Q3 2011 Earnings Call

Company Participants

- Charles Brindamour, CEO
- Dennis Westfall, Director, IR
- Mark Tullis, SVP and CFO
- Martin Beaulieu, SVP, Personal Lines

Other Participants

- Andre Hardy, Analyst
- Doug Young, Analyst
- Mario Mendonca, Analyst
- Paul Holden, Analyst
- Stephen Boland, Analyst
- Tom MacKinnon, Analyst

Presentation

Operator

Good morning, my name is Michelle and I will be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Corporation Q3 earnings results call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session. (Operator Instructions) I would now like to turn the call over to Mr. Dennis Westfall, Director of Investor Relations. Please go ahead, sir.

Dennis Westfall {BIO 15155973 <GO>}

Thank you, Michelle. Good morning, everyone. 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 of forward-looking statements which also applies to our discussion on the conference call today.

Here with me today are Charles Brindamour, Chief Executive Officer; Marc Tullis, Chief Financial Officer; and Martin Beaulieu, Senior Vice President, Personal Lines.

As part of our management appointments in September, we announced a new Head of Commercial Lines, Alain Lessard. Alain brings a tremendous amount of commercial lines experience to IFC. Originally joining the AXA team in 1982, Alain and has been in charge or involved in AXA Canada's commercial lines business since 1994. Since 1994, Alain has occupied multiple positions in the commercial lines operation, including being directly in charge of commercial lines, including claims, as well as rules and pricing, underwriting, reinsurance and system development. You will have the opportunity to meet Alain at our upcoming Investor Day and he will join us in future quarterly calls to address your commercial lines-related questions.

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

Charles Brindamour {BIO 7012323 <GO>}

Thanks, Dennis. This morning we reported Third Quarter net operating income of CAD111 million, or CAD0.97 per share, 23% higher than the prior year, as personal auto results improved significantly. The resilience of our operations was illustrated by our solid combined ratio of 94.2% despite incurring CAD53 million of catastrophic losses, which is about twice the estimated normal quarterly run rate.

Net income for the quarter was CAD101 million, or CAD0.87 per share, down 9% from last year. Excluding the impact of integration and restructuring costs as well as amortization of intangibles, adjusted earnings per share were CAD1.11, or 13% higher than a year ago. From a top-line perspective, the 2% increase in our premiums is, as I've indicated previously, not a pace with which we are satisfied. Growth of 1% in personal lines reflect slower growth in our direct businesses, notably in Ontario, while commercial lines grew 5% year-over-year. We have restarted our growth efforts in the Ontario auto market as a result of the reforms unfold in a positive manner and our efforts to curb fraud and abuse prove successful.

Overall, our underwriting performance and steady investment income resulted in an operating ROE of 14% for the last 12 months, while strong investment gains from continued portfolio rebalancing resulted in an adjusted return on equity of 17.8%.

Turning to Ontario auto, we are more optimistic that the benefits from the reforms will materialize as originally outlined but remain disciplined in this market despite the continued improvement in our loss ratio in the quarter. Apart from the government reforms, we have taken action to combat fraud and abuse in the system. We continue to be encouraged by the results of our actions to date and maintain our expectation for a combined ratio improvement of close to 12 points within 18 months post-reforms. Overall, we estimate that the current accident year results in that province improved by about 9 points in the quarter.

Although Ontario auto industry results for the first half of 2011 show meaningful improvement in the loss ratio, we estimate that the combined ratio of the industry in that province is still close to 110%. And therefore, that premiums remain inadequate. As such, the level of approved rate changes for the industry announced in the past few quarters is a positive sign but does not fully address the inadequacy in the system.

That said, should results continue to improve at the industry level, the pace of future rate increases could potentially diminish. Our profitability gap with the industry in this province remained strong at more than 15 points, which affords us the flexibility to consider actions to improve growth. Outside Ontario, conditions remain stable.

In personal property, losses related to cats were elevated for a Second Quarter, driven by the remnants of Hurricane Irene in Quebec and numerous wind and hail storms across the country. I think it is important to keep in mind that these types of losses tend to be lumpy. We continue to monitor and adapt to the increasing level of severe weather occurrences in order to create a sustainable competitive advantage, though we have not changed our view of the adequacy of the cat loading in our pricing.

Finally, while we do not believe this quarter's elevated level of cats is a new norm, I think it is further evidence to support our view that pricing will remain firm in this line of business in the coming periods.

Pricing conditions in commercial lines remain soft, although we've benefited from firmer prices in the past 18 to 24 months in a number of segments where we operate. Empirical evidence in the quarter continues to highlight that our focused approach is paying off in our commercial P&C business. We were able to grow units 4% in conjunction with putting through 2% higher rates while our reported top-line growth was 5%.

