Q2 2011 Earnings Call

Company Participants

- Byron Hindle, SVP, Commercial Lines
- Charles Brindamour, President & CEO
- Dennis Westfall, Director of IR
- Mark Tullis, CFO
- Martin Beaulieu, SVP, Personal Lines

Other Participants

- Andre Hardy, Analyst
- Doug Young, Analyst
- Mario Mendonca, Analyst
- Tom MacKinnon, Analyst

Presentation

Operator

Good afternoon, my name is Alicia and I will be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Corp. Q2 earnings results conference 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) Thank you. Mr. Dennis Westfall, Director of Investor Relations, you may begin your conference.

Dennis Westfall {BIO 15155973 <GO>}

Thank you, Alicia. Good afternoon, 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 on forward-looking statements which also apply to our discussion on the conference call today.

Here with me today are Charles Brindamour, Chief Executive Officer; Mark Tullis, Chief Financial Officer; Martin Beaulieu, Senior Vice President Personal Lines; and Byron Hindle, Senior Vice President Commercial Lines. We will start with formal remarks from Charles and Mark followed by a Q&A session. Martin and Byron will be available to answer your questions during the Q&A session. With that I will ask Charles to please begin his remarks.

Charles Brindamour {BIO 7012323 <GO>}

Thanks, Dennis. Good morning, everyone. This morning we reported Second Quarter net operating income of CAD95 million or CAD0.87 per share despite CAD0.84 per share in losses from natural catastrophes. Although the impact on our after-tax results from the Slave Lake wildfires was in line with expectations, results in the quarter were also affected by a number of severe storms.

Strong results from our auto businesses and continued favorable reserve development offset much of the impact from the CAT, resulting in an overall combined ratio of 97%. Net income for the quarter was CAD123 million or CAD1.12 per share, down 8% from last year as investment gains offset some of the drop in operating earnings.

From a top-line perspective, the 3% increase in our preemies is, as I indicated last quarter, not a pace with which we're satisfied. Growth of 2% in personal lines reflects slower growth in our direct businesses, notably in Ontario, while commercial lines grew 5% year over year. We continue to expect our top-line to improve by year-end from our organic growth initiatives, improving industry pricing conditions primarily in first lines and the resumption of our growth efforts in our Ontario auto business.

Overall our underwriting performance and steady investment income resulted in an operating ROE of 13.6% for the last 12 months. While the contribution of strong investment gains resulted in a return on equity of 17.3%, our book value per share increased 11% from a year earlier to CAD26.89. This is evidence in my view that our strategies and action plans are working well.

Turning to Ontario auto, while the ultimate effectiveness of the reforms will not be known for several months, we are more optimistic that the benefits of the reforms will materialize as originally outlined. We have rapidly invested in fraud reduction measures aimed at tightened controls beyond the scope of the reforms on request for treatments and assessments. This has already begun to translate into additional cost savings to those expected from the reforms.

So overall we estimate that the current accident year results in Ontario improved by about 15 points in the quarter. Although it's tough to extrapolate too much from one quarter's performance, I believe it is a positive indication that we can achieve the targeted 6 points improvement from the reforms and a similar amount from our own actions.

Although Ontario auto industry results for the First Quarter show meaningful improvement in the loss ratio at the industry level, 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 definitely a positive sign. But does not fully address the inadequacy in the system.

Outside Ontario conditions remain stable. In personal property, even excluding the impact of Slave Lake, losses related to CAT were above what we would consider a normal quarterly run rate. I think it's important to keep in mind that these types of losses tend to be lumpy. We continue to monitor storm activity over time and have not changed our view of the adequacy of the CAT loading in our pricing.

Finally, while we do not believe this elevated level of CAT 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 period.

Pricing conditions in commercial lines remains soft, although we benefited from firmer prices in the past 12 to 18 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 3% in conjunction with putting through almost 2% higher rates while our reported top-line growth was close to 4%.

Before handing it over to Mark let me make a few comments about the acquisition of AXA Canada. At a high-level our message is unchanged from what we communicated on May 31. We continue to work towards a fall closing and continue to target the level of earnings accretion and synergies that we initially outlined.

Numerous people from both organizations have come together to plan the integration of these two best-in-class companies to build a world-class P&C insurer. I'm really impressed both with the quality of the people whom I've met. And I've largely met all 2,300 employees. But more importantly with the productive manner in which employees from both organizations are working together. Excellent progress has been achieved so far.

