Q4 2013 Earnings Call

Company Participants

- Alain Lessard, SVP, Commercial Lines
- Charles Brindamour, CEO
- Dennis Westfall, VP of IR
- Mark Tullis, EVP, Governance & Capital Management
- Mathieu Lamy, SVP, Claims
- Patrick Barbeau, SVP, Personal Lines

Other Participants

- Brian Meredith, Analyst
- Geoff Kwan, Analyst
- Mario Mendonca, Analyst
- Paul Holden, Analyst
- Tom MacKinnon, Analyst

Presentation

Operator

Good morning. My name is Sharon. And I will be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Corp. Fourth Quarter results conference call. (Operator Instructions) After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

Mr. Dennis Westfall, Vice President of Investor Relations, you may begin your conference.

Dennis Westfall {BIO 15155973 <GO>}

Thanks, Sharon. Good morning, everyone. Thank you for joining us on the call today. A link to our live webcast and background information for the call is posted on our website at www.intactfc.com under the Investor Relations tab.

As a reminder, the slide presentation contains a disclaimer on forward-looking statements, which also applies to our discussion on the conference call today. Here with me today are Charles Brindamour, Chief Executive Officer; Mark Tullis, Executive Vice President; Louis Marcotte, Chief Financial Officer; Patrick Barbeau, Senior Vice President, Personal Lines; Alain Lessard, Senior Vice President, Commercial Lines. And Mathieu Lamy, Senior Vice President of Claims.

We will start with formal remarks from Charles and Mark, followed by a Q&A session. The others will also be available to answer your questions during the Q&A. With that, I will ask Charles to begin his remarks.

Charles Brindamour {BIO 7012323 <GO>}

Thanks, Dennis. Good morning, everyone. We announced earlier today a Fourth Quarter net operating income of CAD143 million, or CAD1.05 per share, down 26% from last year, as severe weather took a toll on our underwriting performance. The active winter season across much of the country led to an elevated level of CAT losses. And increase in claims in our auto businesses, as well as higher claim severity in property.

The quarter brings a close to a challenging year, with more than CAD500 million of catastrophes after reinsurance. That being said, we were able to generate an operating ROE of close to 11% and take advantage of the adversity to grow our business by close to 7%, as well as launch many initiatives to better position ourselves for the years to come.

I am pleased with the progress we have made to date on our goal to improve results in personal property. As I indicated on our last earnings call, we started putting initial rate increases in the system in early November, resulting in total rate increases in the teens. We remain very confident that our action plan will bring roughly 10 points improvement in the upcoming 18 to 24 months.

As we are an early mover, this resulted in the loss of a couple of points of units in the quarter, largely in line with what we anticipated. But despite moving faster than our competitors, we generated an underlying growth of close to 4.5% in the quarter, which excludes the impact of converting 2-year policies into 1-year policies, as Mark will describe in a moment.

But rate action is only one element of our home insurance plan. As we have announced to our brokers earlier in 2013, we will implement meaningful product changes in the coming months, as well as offering customers the option to reduce premiums through prevention discounts.

The rise in losses these past few years has forced our peers to also announce profitability measures and begin taking underwriting actions, which should help with our retention in the latter part of the year. I am pleased to report that this line of business, which lagged our outperformance in other lines, is now starting to show signs of outperformance, with close to 5 loss ratio points at the end of September.

Moving to automobile insurance, we maintain our positive view of this line of business, which generated a solid combined ratio of 93.2% for the full year 2013. The Q4 combined ratio of 98.4% reflected the challenges presented by severe winter weather.

Overall, we are operating in an environment where both competitors and regulators behaved fairly rationally. And costs have been generally stable in the recent past. Understandably, Ontario continues to be an area of interest for investors. But our view has not changed. As part of the government's auto insurance cost and rate reduction strategy, half the market has filed for rate reductions, leading to roughly 4% reduction across the market as a whole.

We will reduce our own rates to customers by about 5% beginning in April. We expect companies that have not yet filed rates will do so in the coming months to help meet the government's midterm target of a cumulative 8% average reduction by August 2014.

We are confident about our margins in this market and will look for growth opportunities in the coming months. We trust it is very clear for the government that further rate reductions can only come in conjunction with meaningful cost reduction measures.