Let me make a few comments about the AXA acquisition. In conjunction with the announcement of the close of the transaction in late September we also announced some changes to our senior management team. One of the things that came apparent in the integration process was that both companies had very similar values, including a common goal to be the best P&C insurer in Canada. In the month or so since the close, we have largely completed the integration of our close to 10,000 employee-strong workforce in a fashion that is best suited to provide an exceptional customer and broker experience. In my view, our team of insurance experts and professionals is not only the strongest in Canada. But one that I believe will enable us to become a world-class P&C insurer.

Shortly after the close of acquisition, we also announced an agreement to sell AXA's life insurance business for CAD300 million. Finding a buyer for this small but profitable business was important as it allows us to focus on the parts of the business to which we can add the most value. The sale also improved the already strong economics of the transaction, as Mark will expand upon shortly. Lastly, it will improve our leverage position once it closes by early 2012.

On the product front, we have been very clear from the beginning that we intend to maintain the full suite of AXA capabilities, which allows us to expand our reach and offers the potential for revenue enhancements. The product design is complete. And within days of closing was presented to brokers from coast to coast. This refreshed offer, in addition to our structure that aims to provide strong local presence and maintain existing employee-broker relationships, has been favorably received by brokers.

As I mentioned last quarter, we were targeting to begin the integration of the AXA business on our platform before year end. I'm proud to say that we accomplished this objective earlier this week and we are on target to complete the conversion within 15 months. This is a testament to the hard work of countless individuals from across the organization who came together to combine these two best-in-class companies into a world-class P&C insurer. Although much work lies ahead, I'm confident that we will deliver on our goals to achieve $100 million in after-tax synergies and 15% earnings accretion post integration.

In conclusion, I believe the importance we place on underwriting results will serve us well in the current low interest rate environment. Given the quality of our operational platforms, the flexibility provided by our financial position and the synergistic combination with AXA Canada, we believe that we will continue to outperform the industry and strengthen our leadership position.

And with that, I will now turn the call over to our CFO, Mark Tullis.

Mark Tullis {BIO 4180270 <GO>}

Thanks, Charles. Today we announced operating earnings of CAD0.97 per share, up from CAD0.79 in the Third Quarter of 2010. These include one week of AXA Canada results with CAD3.8 million of underwriting income included in other operating income and net investment income of CAD2.1 million. Beginning next quarter, all underwriting measures will fully incorporate AXA Canada results.

Slides 9 and 10 show results by line of business. In personal auto, top-line growth declined 0.5% as units and rate increases were offset by the mix changes. Growth was also hit by reduced marketing of our direct business as we waited for the Ontario situation to develop. As underwriting results in Ontario have improved, we have increased marketing throughout the province, included selected areas within the GTA. And we expect auto sales to be back on track by the end of the Fourth Quarter.

In personal property, top-line growth remained at 3% and commercial P&C was a solid 5.2%. On the underwriting side, our personal auto results continued to be strong as the combined ratio improved significantly to 86.4% from 96.3% a year earlier. Results in both personal property and commercial P&C were impacted by the level of cat losses in the quarter, resulting in combined ratios of 110.3% and 100%, both above last year.

On the investment side the benefit of CAD2.1 million in additional income from AXA Canada masked the full impact from declining yields, resulting in net investment income of CAD74 million, flat from a year ago. With a portfolio concentrated in fixed-income assets, the declining interest rate environment will continue to negatively impact our market-based yield in the coming quarters.

Our financial position remained strong at the end of the Third Quarter with an MCT of 202%, CAD534 million in excess capital even after putting CAD400 million toward the

AXA acquisition and book value per share of CAD28.97, 13% higher than a year ago. We ended the quarter with a debt to total capital ratio above our target level.

However, we intend to allocate a portion of the CAD300 million proceeds from the sale of AXA Canada's life insurance business toward paying down the term loan used to finance the acquisition. As a result, our debt to total capital ratio is expected to be back in line with our target early in 2012.

As Charles mentioned, we have made excellent progress on the integration of AXA Canada. For example, a good portion of the synergy will come from combining the businesses onto one common platform. We will not fully realize these savings until we have stopped issuing policies on AXA systems and until we have gone through a cycle of renewing all of the AXA business on Intact systems.

This process has begun this week and will continue for the next 15 months. As a result, we feel that we are still on track to progressively realize the CAD100 million of after-tax synergies within 18 to 24 months of close and potentially half of them in calendar year 2012. As we progressed with the integration, we also identified a need to increase reinsurance coverage. However, we expect to more than offset this with short-term supply chain benefits.

In summary, we maintain our CAD100 million target with opportunities for more synergies in the midterm relating to actuarial and further supply chain benefits.

