it is commodity prices going up, whether it is interest rates and spreads and political instability and et cetera, et cetera.

So, the world continues to be uncertain. I think in that environment, we see Q3 as one where we had actually a pretty good growth number at 5.4% growth with non-insurance up 16%. So, the strategy we think is working. We probably will have, we're on track to reach an all-time high in terms of new business and retention remains pretty strong. The combined ratio for the first nine months at 72.4% is actually better than still than our through the cycle targets.

The – clearly the interest rate situation has changed over the last few months. I think it is, given that we are exposed to so many companies, millions of companies around the world, it is clear that it's going to put interest – put some pressure on the more fragile corporates. It is – we are seeing after a very benign summer, an increase in the number of large claims. The share of the non-risk-bearing revenues that we get is increasing. It's not a dramatic increase, but it's a steady and continuous increase year-after-year. And we are obviously a very well-diversified from a geography or industry standpoint company.

So, I would say so far, we've been demonstrating some pretty good resilience. We are focused on risk and managing preventive actions. We continue to invest, so we're not stepping down, because I think that's critical for

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the future in data and technology, because that's still evolving very quickly. I mean, you're all aware of what's going on in the AI space, et cetera. And I think some of these tools are going to be very helpful for us in the future, and we want to continue to be part of that game.

So, that's where we are. We are happy now to take questions from the audience.

QUESTION AND ANSWER SECTION

Operator: Thank you so much. [Operator Instructions] And now we're going to take our first question, and it comes from the line of Michael Huttner from Berenberg. Your line is open. Please ask your question.

Michael Huttner
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Fantastic. Thank you so much. And well done for solid results, despite everything. I had three, so the growth I was particularly interested in Asia, if I do the – just the quarterly growth, it looks like 14%. And I just wondered if you could talk a bit about that, whether it's sustainable, basically?

The second is on data centers. So, the – one of my colleagues showed me the CDS chart for CoreWeave, I think it's called, so we're not – it's not bps, it's percentages. So, the CDS went up from 8.50% or 8.5% to close to 12% over the past quarter. And I just wondered what – how you're positioned relative to data centers, which is both growth, but obviously risk as well?

And then the final question is on the investment in business information. You're clearly doing fantastically well in Western Europe. I mean, I saw a number I don't know if it's right, 15%, but it's not coming through elsewhere. And I just wondered when – if we'll – when we'll turn the corner? Thank you.

Xavier Pascal Durand
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

Okay. I don't have the handy the answer on Asia growth. Do you have it?

Phalla Gervais
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

Yeah. I think it's – that's the Asia growth, but this is you have FX impact. But what is true on Asia, is you spotted, if you look at the Q2, it was negative year-on-year and Q3 we moved positive. So, it's a big swing. Yeah, you're right.

Michael Huttner
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

And any...

Phalla Gervais
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

Even it's only two point – it's year-to-date that's 2.5%, but at Q2 it was minus 3%. So, you have a...

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Xavier Pascal Durand A
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

[indiscernible] (00:24:17) contracts last year, one-offs of things like this?

Phalla Gervais A
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

Yeah. There was a one-off last year, but it was in Q1 and Q2. So, you have a [ph] peak (00:24:26)

Michael Huttner Q
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Okay. Yeah. Okay.

Phalla Gervais A
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

And the swing is within Q3. You're absolutely right.

Xavier Pascal Durand A
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

I mean, forget the quarterly swings, but I think what I'm describing is true is that we are seeing, I mean, Asia is a growth area for the world. It's 55% of global growth and there is demand and we are investing in that part of the world. I think it makes sense for us to be there.

In terms of data centers, we have – I mean, it's hard not to be involved in AI financing these days, but we are thoughtful about the way we do it. So, I think we are involved not in the data centers only, but in the – I think the AI trade has a lot of implications for other sectors, those who provide infrastructure, those who provide telecoms, those who provide energy, those who provide construction, et cetera, et cetera. And I think the main exposure for us is through the whole ecosystem more than it is to individual data centers per se. I mean, we do have some, but I don't think that's the bulk of what we do.