Since announcing its strategy last year, the government has shown its determination and commitment to reducing the cost of insurance to Ontario customers by introducing a number of legislative and regulatory measures that has and will contribute to reducing the cost of claims in the months to come. These are steps in the right direction. And we remain supportive of the government's efforts to make auto insurance more affordable for Ontarians while also working on the sustainability of the product.

As we have expressed, we believe our margins are well protected as we enter 2014 with our rate reduction strategy in Ontario, rooted in a combination of announced government cost reduction measures this fall -- with a number of them effective this month, actually -- as well as the introduction of usage-based insurance and a number of other initiatives. In summary, the situation in Ontario remains in line with our base scenario.

When it comes to our outlook for the industry, we foresee low single-digit growth in the near term, with upper single-digit growth in personal property and low single-digit growth in personal auto and commercial lines. We continue to expect the current hard market conditions in personal property to accelerate meaningfully in the foreseeable future.

We also expect the commercial P&C market to continue to firm up, with intensity accelerating for approximately one-quarter of the market in the near-term. The low interest rate environment and elevated losses from catastrophes should support our growth outlook.

From a profitability perspective, we expect the industry's combined ratio to improve in 2014, given the unprecedented level of CATs seen in 2013. Overall, we expect the industry's ROE to trend back towards its long-term average of 10% this year.

Looking specifically at Intact Financial, we believe we will continue to outperform the industry's ROE by at least 500 basis points.

Our confidence in our earnings outlook and solid financial position enabled us to increase our quarterly dividend by 9% to CAD0.48 per share. This marks the ninth consecutive year of dividend increase for IFC shareholders.

Looking back on 2013, I am proud of the work our employees do, in particular in challenging times. And the resiliency they have demonstrated. And I say resilient because we were able to generate an operating ROE north of 11% despite incurring more than CAD500 million in pretax CAT losses.

While we are pleased with our substantial industry outperformance of close to 600 basis points at the end of September, an 11% operating ROE is not a level with which we are happy. And we intend to continuously improve and insulate our business from natural occurrences to return to our historical levels of profitability.

In conclusion, my team and I are energized by our prospects for 2014 and beyond and believe that the disciplined approach we take towards operating our businesses will continue to serve us well. This, along with our solid capital level, places us in a strong position to benefit from the environment in which we compete. I will now turn the call over to Mark Tullis.

Mark Tullis {BIO 4180270 <GO>}

Thanks, Charles. Today we announced Fourth Quarter net operating income per share of CAD1.05, with a combined ratio of 96.3% compared to 92.1% in Fourth Quarter of last year. The active winter season across much of Canada contributed to a CAD39 million increase in CAT losses and negatively impacted the underlying current-year loss ratio.

In addition, we recorded CAD19 million less favorable prior-year claims development in the quarter. Two items impacted our reported top-line growth in the quarter. First, we have decided to no longer offer 2-year property policies. This is part of our action plan to improve home insurance results, giving us greater flexibility to adjust policy conditions and pricing.

For written premium, the required accounting treatment is to report two years' worth of premium for these policies when they are issued or renewed. So as they convert to 1-year policies, it looks like the premium is down by half.

When removing the impact of 2-year policies, our reported growth of 1% is actually closer to 3% on an underlying basis. This will continue to impact our reported written premium growth for the next few quarters. It is important to note that this does not affect earned premium or reported profit.

Second, although we began reporting Jevco premiums in the Fourth Quarter of 2012, the effective reunderwriting the Jevco business did not hit the books until January 2013. So in Fourth Quarter 2014, for the Jevco business we are reporting 2013 premiums after reunderwriting compared to 2012 premiums before reunderwriting.

As we have previously stated, this reunderwriting effort resulted in a trimming of exposure, particularly in commercial auto, taxi. And trucking fleets; and reduced our total growth by 1% for the quarter. Note that this is the only quarter where reported year-over-year growth will be impacted by Jevco reunderwriting, as it is already included in all of our reported 2013 premium.

The combined ratio of our personal property business was 86.4% despite the difficult weather, which has unfortunately continued into January. We continue to target a combined ratio of 95% or better for this line on a sustainable basis. I believe we are well on our way to accomplishing this goal. And we will roll out the next wave of product changes in the coming months.

The actual underlying top-line growth for this line of business, adjusting for the 2-year policies, was 4.5%, despite the anticipated reduction in units as we roll out our home insurance plan.