Now that all the pieces of the acquisition are in place, the financial metrics of the deal look all the more attractive. The book value at close of the AXA business was over CAD1.6 billion, taking into account the fair value of a life insurance business. This means that our purchase price was 1.6 times the book value, much better than originally estimated.

With the progress made to date on the integration we are well on the way toward building a world-class P&C insurer. With that, I will turn the call back to Dennis.

Dennis Westfall {BIO 15155973 <GO>}

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

Questions And Answers

Operator

Stephen Boland, JMP Securities.

Q - Stephen Boland {BIO 5546446 <GO>}

I guess the first question a little bit different, I guess, is just on your funding status with your pension plans. I guess there's a large deficit in your pension plan now and there's a lot more focus on that with a lot of industries. What's the impact of that or how do you narrow that deficit, or do you have to narrow it over a certain period of time?

A - Mark Tullis {BIO 4180270 <GO>}

Sure, let me take that one. So I think there's a couple of things going on here. One was, at the end of the Second Quarter on an accounting basis the pension plan was 92% funded. And at September 30, including the AXA pension, the plan was 80% funded. And this widening deficit from the 92% to the 80% was due to both the decline in discount rates and the acquisition of the AXA pension plan, which was approximately 70% funded on an accounting basis at the date of acquisition.

I will say that as we -- this was not a surprise. As we negotiated, we were aware of the deposition of AXA plan and it was one of the things we took into account during the negotiations.

Q - Stephen Boland {BIO 5546446 <GO>}

Okay. And is there a requirement that you get this funded to par? I know you said you have to fund -- or you are going to fund CAD43 million in 2011. Does this impact your -- I guess the question -- does it impact ratings, your ability to buy back stock or increase dividends, if you have to fund this?

A - Mark Tullis {BIO 4180270 <GO>}

Yes. So I think the answer is we don't -- this is something we will do an evaluation at year end, we'll determine the need then based on how our interest rates fall out at year end. But at this point, we consider it still relatively well-funded compared to what many of the other companies in the Canadian universe. And we don't see impacting our capital position. I would view it as a manageable situation in our case.

A - Charles Brindamour {BIO 7012323 <GO>}

Absolutely. And Stephen, we have introduced a couple of years ago a number of risk management measure on the BB front to make sure that we have levers going forward to mitigate the impact of a low interest rate environment for a tough capital market environment. So it's something that I think we have been on top of for a number of years. We are continually reviewing our position on this. But this is not a concern or a major concern at this stage. It's something we manage on an ongoing basis.

Q - Stephen Boland {BIO 5546446 <GO>}

The second question just on -- I know you probably get a lot of questions on Ontario auto. If I go right to the reserve development, it appears that at $76 million on a 2010 year basis, it's coming out well above your expectation, or a little bit better than your expectation. What does that do in terms of flexibility for you pricing products going forward?

A - Charles Brindamour {BIO 7012323 <GO>}

I think it's worthwhile to comment on the favorable development in the quarter itself, which is pretty much in line with the historical average would be the first point. Of course, the favorable development in a quarter can come from a number of places. This quarter, Ontario certainly was a good source -- a good contributor to the normal favorable development in the quarter. When you look at the favorable development in Ontario in the quarter, I would like to make a couple of points.

It's coming as much from BI as it is from AB. And the reforms, as you know, where AB-driven. And it's largely coming from the case incurred, in other words, what's happening the field as opposed to shift in actuarial judgment. So that's the first point there.

I think what is more relevant to us is the fact that we are seeing the anticipated benefits stabilizing, gaining credibility as we go along. And therefore integrating that into our planning process, our growth marketing strategies and our pricing strategy is becoming more and more relevant as time passes and we are one year into it at this stage.

I think some people might say, well, your combined ratio is improving. You keep talking about being cautious. If you recall during the last quarter, I expressed a number of areas where caution was warranted. And for me, when I look at the reforms today, while I'm very pleased, the piece of the reform that we are still watching very closely -- well, we are watching all pieces very closely. But one on which we're spending more time is that I've talked about mediation before. In other words, things aren't falling out as we anticipated. There's as much claims in the minor injury category as we thought originally. The number of demand for payments has dropped very nicely. We see no surge in BI. But there's a process by which people can mediate or challenge, if you want, the claims adjudication. And we've seen at the industry level in Ontario an increase in the mediation, which led to a backlog in the mediation process.

And the backlog creates, to a certain extent, a bit of certainty as to the ultimate impact of the reform. And I would say that there's probably one claim out of five open claims, a bit less than -- around 20% that could be subject to mediation.

So when you keep that in mind. And we certainly keep that in mind in reserving, we keep that in mind in pricing, this is where we think we have not fully reached the level of stability in Ontario. We are pleased with what we're seeing. But one has to understand all the mid-to long-term implications. And mediation is the thing we have to keep an eye on at this stage.