And then in terms of BI, I mean, what we've started to do is a pretty ambitious program, which is to build BI throughout the world, right? Clearly, we are better known and more mature and we have a better brand and we have more people, et cetera, and more clients in Western Europe than we do in the rest of the world.

But I think there's some really interesting stuff happening in other parts of the world. And also that the global value proposition that we can bring to the market is something very unique because there's very few companies that are able actually to do this. So, I think BI in itself serves two or three different purposes. One is, it's a new product and in itself, it's an interesting value proposition for the market and makes our brand much more relevant. It broadens considerably the scope of what we're able to offer and the number of companies we're able to trade with.

It is more and more something that we're able to cross-sell into our existing client base or jointly sell as a new product to new clients. It helps us fund the data centers and data lab and the knowledge base and the tech base of the company and stay on top of AI and things like this, which are making a significant contribution to the insurance business.

And then, of course, it is a business that by itself is a P&L, and we are continuing to invest in it. Because I think as we have gone from not that much to something like a run rate of a €100 million, we are seeing that we need to

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continue to invest in this business. And I think we're – we can basically decide how much, but it requires continued investment. But I think that's for the better for the company.

Michael Huttner
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Perfect. Thank you.

Operator: Thank you. Now we're going to take our next question. And the question comes from the line of Benoit Valleaux from Oddo BHF. Your line is open. Please ask your question.

Benoît Valleaux
Analyst, Oddo BHF SCA

Q

Yes. Good evening. Thank you for taking my questions. The first one, maybe, sorry, but I think it has to be raised. We got this article a few weeks ago saying that CNP [ph] might have envisaged (00:27:54) to acquire Coface. So, I assume that maybe you don't want to comment more specifically on CNP, but maybe this is a good opportunity to, I will say, to make an update on your view on the benefit of Coface of being independent and maybe listed versus, I don't know, to be acquired by Arch or another insurance company. So, you can just maybe reiterate what all you said in the past, but sorry an updated view could be quite interesting.

The second question is related to reinsurance. We are just early November, but I assume that you do not plan to change the structure of your reinsurance program. But you have already at this stage a view regarding pricing for next year?

And there maybe the third question, if you can de-zoom a little bit from Q3 in your strategic plan, do you have this undiscounted combined ratio targets through the cycle of 78%. Would you say that year-to-date we are probably at a level which correspond to an average of what you could assume through a cycle. I mean, just to have a view another time to compare your current profitability versus what you assume in your plan through a cycle, just to understand the quality of the figure. Thank you.

Xavier Pascal Durand
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

I mean, the last question is difficult because it's very hard to call the bottom of the cycle anytime, right? So, what we know is that this – we had an extraordinary event with COVID, then after that we had an extraordinary event, which is the amount of money that went at a very cheap level to all the companies. And then since then, we've had years and years of normalization, where we have now more insolvencies, something like 40% more insolvencies than we had in 2019. So clearly, we're not in a good part of the cycle. But it's anybody's guess to where that goes from here. So, I think we've been performing pretty well. I think we'll – I'm not going to comment on the overall performance versus what we expected. I think we have to live through the whole cycle here.

In terms of acquisitions, and I'll let Phalla comment on the reinsurance. Obviously, we're not going to make any comment on any particular possibility or rumor out there. What I can say is Coface has been performing pretty well, operating the way it is. We have the backing of the investor community. We have strong shareholders who are on the board and are fully in line with the strategy of the company. And I think what we have, obviously, differs from what others may have in large groups.

Obviously the balance sheet is smaller. Obviously, our cost of capital is probably a little bit higher. But also, we retain strategic flexibility and probably agility in the way we operate. That's what I can tell you. But I think, the

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proof there is in the pudding, as they say. And I think our performance so far has been pretty good when you compare it to that of the industry, although it's harder and harder to compare because obviously there are fewer and fewer that report numbers that we can compare to.

Phalla, you want to talk about the reinsurance?

Phalla Gervais
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA
A

Yes. Yeah. I'll take the one on reinsurance. Of course, it's not signed, so until it's signed I will not disclose anything. However, it is not in our view to change the – drastically change the structure. So, there will be probably technically some changes, but not significant. Given the fact that we're still in the soft market and capacity is still there, [indiscernible] (00:31:48) from the reinsurers, we don't expect any issues to renew in the good conditions that we had in the past years.