Moving to auto, our underlying performance in Q4 was negatively impacted by the severe winter weather conditions. But our 98.4% combined ratio was almost 5 points better than a year ago, due to a CAD43 million improvement in favorable prior-year claims development. From a top-line perspective, growth of 2% in the quarter reflected the final stage of reunderwriting related to Jevco.

Premium growth in our commercial lines business during Q4 was also affected by our reunderwriting efforts related to Jevco and by our actions to reduce the earthquake exposure of our portfolio. Overall, we have reduced the tail risk in our portfolio by about 15% since acquiring AXA. And we expect to reach our target of a 20% reduction by mid-2014.

Our underlying current-year loss ratio in commercial P&C was unchanged from a year ago. So the overall combined ratio rose 4 points to 100%. The change from a year ago was largely driven by less-favorable prior-year claims development, partly due to development related to one particular file dating from a number of years ago.

The underlying performance in commercial auto was clearly impacted by the severe winter driving conditions. Our expense ratio of 29.3% in the quarter was down from last year, driven by lower variable commissions. On a full-year basis, our reported expense ratio of 31.1% benefited from about 0.5 point of acquisition-related synergies.

For 2013, the overall favorable impact of synergies was evenly split between the claims ratio and the expense ratio. As the bulk of our synergies have now been realized, we expect less incremental benefit on the combined ratio in 2014.

Our net investment income of CAD104 million was 2% higher than a year ago, as the improvement from migrating the additional investments from the Jevco acquisition into our higher-yielding asset mix offset the decline in yield environment. Now that the Jevco assets have been fully integrated, we expect investment income will remain relatively stable in 2014 versus 2013.

Our financial position at the end of 2013 remained solid with CAD550 million in excess capital. And a debt-to-capital ratio of 18.7%, below our target of 20%. Our estimated MCT improved 4 points to 203%, within the 195% to 205% target range outlined in last quarter's earnings call. The ratio was helped by our earnings in the quarter and improved capital markets.

Acquisition synergies remain on track, as our integration activities are essentially complete. During 2013 we converted all remaining AXA Canada policies into Intact systems and are on track to reach our after-tax synergy target of CAD100 million in the coming months, as we continue to make progress on decommissioning systems.

Jevco is ahead of schedule from a synergies perspective. And its systems will be decommissioned throughout 2014. I want to thank our employees for their hard work over the past two years. With the expertise they now have, we are even better positioned for future opportunities that may arise.

I believe that Intact continues to have sustainable competitive advantages due to our disciplined approach and quality operations. As 2013 demonstrated, our employees have shown that they will work hard to provide our customers with world-class service, even in the face of unprecedented level of weather events.

With that, I will turn the call back to Dennis.

Dennis Westfall {BIO 15155973 <GO>}

Thanks, Mark. Sharon, we are now ready to take questions.

Questions And Answers

Operator

(Operator Instructions) Geoff Kwan, RBC Capital.

Q - Geoff Kwan {BIO 7413168 <GO>}

First question I had was on Ontario auto. Just taking a look at the wording that you had around your outlook on it, it may be splitting hairs. But it seemed like you might have taken a very, very slight more cautious wording around it -- maybe not so much around where you think the ultimate impact is. But maybe around the timing. Just wondering if you could comment on that.

A - Charles Brindamour {BIO 7012323 <GO>}

No. I would say, Geoff, that maybe I should have checked the words more carefully. But the intention was not to telegraph any change in stance there. I think we are still very much in the base case.

And as we met investors throughout the fall, we talked about the fact that there would be a number of cost reduction measures that would be introduced towards the end of 2013, early 2014. This actually happened. You see rates starting to come down.

I think the key message and the key point, though, was that further meaningful cost reduction measures are needed. And we think the government gets that. But certainly, no change in perspective at this stage. Very much in line with the base case.

Q - Geoff Kwan {BIO 7413168 <GO>}

Okay. And in terms of what got announced in December, obviously it is just a bit of a proposal right now rather than something concrete. With the potential process that is going on and when it may ultimately get changed, would you say from how that impacts you on the cost side -- is that how you have thought things would kind of play out so far?

A - Charles Brindamour {BIO 7012323 <GO>}

I will let Mathieu explain that to you, Geoff. But I would say there is actually stuff that became effective last week and last fall. So there is real, concrete steps beyond intentions to change things in the coming weeks and months.