Q - Stephen Boland {BIO 5546446 <GO>}

Okay, that's great, thanks.

Operator

Tom MacKinnon, BMO Capital Markets.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Good morning, everyone. A question on personal property -- I think the combined ratio shown obviously have the impact of cats in there. I was wondering if you could give us what the accident year would have been excluding the cats and how that would look year-over-year. And maybe elaborate a little bit more on what kind of premium increases you are getting and if we are able to see any more incremental benefit in terms of that home insurance action plan that you launched a while ago.

A - Charles Brindamour {BIO 7012323 <GO>}

Let me take the first part of your question, Tom. And then I will pass it along to Martin to comment further. So personal prop -- core combined ratio excluding cats would be 98.8 in the quarter, last year, same period, 97.5. Okay?

When I think about that, I tell to myself, well, this is a high combined ratio excluding cat, as far as I'm concerned. And one thing we've seen in the quarter is an increase in frequency of about 11% in the quarter, excluding cats. And so we don't think it's necessarily precipitation-driven. But likely the wind event leading up to the cat has put upward pressure on frequency.

So upper 90s year-over-year basically is the first part of your question. Then, Martin?

Q - Tom MacKinnon {BIO 2430137 <GO>}

Sorry; that 98.8 and 97.5 -- is that excluding any prior development? Is that correct?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thanks.

A - Martin Beaulieu {BIO 15316652 <GO>}

So when we look at this year versus last year, excluding the cats, I think this is roughly a point up from last year. So I think we are about in line.

In terms of premium increases, we are still processing at renewal close to double-digit increases, or roughly 9% increases both in terms of amount of insurance and rate increases at renewal. I think this is partly offset by a change in the mix of business of just a bit over 3 points that is related to we are writing less homeowners than we were in the past, changing towards tenants. And we are also seeing consumers increasing their deductibles as a reaction to the premium increases that they are facing at renewals. And we are losing roughly 1% in terms of units. So that's how you reconcile the 3% of growth that we have. So from that front, we are satisfied with the level of increases we are getting.

In terms of our home improvement plan, I think we were satisfied that we were reaching the close to 15-point level in terms of improvement in the past two years. I think this year, we have a lot more catastrophe activity than we had in the past two years. So that shows that there is still some volatility there that we have to better manage it. We are constantly monitoring the activities that we have implemented. But we are also increasing the focus on that line of business to see how we can, through product design and claims management, continue to improve that line of business.

A - Charles Brindamour {BIO 7012323 <GO>}

And maybe, Tom, I can come back to the first part of the question. I commented on the Third Quarter. And I think it's probably better to look at the first nine months through the core combined excluding cat and prior-year development was closer to 96% this first nine months this year. And it was pretty much at the same level first nine months last year, despite a 6% jump in frequency this year, which gives me a sense that the home insurance action plan actually continued to gain traction this year.

It's clear, with a year like that, that our outlook for upper-single-digit rate increases in home insurance is there to stay beyond the outlook period, in my view, probably another 12 months.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thank you.

Operator

Doug Young, TD Securities.

Q - Doug Young {BIO 5640851 <GO>}

First question -- I think I ask this probably every quarter. But just on the commercial market, I'm just curious as to what you are seeing. You mentioned it's a soft market environment. I guess I'm surprised that we are not seeing more hardening trends and I'm just wondering why you think that is and what you're hearing from the brokers on that front.

A - Charles Brindamour {BIO 7012323 <GO>}

I think it's worth asking the question every quarter. We ask the question every week we are here. So don't worry about it. Soft for new business, for sure. Now, the commercial market is very big market. And the comments -- and there's a lot of (inaudible) in the commercial lines market in terms of size, in terms of industry, in terms of province. And sometimes you hear broad brush comments that apply to certain segments of the industry but don't apply to other segments of the industry. And this is where our strategy, which is highly segmented, in my view pays off.

And so when I look at the metrics this quarter, we were able to get rate increases close to 2%. We've had good unit growth. Retention has been pretty steady. And there are pockets of the market opening up from time to time. And we are not going into what these pockets are because we like to enjoy them. But our approach there to get rates has been to be focused on individual risk characteristics. We have segments where we are getting upper teens, low 20s type increases. Small segments -- and then there are broad segments where we are getting a low-single digit and segments where we are getting nothing, just to maintain our retention.

We have a very clear view of the ROE by industry classes, by type of business. And we are managing our pricing strategy based on our assessment of the return segmented by class, industry as well as territory. I think that we've seen a change in the past year. We've mentioned we don't expect acceleration, necessarily, in the coming 12 months. There's two factors for me that will be relevant in the coming 24 months. I think the yield impact is likely to support a better environment if you take a 24-month perspective. I think we talked about reinsurance before. The world will change on that front. And especially for insurers who are heavy users of reinsurance in commercial lines, which is many of the reinsurers we compete with. That is likely to put upward pressure as well.