The regulatory approval process is progressing very well. We're confident that we will successfully close the transaction this fall. But more importantly that we will be in a position to begin the integration of the AXA business on our own platform before year end.

In conclusion, the resilience of our Company was illustrated as we reported a combined ratio of 97% despite CAD105 million in underwriting losses from natural catastrophes. Improved results in Ontario auto indicate that the combination of reforms in our own anti-fraud claims initiatives are bearing fruit.

Finally, the AXA Canada acquisition is progressing well and is on track to close this fall. Given the quality of our operational platforms, the flexibility provided by our financial position and the upcoming addition of AXA Canada, we strongly believe that we will continue to outperform the industry and strengthen our leadership position. With that I'll now turn the call over to our CFO, Mark Tullis.

Mark Tullis {BIO 4180270 <GO>}

Thanks, Charles. Today we announced resilient operating results in the face of our worst CAT quarter since the 1998 Quebec ice storm. In spite of these CAT losses our underwriting results generated a profit with a combined ratio of 97%.

Slides 10 and 11 show results by line of business. In personal auto top-line growth remained at 1% as slower growth in our direct business, notably in Ontario, continued to impact premiums. Our disciplined approach to the Ontario auto market, including our focus on managing fraud, has led to a significant loss ratio outperformance versus the industry which stood at approximately 14 points in the First Quarter of this year.

Overall our combined ratio improved significantly, driven by Ontario, to 85.7% from 95.7% a year earlier. For all lines of business favorable prior-year development was higher than average at 6.9%. However, excluding industry pools, favorable development of 4.5% was recorded, in line with our long-term average of 3% to 4%.

In personal property top-line growth slowed to 3% as change in mix and reduction of units offset increases in rates and amounts insured. Many policies are sold as a bundle with auto and these sales were also impacted by our approach to growth in our Ontario auto business.

As we've stated in prior quarters, we are comfortable losing unprofitable business through our segmentation initiatives. In fact, our retention is highest for our most profitable customers. Benefits from our actions were overshadowed by the substantial catastrophe losses in the quarter resulting in a combined ratio of 129.5%, 29 points higher than last year. The Slave Lake wildfires alone added about 21 points to the combined ratio in the quarter.

On a core basis, excluding catastrophes and prior-year development, our personal property loss ratio improved by 1 point from last year. To clarify, the breakdown of CAT losses for the quarter was as follows.

Our total CAT claims net of reinsurance amounted to CAD105 million of which CAD47 million was attributable to Slave Lake. The CAD58 million of other CATs is about half of our normal annual run rate. To obtain the total CAT cost you add reinstatement premiums of CAD23 million, mainly related to Slave Lake. And subtract taxes. The result is about CAD92 million or CAD0.84 per share. CAD50 million of the CAD92 million is attributable to Slave Lake and the remaining CAD42 million to other CATs.

Our commercial auto business reported solid results in the quarter both from a top-line and bottom-line perspective. Premiums increased 7% while the combined ratio of 75.4% was up only slightly from last year's very strong 74.6%. Commercial P&C premiums increased 4%.

While market conditions remain very competitive for new business, our retention rates are solid and rate increases averaged 2%. Underwriting income of CAD7 million was down from last year's CAD24 million level, reflecting catastrophe losses and the impact of reinstatement premiums.

On the investment side we generated about CAD75 million in net interest and dividend income. We also recorded net investment gains of CAD44 million compared to gains of CAD34 million in Q2 of last year. The gains resulted from trading in the portfolio which is in an unrealized gain position.

We ended the quarter in a strong financial position with approximately CAD758 million in excess capital and debt and a total capital ratio of -- and a debt to total capital ratio of 14.4%. Our strong capital position affords us the flexibility to finance the acquisition of AXA Canada in a manner that optimizes our balance sheet, utilizing a combination of equity, debt and preferred shares.

When we announced the transaction we said that we intend to replace the CAD1.3 billion acquisition credit facility with a term loan of up to CAD300 million, (CAD500) million of preferred shares and up to CAD500 million of senior debt. To date we have closed a (CAD250) million preferred share issue and a CAD100 million 50-year private placement. On the common equity side, our issuance of subscription receipts was successful and we received an additional CAD125 million through the overallotment.