[indiscernible] (00:31:59)

Benoît Valleaux
Analyst, Oddo BHF SCA
Q

Okay. Thank you. May I just ask – just a follow-up question [indiscernible] (00:32:03) floor to my colleagues. Regarding France, do you see any specific trend in terms of claims frequencies, any sign of deterioration?

Xavier Pascal Durand
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA
A

I mean, as I said, we are seeing, first of all, a record level of insolvencies around the world in most major economies. That's the first one. The second thing is we are seeing larger bankruptcies happen, I think. And I think we were surprised to see it was pretty benign through the summer. But I think the interest rate situation is going to bite into companies' balance sheets.

And when you combine that with higher cost of materials, there are companies that are going to be hit. I mean, I don't have anything specific on France at this stage. It's probably still very early. And God knows where the situation goes from here. But the – I think, in general, I would say my comment would be more on the overall global economy, because when you have interest rates like rise as fast as they have in so many places, at the same time, there's bound to be some kind of an impact. And I think it would be fair to expect that.

Benoît Valleaux
Analyst, Oddo BHF SCA
Q

Okay. Thank you very much.

Operator: Thank you. [Operator Instructions] Now we're going to take our next question. And the question comes from the line of Pierre Chedeville from CIC. Your line is open. Please ask your question.

Pierre Chedeville
Analyst, CIC Market Solutions SA
Q

Yes. Good evening. I would like to come back on cost, because when we look at the evolution of revenues 5.4% and cost 7.7%, we have what we call a negative jaws effect. And we can see that your cost ratio is a little bit higher. And it is balanced by a better loss ratio. My question is, of course, we understand that you are investing,

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et cetera, et cetera. It's one important point of your equity story. But I was wondering if, according to the context, what is your leeway to decelerate the investment in case of higher loss ratio due to the situation that – tougher situation that you have explained. And in particular, in terms of align a little bit better, the rise in your revenues and in your costs in case of a strong deterioration or a little deterioration of your loss ratio?

Second question is...

Xavier Pascal Durand A
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

Well, I mean. Yeah. Okay.

Pierre Chedeville Q
Analyst, CIC Market Solutions SA

Yeah.

Xavier Pascal Durand A
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

Go ahead, please.

Pierre Chedeville Q
Analyst, CIC Market Solutions SA

Second question is, when do you feel that AI could significantly improve your cost ratio? Do you have any time horizon there or is it too early to have some view on that? And last question is just a clarification, because you mentioned that you have significant bigger claims since summer. And at the same time, your loss ratio is still quite low in the period. And I was wondering what is balancing these bigger claims to the fact that your loss ratio remains very good? Thank you.

Xavier Pascal Durand A
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

Okay. On the cost ratio, there's always some leeway as we said. We want to continue to invest because some of the things that we're doing are strategic for the long-term, whether it's investing in distribution or building up our data capabilities or developing our service capabilities. And in terms of BI or Debt Co for that matter, and this is growing.

There's always some leeway to do this, but we haven't wanted to slow that down because I think it would be a pity to push it off when we're actually seeing this thing working and that there's a clear need and a clear opportunity expressed by the clients. Now, we can always do things. I mean, it's clear. I don't think we have felt that it was the right thing to do at this point, given the performance and the loss as you mentioned.

And I also want to say that the benefits, and I've said this I think several times, the benefits also pertain to the insurance business, because when we are able to get better quality data and we are able to develop better scores, these get put to work not just for BI, but also for TCI, because that's where they actually originate. And that translates into the overall performance of the business. So, we're balancing these two things. And obviously, we'll play it as things develop.

In terms of AI, I think it's early. AI is a great tool, but there's so many more things we don't know than things we know about AI. We know it works great when it comes to manipulating huge sets of data and extracting

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knowledge out of them. So, that's been proven. And that's what I was mentioning about scores. I mean, it works great for scores, that's pretty clear.

When it comes to operational product or like putting it to work in the operations area, it requires re-engineering of processes, it requires changes in organizations, it requires retraining of people and obviously a culture change. So, that's much longer to take hold. It also has to be balanced with the risk that we take in terms of putting to work some agents that are machines basically, and you need to control them. So, the governance around that.