A - Mathieu Lamy {BIO 15207469 <GO>}

Yes. What became effective February 1 is the SAB change in accident benefits Ontario. So the pre-existing condition must now be medically documented. So that is a good point. And we think that is worth some cost reduction.

Then non-earner benefit selection will be final. So the person may now choose between one of the two options, income replacement. And the non-earner care benefit. And the attendant care benefit will be now compensated on actual economic loss. So those three things will bring cost reduction.

We also look forward to the ADR review that will bring modification to the system. And that, too, should be beneficial to the cost side.

A - Charles Brindamour {BIO 7012323 <GO>}

Thanks, Mathieu. By ADR, he means the alternative dispute resolution system. And I think one important point is the fact that in the budget in August, they really reinforced the sustainability of the minor injury guidelines ...

A - Mathieu Lamy {BIO 15207469 <GO>}

Affirming that the MIGs are binding is also good in 2013. Yes.

A - Charles Brindamour {BIO 7012323 <GO>}

Exactly. So all concrete stuff. Now we are not at 15 with that. That is pretty clear. That is why I think the government is looking at a number of meaningful measures that will be presented in the coming weeks and months to take effect, we are hoping, this year.

Q - Geoff Kwan {BIO 7413168 <GO>}

Okay. And the last question I had was: on the prior year claims development, when you take a look at it over the past couple of years, it has helped the combined ratio in and around kind of 5 to 6percentage points. I know you guys have talked about historically -- I think it was roughly more 3% to 4%. As you look out over the next 12, 24 months, do you see it kind of gravitating back towards your historical range? Or do you think it may stay in and around what we have seen over the past couple of years?

A - Charles Brindamour {BIO 7012323 <GO>}

I will ask Mark to comment. But just so we answer your question properly, is that an auto question or a total question?

Q - Geoff Kwan {BIO 7413168 <GO>}

I'm sorry, on a total basis.

A - Charles Brindamour {BIO 7012323 <GO>}

Total basis.

A - Mark Tullis {BIO 4180270 <GO>}

Yes. So in total, our advice over the long-term remains 3% to 4%. I think it has been elevated the past few years for a number of reasons, some of which may maintain a bit momentum into the future. But clearly, in the long-term we remain giving the advice of 3% to 4%.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. Fair enough. And this year was around 5%. Last year slightly above 5%. I think that as uncertainty dissipates to a certain extent where change has taken place, this -- the uncertainty dissipates in line with what was originally anticipated.

I think you can see in the short-term potentially better favorable development. But structurally speaking, 3% to 4% is the right sort of number to think about.

Operator

Tom MacKinnon, BMO Capital.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Just a question with respect to premium growth in the personal property. I think we talked about excluding the noise from the 2-year policies, you were up 4.5% year over year with respect to that. And you just started implementing in November mid-teens levels of price increases.

So how should we look at that in terms of direct premium written growth in personal property going forward? I anticipate after we go through the whole book, we should probably see the number up into the midteens. Is that -- would that be correct? And would that be by the Fourth Quarter of 2014?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. So I think the 2-year policies, overall, on personal property has had a little more than 4 points, I think, impact. And as Mark said, there will be that kind of noise for a number of quarters this year.

When I think about personal property on an underlying basis, I would think that there's three things that you want to keep in mind. First of all, units. And so as we have mentioned, we have seen a drop in units by about 1.8 points so far.

Then when you look at overall rate increases in some insured, you can indeed think about low to mid teens. That is pretty clear that this is flowing through the system. The wildcard, Tom, which is not earnings sensitive, per se. But is top-line sensitive, is the mix.

In other words, your growth might differ by province and relationship with the harshness of the actions that you are taking, which differ by province; and that might change the overall picture of the national top-line growth. So to speak. The other thing is that your growth shifts towards tenant and condo, where we are not taking meaningful actions, because that is profitable.

Then you have the introduction of prevention discounts and sublimits. And that is also part of the mix where consumers will have the option to introduce prevention in their homes, to protect their house and so on. And that is the wildcard, in my mind. So units, I think, pretty clear. Rates, we are seeing low to mid-teens.