In summary, our results this quarter showed resilience in the face of a challenging CAT environment. We're pleased with the progress we made with respect to the AXA acquisition as we continue our journey toward building a world-class P&C insurer.

The acquisition is a strong fit from a strategic perspective combining sophisticated underwriting and claims management while strengthening our distribution capability. This transaction enables us to deploy excess capital in a financially compelling manner. With that I will turn the call back over to Dennis.

Dennis Westfall {BIO 15155973 <GO>}

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

Questions And Answers

Operator

(Operator Instructions) Tom MacKinnon, BMO Capital Markets.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Thank you very much. Good afternoon, everyone.

A - Charles Brindamour {BIO 7012323 <GO>}

Hi, Tom.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Charles, a question with respect to this Ontario auto. I think I heard you say you're confident -- I've heard about this 6 points industry improvement and I thought I heard you say you could get a similar improvement from your own activities as well, did I hear that correct?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes.

Q - Tom MacKinnon {BIO 2430137 <GO>}

You're talking about a 6 point improvement from the industry and then on your Ontario auto you expect to get a 12 point improvement then, right, overall? Right, 6 from your own actions and 6 from the industry?

A - Charles Brindamour {BIO 7012323 <GO>}

I think, Tom, that's the way to -- yes, to (multiple speakers).

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay, now how far are we through that game right now? And could that totally -- what would be the bottom-line impact on your combined and when would we feel that?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes, yes. So you know, I think what I've said, Tom, in the past is that the 6 points from the reforms you should pick up over 18 months since the reform, we're halfway there I think. Then I said we put a lot of measures in place at the same time earlier last summer; I expect to get as much of the reforms from these measures and therefore over 18 months hopefully that will be baked in the system.

What I observe in the quarter is actually very good and I talk about the 15 points improvement in current accident year. So we're not talking about favorable reserve development there. But 15 points in current accident year. I therefore say I stick to what I've said before because it's highly likely to be realized.

Q - Tom MacKinnon {BIO 2430137 <GO>}

So we should -- if Ontario auto is 25% say of your book and we are talking about 12 points improvement on your Ontario auto over the next 18 months, we should be able to see somewhere in the area of about 3 points improvement overall in your combined ratio. Is that the way we should look at that just from Ontario auto alone?

A - Charles Brindamour {BIO 7012323 <GO>}

You know what, I think it is one way to look at it. I would say let's not forget that there is inflation, normal inflation in the system as well and we will do our utmost to make sure that premiums keep up with inflation. But it is one simple way to look at it, yes.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thanks very much.

A - Charles Brindamour {BIO 7012323 <GO>}

No problem.

Operator

Andre Hardy, RBC Capital Markets.

Q - Andre Hardy

Thank you. I'm wondering if you can help us a bit on reserve development. And what I'm interested in is normally you have 3% to 4% development on an annual basis. And we are going through a period of pretty significant change in Ontario auto driven by both reform, as well as your own actions. And what I'm curious about is what would it take for the reserve development to be above average? If we get 6% cost savings from the reform and another 6% to maybe above that from your own actions, is that already baked into your reserves or that is an incremental source of potential improvement and maybe people call it one time. But it is a potential source of improvements over and above what you are talking about?

A - Charles Brindamour {BIO 7012323 <GO>}

What we are talking about is largely prospective-driven, I would say. It certainly helps the view on development of reserves to a certain extent. But it is largely prospective-driven. That is why I have put in my remarks 15 points in current accident year improvement in the quarter. And I think that is what we'll see in the future. But that is what I put in relationship with the 6 and 6 that I anticipate.

I think that if you look at the current quarter, the favorable reserve development is not Ontario auto-driven. So that is the first point I will make. So there is some lumpiness in favorable reserve development. And I think that our view at this stage is that we feel that our reserves are pretty conservative with regards to Ontario auto in the context where there is uncertainty as to all these things will pan out and that uncertainty reduces as we go along. There might be bumps as a result. But I certainly would not -- would not assume that, in the mid to long run, our development pattern will be much different from what it has been historically.

A - Mark Tullis {BIO 4180270 <GO>}

A good chunk of this quarter's development was pool-related in the industry.

A - Charles Brindamour {BIO 7012323 <GO>}

And not necessarily Ontario pools.

A - Mark Tullis {BIO 4180270 <GO>}

Right.