And also the cost because the AI charging models are still things in development, and there's some element of cost there. So, I think that will take more time. And so, we want to stay abreast of what's going on. We want to be able to put it in place as it develops. But we also are thoughtful about not getting too much ahead that it backfires in terms of either security or the cost element or the sustainability element. So, I think we're still a ways from that being the final stage or being able to predict exactly where it goes. And then, in terms of claims I don't know, Phalla, if you want to mention that.

Phalla Gervais A
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

Yeah. I think what we're seeing in the numbers at the end of Q3, of course, we mentioned some larger claims coming through in September, this is what we mentioned. What we're seeing and what we were seeing currently. But as of Q3 numbers, you can see we have some prior year positive developments that we have accounted for in Q3, even if we have opened a vintage at a very high level at 79%. So, 79% is because we're seeing some large claims coming through. And then the drawbacks of the prior positive developments at minus 42% is one, it's pretty high reserve release. That's coming from the methodology that we have and we haven't changed the methodology.

Pierre Chedeville Q
Analyst, CIC Market Solutions SA

Thank you.

Xavier Pascal Durand A
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

I think what's noticeable is the change, right? I mean, the change in interest rates levels, the change in from something that was quite benign, I would say up to now to something that's starting to look a little bit different. So, I think we just want to mention that and I think the environment is remaining very uncertain at this stage.

Pierre Chedeville Q
Analyst, CIC Market Solutions SA

Thank you.

Operator: Thank you. Now, we're going to take our final question for today. The question comes from the line of Michael Huttner from Berenberg. Your line is open. Please ask your question.

Michael Huttner Q
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Fantastic. I've got a lot, sorry. Sorry about that. So, you mentioned momentum in North America, but the numbers look near flat. So, I just wondered if you could help us there? Then, hang on. I need to find my [indiscernible]

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(00:40:54) which is not good. And then, the other is on the solvency, I couldn't quite understand why high interest rates are negative. I thought liabilities were discounted as well, but I just wondered, I know it's a bit of a stupid question, but maybe you can help.

On the other point, which I was a little bit puzzled by, here we are. Is there – could you remind us the reinsurance limits for losses? And from memory, it's somewhere around €50 million, but my memory is so weak, it's not good. And then, if could explain very briefly the mechanism on the IFE, what does normal mean? So, if we have €39 million now, what would be a normal level for in two years? And, yeah, those are all my questions. Yeah. Thank you.

Xavier Pascal Durand

Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

So, I'll take the North America question, and I'll leave the other three for Phalla. When we look at signing a new contract, so say we sign it today, the revenue from that contract is going to be flowing in the next 12 months, not today, right? So, it's not – the fact that you have new business, which is doing pretty well, will only translate in the future. And we start booking those revenues at, I would say, what we call the minimum premium.

And then, there's activity that shows up based on the reality of what the client experiences in their turnover. So, there's always some timing effect and then there's always some accounting and exchange rate and all of these other things that plays in. So, I think what you're seeing here. I'm just describing on one hand the commercial momentum that we have. On the other hand, you have the accounting rendering of that in terms of – and there's many, many ingredients that go into this. Maybe I'll pass it on to Phalla to talk bout interest rates.

Phalla Gervais

Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

Yeah. So, I will put on the [indiscernible] (00:43:08) you're right. I think the reserving, the liability itself discounted at a higher rate. So, it's the amount of the stock is lower. But in terms of impact on the P&L, which is the interest, the IFE part of the reserving side is increasing. There's no or I'll put it this way. €39 million at the end of year-to-date – as at the end of the third quarter out of which €11 million is coming from the FX.

So, if we look at the normalized year, I would say, without any FX impact, we're talking about something around €40 million. So, it's pretty stable over time. And you have plus or minus 10% is probably the range, excluding, of course, the FX impact. So, it's €39 million, including €11 million of FX, but excluding would be €30 million. So, it gives us the annual range of €40 million that we used to see and used to have. Does it make sense?

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Okay. Okay. Understand. Yeah. And I had one more. Sorry. I had jotted it down. And this was – so, you started investing, in my guess, after 2024 with your business plan in new distribution and now we're seeing the benefits of this strong new business growth or record new business growth, net new business growth. Given the pattern of the investing much better – obviously much better than I would ever do. Can you give us a feeling for how much more there is to come?