So results in commercial lines have been good historically at the industry level. But 4 or five years of soft market, lower yield environment, potential mild upward pressure on the reinsurance front should help if you take a 24-month perspective.

Q - Doug Young {BIO 5640851 <GO>}

And can you quantify -- have you made much progress in the midmarket at this point in time? And if so, can you give us some numbers around that?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. I think we have made progress. In the quarter our midmarket segment premium was up 6.2%, which is higher than the overall book. And therefore that's very good progress as far as I'm concerned. We are seeing that on the submission side, that is, the number of demands for quotes in the midmarket segment were up 25% from last year. So we are making very good progress.

I would say that the mother, though, of all progress is definitely the AXA acquisition, where we are picking up very good midmarket expertise that will be a good complement to ours. We're picking up specialty niches as well. And our overall commercial portfolio goes from CAD1 billion premiums to CAD2 billion of premiums, which is close to twice number 2 in commercial lines in segments, which is really small to mid commercial lines. We did not reach outside the sort of size target that we had before the transaction.

So I think this is a great step forward and it's certainly -- I've mentioned to investors in the past year that our objective was to double our market share in midmarket. That's done. So we're working on a new objective there. But that's a good step forward.

Q - Doug Young {BIO 5640851 <GO>}

Okay. And just on the personal property side, or I guess maybe just generally on the weather, it seems like the weather conditions are being more consistently bad. And I think you mentioned that you haven't changed your cat loading. I'm just curious as to why you haven't taken that step.

A - Charles Brindamour {BIO 7012323 <GO>}

Because we changed it last year. We changed it as a result of our home insurance action plan. And I think -- Martin, was it at the end of 2009 or the end of 2010 that we did a complete review?

A - Martin Beaulieu {BIO 15316652 <GO>}

Yes; that was at the end of 2009. And what we are targeting in terms of cat loadings is that they would be right two years out of 3. So we are not just choosing a mid -- median approach. So we are using some conservatism in there. But there's this one year out of 3 where they will not be sufficient.

Q - Doug Young {BIO 5640851 <GO>}

You said you changed that in 2009?

A - Martin Beaulieu {BIO 15316652 <GO>}

That's right.

Q - Doug Young {BIO 5640851 <GO>}

And how has that kind of matched up relative to actual experience?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. So we have updated the analysis in October, actually. And I sat down with Martin and some of the actuaries to go over these cat loadings. And it seems to be getting the job done.

A - Martin Beaulieu {BIO 15316652 <GO>}

Now, exactly when we look at the longer period like 15 years or when we look at the period of the last five years, I think we see that our cat loadings are reacting well to that time span, both those time spans.

A - Charles Brindamour {BIO 7012323 <GO>}

This is not -- we are not implying that we are satisfied with our rate position. We're just saying, from a cat point of view, I think we have refreshed our view based on the assessment we did a couple of years ago. I think we are at the right place. But we are still pushing rate increases in the system.

A - Martin Beaulieu {BIO 15316652 <GO>}

Yes. We know what we are chasing. We're not pushing the target further ahead of us.

A - Charles Brindamour {BIO 7012323 <GO>}

No, exactly.

Q - Doug Young {BIO 5640851 <GO>}

Just one last number question -- the AXA reinsurance cost went up. Can you quantify what that was?

A - Charles Brindamour {BIO 7012323 <GO>}

We will give some more clarity next quarter, Doug, once we are done with the negotiation of the reinsurance contracts, to put it bluntly.

Q - Doug Young {BIO 5640851 <GO>}

Okay.

A - Mark Tullis {BIO 4180270 <GO>}

Yes; we don't want to be in a position of signaling to people we are negotiating with.

Q - Doug Young {BIO 5640851 <GO>}

That's fair, okay, thank you.

Operator

Andre Hardy, RBC Capital Markets.

Q - Andre Hardy

The first one is for Mark. Can you help us understand how much more integration costs you expect in upcoming quarters?

A - Mark Tullis {BIO 4180270 <GO>}

Sure. So I think the initial indication we gave, which we are still generally comfortable with, is that we would expect total expense roughly equal to one times the ultimate savings. And as far as -- obviously, what we would have loved to have done is accrued all this quarter and run it through. But there's accounting rules; a certain thing has to happen before you can actually book it.

Our expectation is we'll get roughly two thirds of that out of the way in 2011 with about a third of it left to come probably in the early quarters of 2012.

Q - Andre Hardy

So just to paraphrase you, about CAD100 million, very roughly, of integration costs?

A - Mark Tullis {BIO 4180270 <GO>}

After-tax.