Q - Andre Hardy

Thanks for clarifying that. But I guess a different way to ask the question is, given that you are a conservative company, I would assume you are not baking in the reforms and your own actions being as successful as what you are suggesting in your reserves or maybe I am wrong. So I guess my question comes down to, if you are successful in getting a 12-point improvement in accident year loss ratios, should we, all else equal, also expect better-than-normal reserve development?

A - Charles Brindamour {BIO 7012323 <GO>}

Well this is where we have to be careful, Andre, because, as you know, the chunk of the reforms apply to new claims. And therefore one should not extrapolate that if I say we'll get probably 12 points that you'll have a similar impact on reserves, not at all.

Because we're cautious in relationship with what we're seeing right now there might be favorable lumps in the near term. But I would certainly not bake that in our top process with regards to the long-term profile of reserve development of the business, that's the first point that's important, Andre.

The second point that's important to make in my view is that if indeed the reforms are as effective as we think they will be given what we've observed nine months into it, I think that one should expect that within 18 months from now, say when the industry's results stabilize, that the pricing environment will take that into account.

So I think that if you take a longer-term perspective, one has to be cautious to bake in structural improvements that will be maintained forever, if you know what I'm saying.

Q - Andre Hardy

No. I understand. And thank you for clarifying the difference between near-term and long-term. Then you brought up a point that was going to be my last question which is, you have a huge gap versus the industry in profitability right now. At what point do you start giving that back to customers, if you will, to grow revenues faster? Should I think of it as an absolute ROE target that once you reach you start being more aggressive on pricing? How should I think about that as an outsider?

A - Charles Brindamour {BIO 7012323 <GO>}

Well when you price, depending on the line of business you're in, one would price for anywhere between 12% and 20% depending on the line of business. And our price point is driven by our targeted rate of return by line of business and how we feel from a competitive point of view. I think if you can maintain growth at a decent pace and generate a return above the target, certainly I mean it's part of how we think about the business.

So the notion of looking at our overall ROE outperformance and saying when will you give it back -- well, that's not exactly how we look at the business. I think that from an economic value point of view, you know very well that it's a combination of decent growth with good margins that optimize value. So we're not all about ROE outperformance, we understand the combination of economics. But this is an answer that varies by line of business, Andre.

A - Martin Beaulieu {BIO 15316652 <GO>}

And in Ontario auto we have to remind ourselves that the industry loss ratio -- or combined ratio is close to 110. So outperforming by 14 points is not making that line of business over our targets.

Q - Andre Hardy

Thank you very much.

A - Charles Brindamour {BIO 7012323 <GO>}

Thank you.

Operator

(Operator Instructions) Doug Young, TD Newcrest.

Q - Doug Young {BIO 5640851 <GO>}

Good afternoon. I guess just a point of clarification. I guess, Charles, you're looking for 12 points -- just not to beat a horse to death here. But on Ontario auto 12 points improvement, you're already at 14 points. So basically what you're saying is -- is there incremental more benefits to get beyond the 14 point improvement?

A - Charles Brindamour {BIO 7012323 <GO>}

I think Martin referred to outperformance in relationship with the industry -- with the 14.

Q - Doug Young {BIO 5640851 <GO>}

But you said on the accident year basis there was a 15 point in-quarter benefit on Ontario auto.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes.

Q - Doug Young {BIO 5640851 <GO>}

Already in and you said you thought you could get 6 points from the reforms plus 6 points from your action. So you're at 12 -- so your goal was 12 points, you're at 15 points, is there incrementally more? Or are you already at what you think you can get in terms of --?

A - Charles Brindamour {BIO 7012323 <GO>}

You know, I think if we see in the coming period 6 and 6 I'll be satisfied. In the quarter we're seeing 15 in the current accident year. I'm more than satisfied. But I'm not assuming that this will necessarily carry at that pace forever. I'm saying we're aiming to get 12 within 18 months, we've seen 15 in the quarter, great. But I'm not giving 100% credibility to the 15 in the quarter.

Q - Doug Young {BIO 5640851 <GO>}

Yes, okay. So that's helpful. Then I guess maybe -- it kind of goes back to Andre's question I guess a bit. But you sound like you're getting more comfortable with Ontario auto. But you've been kind of holding back your growth specifically I think in the GTA. What has to happen for you to get more comfortable writing more business in Ontario auto?