Then, if you look at this quarter, the impact of the mix was a little more than 3 points, for instance. So I think that is the one that we will have to watch. But we are not concerned about that, because it is not earnings sensitive.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. And given the acceleration in the level of CAT claims that we probably saw as a result of the December storms, do you think that would do anything to accelerate the industry in terms of moving towards more firming that you talk about in personal property? And would that have any impact on your ability to get your 10-point improvement faster than the -- I think it's the 12; to 24-month time frame that you have been talking about?

A - Charles Brindamour {BIO 7012323 <GO>}

So I think Patrick Barbeau, whom some of you have met at the Investors Day has been on the job for two months. So we will get his fresh perspective on your question. Then I will jump in at the end.

A - Patrick Barbeau {BIO 18476397 <GO>}

Yes, I think for sure the recent CATs will probably accelerate the actions that we will see from competitors. We have seen, just recently, a few of them starting to move with more important actions on underwriting and rate. So I think the recent experience will just continue to accelerate that.

A - Charles Brindamour {BIO 7012323 <GO>}

In terms of whether that will accelerate our ability to get to 10 points, I would say no, because we have a plan. We are rolling out the plan as planned. And that over 18 to 24 months, we think, will get to our 10 points. We are pretty confident about that.

I think what this will help is our ability to retain our portfolio -- and, therefore, a better unit growth in time. And that is where, Tom, we are saying, look, we will see what happens in the first half of this year. I think it will take some time for competitors to react from what the bulletin that they issue says versus what happens in the field. But we are seeing some momentum, as Patrick has said.

Operator

Paul Holden, CIBC.

Q - Paul Holden {BIO 6328596 <GO>}

Just want to talk a little bit more about the year-over-year increase in the underlying loss ratio with respect to commercial auto. A big jump there. And wondering if that had anything to do with the Jevco lines of business that you picked up, given that historically you haven't seen that type of volatility in that line.

A - Charles Brindamour {BIO 7012323 <GO>}

I will let Alain take this one.

A - Alain Lessard {BIO 17592535 <GO>}

Okay. Well clearly, the Fourth Quarter increase in the commercial auto was very large, almost 16 points. And that is all driven by the current-year loss ratio. And I would say there is like three phenomena currently that play on this.

The first one was this year, this quarter was affected by large losses more than the other quarter. But overall for the years, there is no change between the level of large losses -- this year's and last year's. It was more like a distribution throughout the year.

The other point is that there was a slight increase in IBNR in Quebec related to a small change in reportings patterns. That accounts for about -- close to 4 points. The large losses account for about 5 points, a little bit more than 5 points.

So leaving about 6 or 7 points in the quarter. And that is really weather-related in the quarter. But we saw an increase in frequency, an increase in severity.

So that doesn't really change or get associated with Jevco. And it doesn't change our view on the level of profitability of the line of business. It was more like everything happened in the Fourth Quarter for close to a 15-point, 16-point increase in the combined ratio. But there is no, really, change on the underlying view of our line of business there, either related to Jevco or change in mix of business.

Q - Paul Holden {BIO 6328596 <GO>}

Okay. Then, next question, with respect to commercial P&C. We saw reinsurance rates in Canada increase by about 5% to 10% with January 1 renewals. How confident are you in your ability to pass through those type of rate increases?

A - Charles Brindamour {BIO 7012323 <GO>}

Why don't you go ahead, Alain?

A - Alain Lessard {BIO 17592535 <GO>}

Okay. Well I think that you are right. We saw in our mind a rate increase in reinsurance of about 5% or 6%. It is driven mostly in the lower layer of the CAT program.

I think I will go back to what Mark was saying earlier on, because we introduced in 2013 a plan to manage our earthquake exposure in BC. And we said at the Investors Day that we thought we would reduce our earthquake exposure by about 9%. But we thought that would be going beyond that and go a little bit further. And that was all to be implemented by the end of 2014.

So basically, what happened is we have already exceeded our initial target of 9%. And like Mark said, we are estimating that we'll be reducing our earthquake exposure by the end of 2014 close to 20%. So that, basically, in our case more than offset what happened on the situation on the reinsurance increase. So we will see additional pressure on the market to put firming condition in. But in our case that additional pressure is basically offset by all of the earthquake management that we did in 2014 and continue to do in 2014.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes, exactly. You are right. So if I sort of bring it to the bottom line here, our ceded premium in 2013 or CAT cover was about CAD134 million, or close to that. I don't have the number in front of me.