Q - Andre Hardy

Hardy: After-tax, thank you -- and two thirds of that will have been accrued by the end of 2011?

A - Mark Tullis {BIO 4180270 <GO>}

Correct, including the CAD29 million that we took this quarter.

Q - Andre Hardy

Okay.

A - Charles Brindamour {BIO 7012323 <GO>}

CAD29 million was a before-tax number.

A - Mark Tullis {BIO 4180270 <GO>}

That was the before tax, right.

Q - Andre Hardy

Thank you. Then on Ontario auto, I think, like Doug, this is a question I've asked before. You are doing much better than the industry. But the industry is not doing well. A 95% combined ratio, which is what you implied Intact is currently seeing in its Ontario auto business -- is that something that satisfies you for getting the competition? And the reason I ask is, you are being very clear that you want to increase the premiums written in Ontario auto. And when do I have to start worrying that your growth objectives will supplant, if you will, your profitability objectives?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. Two good questions -- first of all, Andre, I think what you assume to go from, to come up with 95% is 110% minus the 15% I talked about. So I think it's close to 110%; slightly below 110% is our assessment. And second of all, you assume we have the same expense ratio as the industry. So I have never commented in terms of what our combined ratio was by province. And we are not going to start this morning. So let's just say it's probably a bit below that level at this stage.

And when you look at what is satisfactory or not in automobile insurance and in other lines of business, I look at the expected return that we get on that. And you need to keep in mind that in relative terms, the Ontario automobile businesses a longer-tailed business than the automobile business in the other provinces or that -- than property business.

So I think a combined ratio in the mid-90s, assuming that's what it would be, would be satisfactory in the Ontario market, given the investment income profile, though I don't want to comment on our specific combined ratio.

I think the way -- when should one get concerned about our desire to grow overtaking our desire for underwriting performance? There's two or three things that I think I would put on the table. The first one is our track record about performance. The second one is, as you know, we have two core objectives in running the business and we've presented that to investors before. The first core objectives which drives our strategies our compensation and how we manage the business, is are we out performance by at least 500 basis points every year.

The growth objective at Intact is to grow our operating earnings per share. That's how we -- over time. So that's how we fortify our operating earnings, our growth ambitions, with an earnings growth ambition as opposed to a top-line growth ambition.

And the third point I would make is that we could be criticized, in fact, for having waited too long before restarting growth in Ontario, given the improvements that we've seen recently. We have shrunk our direct business, I would say, meaningfully, which was concentrated in the GTA.

So hard to answer this one, when you should get nervous. But I can tell you that the drivers of how we run the business are very much bottom-line driven.

Q - Andre Hardy

Thank you.

Operator

(Operator Instructions) Paul Holden, CIBC.

Q - Paul Holden {BIO 6328596 <GO>}

Just one question -- so you've already made some good progress with the AXA integration. And quite quickly. Maybe you could just provide us with a roadmap of the key action items that still need to be completed and the associated expected time lines with those items.

A - Charles Brindamour {BIO 7012323 <GO>}

Paul, at our upcoming investors day on -- when is it? November 15 -- that's in a couple of weeks from now. A big portion of the time there will be used to provide updates on how far we've gone, what is left in the pipeline. So first we'd invite people who want to hear more about the integration to join the Investor Day.

Lots has been done already. And if I think about the big-ticket items for me in the coming 12 to 18 months, when we announced the transaction we talked about getting everything done within 24 months. That was the time line we had put on the table. We clearly worked really hard this summer, during the spring. Everybody really jumped in there. And that's why we are able to start the conversion probably a bit earlier than what most would have anticipated.

The teams are in place right now. On the day of the closing, we announced senior management, the top 120 jobs in the organization have been communicated to the outside world on the day of the closing. And I would say that by November 1, which was yesterday, we had confirmed pretty much to all employees what their role would be and whether there would be a role or not. So from a team point of view, from a product point of view, as I've talked in my remarks, from a system point of view, we are well on our way there.

So what are the big ticket items going forward? Well first, renewing policies on our system will take us 15 months from today because the business that we are currently uploading on our systems will be renewals effective in January, because you need to give 45 days at least to brokers to process the renewals. New business is processed on our system these days.

So there's a time line that comes with the length of a policy here, Paul, that's important. On the people front, we have created the team, we have identified who is doing what. We had a fair bit of similarity between our footprints from coast to coast. But people are not all under the same roof at this stage because as you run a business, you have to take into account the practical and economic implication of leases and those sorts of things. That for me will take many months, still, to come.

Another important item here is definitely the closing of the life co. So we entered into an agreement; that is not closed. We are hoping we will be able to do that very early in 2012 and we are working hard to make that happen.