A - Charles Brindamour {BIO 7012323 <GO>}

Well I think that's a timing question, Doug. We're getting pretty comfortable now and we're in the process of, in August in particular, to reengage from a marketing and advertising point of view and so on.

Q - Doug Young {BIO 5640851 <GO>}

And so it's basically just getting back out and putting the product in front of the distributors and is that kind of what you're doing at this point in time?

A - Charles Brindamour {BIO 7012323 <GO>}

Well it's on the direct channel in particular. So we're talking billboard, Web advertisement and target marketing and so on. All things that we stopped towards the end of last year. So I think that's the stuff we're working on at the moment.

Q - Doug Young {BIO 5640851 <GO>}

Okay. Then just the -- Mark, I guess the MCT dropped to (227) from (235) sequentially. And I think it was attributed to organic growth and also investment mix. And I guess organic growth wasn't all that strong, correct me if I'm wrong. So it looks like it's more investment mix. Can you talk a bit about what went on?

A - Mark Tullis {BIO 4180270 <GO>}

Yes. So a couple of things. There was a shift a bit more toward the common share portfolio on the asset side. So that's -- and that also impacted our dividend income. So if you look at the -- effective tax rate went down also. The other is that we dividended money to the hold co in anticipation of the AXA transaction. So that came out of FCT calculation but stayed in excess capital.

Q - Doug Young {BIO 5640851 <GO>}

And how much -- I mean, how much was a result of the dividend out?

A - Mark Tullis {BIO 4180270 <GO>}

Well I think if you look at the table -- yes, just -- okay, I'll give you that number in just a minute here. So about, upstream dividend of 9 -- so decrease in MCT of 9.9% due to the dividend, 10%.

Q - Doug Young {BIO 5640851 <GO>}

Okay, okay, that's fair enough. Then just lastly in commercial insurance, it sounds like it's a soft market in your view, you're getting some rate. It doesn't sound like your outlook has improved. But there's been a lot of capital disruption around the world and we've seen rates fall further here. Can you talk about how you think this is going to play out over the next year and a half, Charles, on the commercial side?

A - Charles Brindamour {BIO 7012323 <GO>}

I'll let Byron take a first kick at the cannon, then I'll conclude.

A - Byron Hindle {BIO 16343039 <GO>}

So Doug, we see market conditions as being soft currently and we -- within those conditions we are able to achieve low-single-digit rate increases with our selected segmentation discipline in pricing. Looking forward I think that there are some companies out there who are actually not achieving profitable results in the commercial lines just now.

We are one of the few companies along with AXA actually that are growing market share profitably. So we think that that is going to catch up to companies, some of the soft pricing that's out there ultimately is self-defeating, we think. So the further we go along the more that is going to come into play. But we just don't see it manifesting in the recent or the near future.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes, I think going back to capital disruption, Doug, I mean if you look at that reinsurance market in the First Quarter, there's -- the big reinsurers we've seen across the world 7% to 10%. If you look at the top 30 capital disruption so to speak, it's pretty clear. And I was in London talking with reinsurers a few weeks ago. It's pretty clear that we'll see rate increases in a number of markets around the world for CAT programs.

You know, (inaudible) reinsurers on the line we don't expect to see rate increases ourselves. But in general that is to be expected globally. I think to say that it will filter through in the commercial lines market, I haven't reached that stage in my thought process. I think this is where you see the industry's result as one aspect.

The continued low interest rate environment is another aspect of it, which I think will help over time. And I think the reinsurance market might be the third leg at this stage. But I think the capital disruption is likely to have an impact on the CAT cost as opposed to the core commercial lines of business in particular where we operate which is small; to mid-market.

Q - Doug Young {BIO 5640851 <GO>}

I guess we should see -- if we're trying to gauge it we should see it or if we start to see activity on the reinsurance side that filters to the primary, that then filters possibly into Canada. Is that kind of -- but we're not really there yet, is that kind of why it's I'm hearing?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes, yes, exactly. And I think you're seeing it on the CAT side and that's the first step. But on the primary side it's certainly not obvious to me that there's an impact. But I think when there will be an impact in a number of markets there will be an impact in Canada, that is pretty clear. We're not there though.

Q - Doug Young {BIO 5640851 <GO>}

Great, thank you.

A - Charles Brindamour {BIO 7012323 <GO>}

Thanks.