And given our consumption of reinsurance because of the actions that both Alain's group and we have done in personal lines in BC, our probable maximum loss in BC has dropped meaningfully. And as such, our consumption of reinsurance is dropping. And we think that our ceded premium for CATs will be down CAD7 million to CAD8 million this year.

Q - Paul Holden {BIO 6328596 <GO>}

Great. Then I guess just to follow up on that in terms of the potential price increases and commercial P&C sort of -- that 25% of your market that you are targeting, is 5% to 6% sort of the range of price increases you are looking at? Or is it even something higher?

A - Alain Lessard {BIO 17592535 <GO>}

Okay. Well I would say first of all that we have been saying throughout the year that we were expecting firmer condition in about 25% of the book. I think what we're seeing right now is that 25% increase. Those increases are happening.

On the 25% of the book we are targeting, we see rate increases that are close to 10%, very close to being double-digit. The overall impact on our books -- because it doesn't affect all the book -- but the overall increase we saw in the Fourth Quarter were about 3.8%. And that was up from 3% in the Third Quarter. And basically up from last year is where we were seeing about 1.5% to 1.7% rate increase. So we are seeing an accelerated -- and acceleration of the rate increases throughout the year. And we expect to continue at least at that level in 2014.

Q - Paul Holden {BIO 6328596 <GO>}

Great. Final question. Charles, at the Investor Day you mentioned that this is probably a good point in the cycle to get a little more aggressive in terms of growing premiums written. Has that view changed at all, or is that still what you are thinking for 2014?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. I think we are comfortable with our outperformance. We are comfortable with the underlying profitability, pretty much in all markets where we operate -- with a caution, obviously, in personal property.

We have completed our two integrations. We are essentially done. We have to shut the systems down. But operationally speaking, I think our troops are keen to grow and services are pretty strong across operations.

And I think we are in great position, actually, to seize opportunities in the market this year, both one client at a time or from a corp dev point of view. So that view has not changed at all.

Operator

Brian Meredith, UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

First, on the personal auto side, do you have a similar number that you can provide for the commercial auto on what kind of non-CAT weather was for the personal auto in the quarter? Loss ratio?

A - Charles Brindamour {BIO 7012323 <GO>}

The non-CAT loss ratio ...

Q - Brian Meredith {BIO 3108204 <GO>}

Increased frequency because of the weather, yes.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. So in terms of -- there's two things that happens. In terms of -- you have got a frequency change. And then you have got a change in the profile of the claims as well in the quarter. So what is non-CAT frequency in commercial automobile is up about 6%.

Q - Brian Meredith {BIO 3108204 <GO>}

Perfect. All right. Then my next question is: you mentioned that the weather continued to be pretty bad in January; can you give us any sense of how bad? Is there anything that we should be thinking about as far as what CAT losses or trends should look like in the First Quarter so far?

A - Mark Tullis {BIO 4180270 <GO>}

Well it is early to talk about the First Quarter when we have just experienced January. And I would say there has been nothing of the magnitude of some of the events we experienced in 2013. But we have clearly had a lot of snow. Yes.

A - Charles Brindamour {BIO 7012323 <GO>}

A lot of snow. A lot of cold. And I think that sort of translates into frequency in automobile, clearly. Phones have been busier.

Then in the context of Canada, you see on the prop side of things more fires than you normally would. Certainly something we have seen in Q4. Then frozen pipes is the other factor that you otherwise wouldn't see. But that we have observed in Q4. And we have observed in Q1 to a certain extent. In terms of guidance, Brian, there is nothing at this stage that we are comfortable sharing.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay. Then with respect to the Ontario rate reductions that you are going to be pushing through in April, any impact from UBI on that?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. So -- definitely. In fact, we think that there is a meaningful portion of that 5 points that is indeed UBI-driven. Close to -- a little more than 1.5 points, we think.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. So from that perspective, that really shouldn't have any impact on margins.

A - Charles Brindamour {BIO 7012323 <GO>}

No. Exactly, because it is a new business strategy. And the idea is to attract customers that have a better profile with that strategy.