Then the other element from an operational point of view is that when you acquire a business as opposed to a portfolio, it comes with open claims from the past. And so the conversion process for these open claims -- we normally wait a bit for the conversion of the claims to take place. So as to reduce the volume to be converted in terms of open claims. And that will be done in the latter part of the time line that we've put on the table.

A - Mark Tullis {BIO 4180270 <GO>}

I think that's one of the main reasons we talk about 15 months for the conversion but 18 to 24 months to realize the synergies because what we've done in prior transactions is we wait until everything converts, then we take the few claims that are still left on the original system and turn off. So the claims system is typically the last thing to get migrated.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. And if I continue on claims, Paul. And what we are busy doing at the moment, I've talked about the benefits of managing claims ourselves, managing legal files ourselves. So we are in the process of hiring additional resources so that we can run the combined organization at 99% internal management of files or close to 100%.

So there is some work left to be done here. We don't want to leave anyone with the impression that we are done. There's a lot of work left in the coming period.

Then the most important thing and the first principle in the integration process is to maintain an exceptional service for customers and for brokers. And we are hiring additional resources to manage the conversion so that the service experience remains as strong as it was before the transaction during the conversion period.

Q - Paul Holden {BIO 6328596 <GO>}

Maybe we should talk a little bit more on that last point, particularly with respect to policy retention. What kind of actions are you taking to minimize attrition. And if you can give us a sense of what kind of attrition rates you do expect?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. So on the last part of your question, I'm not going there this morning, Paul. I think our view is that since we have most the best products in the industry now, very good price position, we are managing price dislocations to minimize dislocation as much as possible. We've got, for brokers, the best team in the industry, very strong local presence. We're there for brokers in good and in bad times. And brokers know the people who make the final decisions in Canada, which is not something you get -- so these attributes you don't find in that combination with any other insurers in Canada.

So as far as I'm concerned, for brokers and for customers, our goal is to keep the business, all the business. Let it be very clear to everyone. So far, the reception has been good. I think there are brokers who will or have decided to move their portfolio if they are called. They manage their business the way they want. But the reception has been very good. So far, from coast to coast. Pockets here and there that we are managing at the individual level. But we see no reasons for people not to take what we think is an exceptional value proposition.

Q - Paul Holden {BIO 6328596 <GO>}

Thanks, that's helpful, no more questions.

Operator

Mario Mendonca, Canaccord Genuity.

Q - Mario Mendonca {BIO 2450557 <GO>}

The question first -- Charles, to flesh out what you said on mediation. You said about 20% of the files -- I think that's the way you described it -- 20% in mediation. How does that compare to what it has been in the past? You refer to a backlog. So what was it like in the past?

A - Charles Brindamour {BIO 7012323 <GO>}

This was -- I don't have an average number over a given number of years. But in the past, it probably would have been less than half of that.

Q - Mario Mendonca {BIO 2450557 <GO>}

So that really takes -- what are you implying, then, by saying that the backlog is -- and then I guess maybe twice what it used to be that, if the mediation falls out and it's not in your favor, how would that manifest itself in your results? Would it be weaker development, or how does that play out?

A - Charles Brindamour {BIO 7012323 <GO>}

This is where, Mario, when you look at how we reserve for the business, there's what we call the casing curve, which is what every adjuster does. And the adjuster establishes the reserves with the knowledge that there will be a mediation, obviously. So that is partly reflected there. Then the actuaries then take a position as to what they are observing in the field, their understanding of the fact that there is a mediation backlog and adjust their reserves accordingly.

And so, while the results have improved, if you look at the IBNR as a percentage of our premiums, it has been pretty steady over the past couple of years. In other words, our enhanced view of the environment has not been really translated into less actuarial provisions, in part because of this uncertainty. So I am cautious as to what this means. But I believe that our financial position and our approach to reserving reflects the caution related to the mediation that's in the pipeline.

Q - Mario Mendonca {BIO 2450557 <GO>}

So in describing, in alerting us to this idea that mediation is -- or the backlog is 20% -- in highlighting that all, what message are you sending us, that while you feel good about the way the claims are developing and you feel good about the reforms, you are not yet ready to give us the all clear signal that this is sustainable? Is that the message?

A - Charles Brindamour {BIO 7012323 <GO>}

That's exactly the message, Mario. I brought up mediation, I believe, last quarter. And you know me; I'm putting it on the table as we see it and as we manage the business. Results in the field are improving, as we anticipated, if not better. The thing one needs to watch is the outcome of these mediations. And the things that we are watching we are providing for in reserving and in pricing.

Q - Mario Mendonca {BIO 2450557 <GO>}

Maybe just a final question on this topic -- why do you figure mediation has spiked the way it has, or the backlog as?

A - Charles Brindamour {BIO 7012323 <GO>}

Do you want to comment on that, Martin?