Operator

Mario Mendonca, Canaccord Genuity.

Q - Mario Mendonca {BIO 2450557 <GO>}

Good afternoon. Charles, kind of a follow-up question to Ontario -- or sorry, personal auto. The improvement in Ontario was 15 points, for the industry -- for the Company as a whole it was still borderline like 900 basis points or 9%. Was there anything in this quarter -- you've offered the statement that you wouldn't put 100% credibility on the result. But was there anything specific about this quarter that would cause such a significant increase?

And I ask the question because last quarter we were having a discussion that was quite the opposite. I for one was a little surprised that it wasn't better. Was there anything you can suggest to us that happened this quarter?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. Yes -- well, are you talking specifically about Ontario or automobile in general?

Q - Mario Mendonca {BIO 2450557 <GO>}

Well I think Ontario really drives the bus here. But for the Company as a whole, personal auto improved significantly, the core claims ratio or the current year (multiple speakers).

A - Charles Brindamour {BIO 7012323 <GO>}

Yes, no, absolutely. I think we've seen improvements across most markets. I think that one thing I've been surprised about in the quarter is severity is dropping in most provinces. Clearly severity has dropped the most in Ontario and therefore that is driving overall the improvement for the Company. But I have no clear explanation as to why severities have been dropping in markets other than Ontario. In Ontario it's pretty clear why it's been dropping. It's been dropping a little more than what we anticipated.

Q - Mario Mendonca {BIO 2450557 <GO>}

Just to stop you there. Severity in Ontario would be -- when you say it's obvious, it must be the reforms then of course?

A - Charles Brindamour {BIO 7012323 <GO>}

The reforms and the actions we've taken, yes. Because (multiple speakers).

Q - Mario Mendonca {BIO 2450557 <GO>}

The fraud actions?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. Because we're talking through an accident year results.

Q - Mario Mendonca {BIO 2450557 <GO>}

So just to recap then, you're saying that in the other provinces you're not entirely sure why the severity is improving, in Ontario it's clearly the reforms. And if it's the reforms and your actions, why wouldn't you put more credibility on the result? If it's explained by reforms and your actions then it would seem to me that you'd want to put some credibility on the result.

A - Charles Brindamour {BIO 7012323 <GO>}

Well it's three months and that's why I think, Mario. And you know, it's more than what we've anticipated. Is it structural or not? I'm not prepared to say it is after three months. That's all. I mean the result in the quarter is credible. But it is a trend, you know. There's -- we have to be cautious about (multiple speakers).

Q - Mario Mendonca {BIO 2450557 <GO>}

I get it. One final way to ask the same type of question. But was there anything that would suggest there was a -- sort of a shift from one quarter to the next as in claims could very well just move higher next quarter because of some event or some circumstance that would cause claims to move into a separate quarter?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. Well -- no, I don't think that there's a timing issue here, Mario. I would say that in terms of our level of optimism, which has gone from positive neutrality with caution Q4 last year to a pretty positive view this quarter, is that what we've seen in the quarter in the claims side of things in Ontario is that in the previous quarters the fact that we said no to a number of demands for fraudulent (clinics) really helped the results.

In this quarter the number of demands that were presented to us dropped quite a bit. And to me that's a shift in the dynamic that I've noticed this quarter, which leads us to be a little more optimistic this quarter.

Q - Mario Mendonca {BIO 2450557 <GO>}

And just so I understand that, you say no once, they don't come back because they know they're going to get another no answer?

A - Charles Brindamour {BIO 7012323 <GO>}

Some come back. But the amount of new demands has dropped in the quarter beyond what we would have anticipated as a result of the reform. Therefore we think that there is a shift in the dynamic of the fraudulent clinic here, which is a good sign.

Q - Mario Mendonca {BIO 2450557 <GO>}

Okay. Thank you very much. I guess only time will really tell on this. But appreciate your color.

A - Charles Brindamour {BIO 7012323 <GO>}

Exactly.

Operator

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

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 4 p.m. today until Thursday, August 11. The replay number is 1-800-642-1687 and the pass code is 7742-5178. A transcript will also be made available on our website. Finally, our Third Quarter results for 2011 will be released on Wednesday, November 2. That concludes our conference call. Thank you. And have a good day.

Operator

And this concludes today's conference call. You may now disconnect.