Then government introduced a number of cost-reduction measures. And there is a number of levers we have pulled internally to make sure that our margins were protected.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Then my last question: I'm just curious; have you seen any -- in Ontario, any increase in nonstandard auto writings or anything going to the residual facility yet? Or would that be something we would see maybe later in the year as your competitors, perhaps, start to shed business?

A - Alain Lessard {BIO 17592535 <GO>}

No. We haven't seen that much of an increase yet. I think that transfer towards nonstandard of facility is usually lagging the other effect in the market. It might happen later in the year. But probably more towards 2015. Yes.

A - Charles Brindamour {BIO 7012323 <GO>}

No signs of that at this stage.

Operator

Mario Mendonca, TD Newcrest.

Q - Mario Mendonca {BIO 2450557 <GO>}

Can we read anything into the lower reserve development in personal auto this quarter? And could you tie it into anything insofar as your outlook for arbitration in the term --?

A - Charles Brindamour {BIO 7012323 <GO>}

No. I wouldn't read that. I think that, first of all, there is a pattern of -- there is seasonality with prior-year development. The further you move in the year, the less favorable development there seems to be, structurally speaking. So that is the first point.

The second point is that one shouldn't read too much in quarter-to-quarter favorable development. The third point is, overall, automobile had 4.5% favorable development for the year. And I would say there is no arbitration or mediation outcome that we are concerned about. Maybe, Mathieu, you could give some color there.

A - Mathieu Lamy {BIO 15207469 <GO>}

We maintained the MIG percentage that we had in the past. So there are a number of cases in accident insurance that we classify as minor injury, as it remains stable. So there is no change in our view.

Q - Mario Mendonca {BIO 2450557 <GO>}

Is that the 55% number you referred to in the above?

A - Mathieu Lamy {BIO 15207469 <GO>}

Yes.

Q - Mario Mendonca {BIO 2450557 <GO>}

Then the current-year or core claims ratio in personal auto: I think this might be the sixth consecutive quarter where it has increased year over year. And I can't see that there is any pattern emerging, because it is always for something somewhat different than the previous quarters. Is that a fair assessment, that there is still nothing on the personal auto side that is disconcerting from a trend perspective?

A - Charles Brindamour {BIO 7012323 <GO>}

I will let Patrick -- even though you have been there for two months -- you observe the trend. Then I will give you my perspective after.

A - Patrick Barbeau {BIO 18476397 <GO>}

No. Really, in Q4 we think that it is linked to the winter weather and driving conditions. So no real new trend emerging. We have seen an increase in loss severity outside of Ontario, linked to weather, mostly. More collisions.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. No. There is nothing new. I mean, we have talked in Q4 last year about Alberta. We clearly have our eyes on that province. But nothing new to report at this stage.

Q - Mario Mendonca {BIO 2450557 <GO>}

Then, finally, in the context of acquisitions. And this may be a rather specific question. But I will try it anyway. Would a company's exposure to earthquake exposure or exposure to BC -- would that be an important consideration in an acquisition? Or is that something you think you could manage around over time?

A - Charles Brindamour {BIO 7012323 <GO>}

It is something we could manage around in the short term, in the midterm. And in the long term. And I will take you to the AXA acquisitions, where you will recall that we had about the same level of direct written premium. AXA had 4 times the quake exposure that we had.

So I came out, basically explained that to investors; we bought additional reinsurance so that our degree of conservatism was largely in line with what we had before the deal. Then, over a 24-month period, it actually moved from reinsurance to exposure management, which is what Alain just reported.

So then the question becomes: is the reinsurance available should you pick up a bulk of quake exposure? And the answer is, there is plenty of capacity in reinsurance. And in negotiating the renewal, you see that at the upper layer levels, which is where quake actually comes in -- more so than at the bottom layers -- there is plenty of capacity.

Q - Mario Mendonca {BIO 2450557 <GO>}

So you would just bake it into the price you pay for any particular asset, then?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. Yes.

Operator

(Operator Instructions) We have no further questions at this time. I will turn the call over to the presenters.

A - Dennis Westfall {BIO 15155973 <GO>}

Thank you, everyone, for participating today. The webcast will be archived on our website for one year. A telephone replay will be available at 2 p.m. today until Wednesday, February 12. A transcript will be made available on our website.

Please note that our First Quarter results for 2014 will be released on May 7. That concludes our conference call for today. Thank you. And have a great day.

Operator

This concludes today's conference call. You may now disconnect.