A - Martin Beaulieu {BIO 15316652 <GO>}

Well this is a change in environment. So people will test the system. And there is uncertainty as to what the interpretation of each of the rules that have been put in place really mean. So I think we are in that phase where people are trying to see where are the loopholes in the system and how this will settle into more certainty.

A - Charles Brindamour {BIO 7012323 <GO>}

You are exactly right. I think that with the minor injury guidelines, for instance, which introduced a cap at the -- I believe it's at CAD3500 level -- that's a major change in the product. A large proportion of the claims fall in that basket. That percentage has held very steadily, as I have mentioned earlier. But that's a big change in the system. And a number of operators are testing. So to speak, or trying to get out of the minor injury guidelines or receive a payment if they have been denied a payment. So it's not abnormal activity. It's just the change is so big that the activity has spiked up.

So this is a thing to watch in the overall reform that's panning out, in my view, as anticipated if not better.

Q - Mario Mendonca {BIO 2450557 <GO>}

Another 12 months, then, before you could give us anything conclusive? Is that fair?

A - Charles Brindamour {BIO 7012323 <GO>}

You know, Mario, I talked about 18 months following the reforms to get the 6 anticipated. And maybe as much as 6 for the actions we've taken. We are saying, in the quarter, we are at 9. There's caution in our approach in part because of mediation. I think at six months from now we will have a better grasp on the stability.

Q - Mario Mendonca {BIO 2450557 <GO>}

That's helpful. One final thing, then. You referred to some supply chain benefits in the medium term. You haven't built that into any of your -- into your 15% accretion commentary. Is that true?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. It is.

Q - Mario Mendonca {BIO 2450557 <GO>}

That is true? So you anticipate something; you haven't built it in yet. Could you just talk maybe about the nature of these supply chain gains you would expect?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. There are a few. In our remarks this morning, we talked about the fact that the $100 million we felt still pretty good about. We talked about the fact that the reinsurance cost could go up. We also said there would be short-term supply chain management. Let me comment on that first. And then I will talk about the midterm supply chain management gains.

Short-term supply chain is just the upside of taking the new claims from AXA to our existing contracts. And so -- in part of the preparation for the integration, the claims team did a great job and identified that they could move new claims to our contracts over the coming -- over 2012-2013 with relative ease. I shouldn't say that. But that's what I picked up.

So we think that will upset the additional reinsurance cost over that period.

Q - Mario Mendonca {BIO 2450557 <GO>}

Start moving to your contracts?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes.

A - Mark Tullis {BIO 4180270 <GO>}

Things like car rentals, glass, paint, that kind of stuff.

A - Charles Brindamour {BIO 7012323 <GO>}

What is midterm supply chain for us is to say all of a sudden you are 40% bigger as a company, as a customer for many people. And you ought to ask yourself whether the deal you have in place is reflective of the fact that you are 40% bigger.

And so this is an exercise. Once the integration is well on its way, once we are satisfied that the service remains top notch, the claims folks will start to look into that and work with suppliers to make sure we get the deal that we deserve, given our size.

Now, this is important. But this is less tangible a benefit; it's less tangible in terms of how you can assess it. That's why we didn't put it in the model or in the numbers. But that's clearly something we will work on.

Q - Mario Mendonca {BIO 2450557 <GO>}

Thank you.

Operator

Doug Young, TD Securities.

Q - Doug Young {BIO 5640851 <GO>}

I've just got one quick number one, I promise. Mark, CAD900 million of intangibles -- what's the time frame that that gets amortized over?

A - Mark Tullis {BIO 4180270 <GO>}

Have we announced that or -- ? Yes, okay. So I would say a small chunk -- it's basically in two chunks. And the preliminary is that a small -- about CAD80 million of it will be amortized over a sort of 10-year type horizon. The other CAD820 million we consider indefinite intangibles and basically will not be

Q - Doug Young {BIO 5640851 <GO>}

Okay. Thank you.

A - Mark Tullis {BIO 4180270 <GO>}

And the difference is, the CAD80 million is associated more with the customers. And the CAD820 million is more associated with the broker network, which is actually growing.

Q - Doug Young {BIO 5640851 <GO>}

Okay. Thank you.

Operator

Okay, I turn the call back over to Mr. Westfall for concluding remarks.

A - Dennis Westfall {BIO 15155973 <GO>}

Thank you, everyone, for participating. The webcast will be archived on our website for one year. The telephone replay will be available at 2 PM today until Wednesday, November 9. The replay number is 1-855-859-2056. The passcode is 15915238. A transcript will also be made available on our website.

Finally, just a reminder that we are holding investor day on November 15 in Toronto and our Fourth Quarter results for 2011 will be released on Wednesday, February 9. That concludes our conference call. Thank you. And have a good day.

Operator

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