Xavier Pascal Durand

Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

We never make any forward-looking statements, [indiscernible] (00:44:59).

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Michael Huttner
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

But it's not exactly a forward-looking statement, because I'm really asking you what the pattern of investment has been. And I can work it out if you like.

Xavier Pascal Durand
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

I mean – yeah. I mean, just to – so, what are we doing? We're hiring people, right? So, it takes some time to hire somebody for them to come, for them to get trained, and for them to get productive. And this is a multiyear effort. Typically, it takes three years for somebody to come in and start being really – and then some of them will succeed and some of them will fail, and then we'll have to replace them. So, it's a whole program here that we've been leading in the space.

Michael Huttner
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

But the pace of investment has gone up, right? I mean, if I look at the cost ratio and everything, I suppose, of course, I want to know the future, what you can see of the future, but you can actually answer it giving us the data you've already got and published.

Xavier Pascal Durand
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

I think we've said it all. I mean, I just don't know what to add, quite frankly.

Michael Huttner
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Well, so I don't know how to say. But if you invested €10 million in year one and €20 million in year two and €30 million in year three, that would give me a feel for how much more there is potentially to come. Those numbers, I don't know, how you see?

Xavier Pascal Durand
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

Yeah. I mean, I don't think we disclose those numbers, I mean, also for obvious competitive reasons. But there's been an effort since we launched Power the Core, I would say, in 2024 to recruit more people and it didn't come all on the first year, but we had the ambition of doing a significant amount in the first two years of the plan. But you had two other questions. I think one has to do with interest rates and one has to do with reinsurance limits for losses. I don't know if you want to...

Phalla Gervais
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

Oh, it's the €60 million of excess, the first tranche of excess. Is €60 million the first tranche of the – first part of the excess.

Michael Huttner
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

€60 million.

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Xavier Pascal Durand A
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

€60 million. And interest rates, I didn't understand the -

Phalla Gervais A
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

[indiscernible] (00:47:09).

Xavier Pascal Durand A
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

Well, you just did. Okay. All right.

Michael Huttner Q
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

No, no. It was on the solvency. So, you said interest rates are negative, high interest rate for solvency.

Phalla Gervais A
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

Yeah, yeah.

Michael Huttner Q
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

But if you discount liabilities, then there should be very little impact. That's why I didn't understand.

Phalla Gervais A
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

So, the impact, the interest rate on the solvency is obviously on the solvency [indiscernible] (00:47:34) because you have the negative mark-to-market on your fixed income portfolio. And this is shown, actually, if you go to half year, you always have the stress test on the solvency related to interest rate increase. And if you look at the half year disclosure, [indiscernible] (00:48:00) the solvency by 100 basis point on interest rate increase. I think it's a decrease of solvency by almost 6 points or 7 points.

Michael Huttner Q
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Yes. Okay.

Phalla Gervais A
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

And we think that we are almost there.

Michael Huttner Q
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Almost there.

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Phalla Gervais
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

Makes sense?

Michael Huttner
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Yeah. Makes perfect sense. Thank you so much. Sorry. I have been – Well, I like asking questions. Thank you.

Xavier Pascal Durand
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

A

But that's fine. I mean, the answer was in the document we do simulations for this, so that's perfect.

Michael Huttner
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Fantastic. Thank you very much.

Operator: Thank you. Dear speakers, there are no further questions for today. I would now like to hand the conference over to your speaker Xavier Durand for any closing remarks.

Xavier Pascal Durand
Chief Executive Officer & Member-Group Management Board & Group Executive Committee, Coface SA

All right. Well, look what time is it? We're way on time. So, look, thanks all for your questions and your interest in the company. I think the next time we speak is in February for the full year report on Coface. So, thank you, again, and we look forward to speaking with you in three months time, actually, three or four. Thanks, everyone.

Phalla Gervais
Chief Financial and Risk Officer & Member-Group Management Board & Group Executive Committee, Coface SA

Thank you.

Operator: This concludes today's conference call. Thank you for participating. You may now all disconnect. Have a nice day.

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