Q1 2011 Earnings Call

Company Participants

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

Other Participants

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

Presentation

Operator

At this time, I would like to welcome everyone to the Intact Financial Corp. First Quarter Earnings 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)

Mr. Dennis Westfall, you may begin your conference.

Dennis Westfall {BIO 15155973 <GO>}

Thank you, Simon. 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 on forward-looking statements, which also applies to our discussion on the conference call today.

Here with me today are Charles Brindamour, CEO; Mark Tullis, CFO; Martin Beaulieu, Senior VP of Personal Lines and Byron Hindle, Senior VP of Commercial Lines. We will start with formal remarks from Charles and Mark followed by a Q and A session. Martin and Byron will be available to answer questions during that session.

With that, I ask Charles to begin his remarks.

Charles Brindamour {BIO 7012323 <GO>}

All right thanks, Dennis. This morning we reported First Quarter net operating income of CAD101 million, or CAD0.91 per share, a solid start for the year but down slightly from the particularly strong CAD0.95 per share a year ago.

Continued positive results from our actions led to a very good performance in the quarter with an underwriting profit in all lines of business. Overall our combined ratio of 94.6%, up from last year's exceptional 93.2%, reflects more normal weather patterns and higher catastrophe losses.

Net income for the quarter was CAD157 million, or CAD1.42 per share, up 19% from last year bolstered by higher investor gains. Mark will expand on these gains in a few moments.

From a top-line perspective, the 3% increase in our premiums is not a pace with which we're satisfied. But it does not indicate an overall slowdown in our growth strategies. The current pace reflects solid growth in our personal property and commercial businesses, both of which grew at 5% partly offset by our continued disciplined approach to new business in Ontario auto, our largest market.

We maintain our commitment to organic growth initiatives and intend to leverage the benefits of improved industry pricing conditions, primarily in personal lines. It is my expectation that we can return to an overall growth rate in the mid-single digits by the fall but, as our results continue to illustrate, we're a disciplined shop that emphasizes growth in the bottom line over growth in the top line.

Overall our underwriting performance and steady investment income resulted in an operating ROE of 14.8% for the last 12 months and an ROE of close to 18%, even with our more than CAD780 million in excess capital.

Our book value per share increased 11% from a year earlier to CAD26.91. This is evidence that our strategies and action plans are working.

Our outlook for the P&C Insurance industry is largely unchanged from what we communicated last quarter. 2010 very much played out as we had anticipated. The industry recorded mid-single digit premium growth in auto driven by Ontario, upper single-digit growth in personal property in reaction to years of heavy water related losses and more frequent and severe storms and low single-digit growth in commercial lines. We expect more of the same this year, which should translate into a growth rate for the industry in the mid single-digit range.

From an underwriting perspective, the industry ended 2010 with a combined ratio close to 101%. For 2011 we anticipate some improvements in personal lines resulting from auto reforms in Ontario as well as continued premium increases in personal property. But do not foresee the industry's earnings improving materially.

Looking at the industry's ROE, we do not expect much improvement in the near term from the 7% level that it recorded in 2010. Although underwriting might improve slightly at the industry level, we anticipate that this would be offset by the negative impact on investment income from the low yield environment for industry players.

Looking specifically at Intact Financial, I'm very confident that we will out perform the industry's ROE by more than our stated objective of 500 basis points in 2011. Specifically for Ontario, while the true effectiveness of the reforms will not be known for several months, we remain cautious but increasingly optimistic that the benefits of the reforms will materialize. It is important to reiterate, however, that the reforms were not intended to address the degree of fraud that became apparent in the last year. That's why, as a Company, we're constantly refining our fraud containment measures well beyond what the reforms were meant to accomplish.

We've stated in the past that a key difference with the recent reforms was to the government's commitment to an ongoing review rather than a five-year increment review. This is something that is quite positive to us and this was clearly illustrated roughly six months in the latest reform, as the late March Ontario budget included steps to further reduce fraud including new rules to insure that treatments are provided as invoiced and the creation of an industry anti-fraud task force.

We estimate that the combined ratio of the industry in that province is still well in excess of 110% and that premiums remain inadequate. As such, level of approved rate changes for the industry announced in the past two quarters is a positive sign but does not fully address the inadequacy in the system. Outside of Ontario conditions remain stable.

Pricing conditions in commercial lines remain soft, although we've 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're able to grow units 2% in conjunction with putting through over 2% higher rates while our reported top-line growth was close to 4%.

In conclusion, the strong performance we delivered throughout 2010 prevailed again during the early months of this year. The strong results of our home and commercial insurance activities during the quarter confirm the sustainability of our action plans. The performance of our personal auto insurance portfolio remains robust as we maintain our disciplined approach to managing growth in Ontario and continue to deploy effective initiatives to counter the high prevalence of fraud in that province.

Given the quality of our operational platforms and the flexibility provided by our strong financial position, we believe that we will continue to out perform the industry and strengthen our leadership position.

With that, I'll turn the call over to our CFO, Mark Tullis.

Mark Tullis {BIO 4180270 <GO>}

Thanks, Charles. Today we announced solid First Quarter operating results with a 12-month trailing operating ROE of 14.8%. The book value continues to grow, up 11% from a year ago. Top-line growth of 3% was healthy in most lines of business and earned premium growth reached 5%.

Underwriting results showed a combined ratio of 94.6%, only 1.4 points above last year's exceptional results. This year less favorable weather was offset by benefits, both from Ontario auto reforms and from our aggressive anti-fraud measures. Annualized favorable prior year development of 7.9% was in line with last year and above our long-term average of 3% to 4%.

Most of the excess was due to development and short tailed lines of business on the heels of a mild December. Also, other things being equal, First Quarter should have a somewhat higher level of prior year development since all of the development from prior quarters is attributed to the year.

Slides nine and 10 show results by lines of business. In personal auto, top-line growth slowed to 1%, as we maintain a prudent approach to new business until we see that Ontario auto reforms unfold as expected. Our disciplined approach to Ontario auto market, including our focus on managing fraud, has led to a significant loss ratio out performance versus the industry, which accelerated to more than 15 points in 2010. Overall the combined ratio remains stable at 97.7%.

In personal property, top-line growth continues to reflect low double-digit premium increases, partly offset by a 1.5 point drop in units. We have increased our segmentation initiatives in the past 12 months and we are comfortable losing unprofitable business. In fact, the retention is highest for the most profitable customers.

The combined ratio of 92.3% was strong but trailed last year's unusually strong 87.8% due to more normal weather conditions. Although our action plan has delivered the targeted results, we will continue efforts to outperform the industry in this line of business including claims management, product changes and rate actions. In 2010 we outperformed the industry in personal property by almost two points, the best result since 2004. And we are hoping to further expand this advantage in the period to come.

Commercial auto business reported solid results in the quarter, both from a top-line and bottom-line perspective. Premiums and units each increased 7%, while the combined ratio of 91.7% was strong, improved from last year's 95%.

Commercial P&C premiums increased 4%. While market conditions remain very competitive for new business, retention rates are solid and rate increases averaged 2%.

Underwriting income of CAD19 million was in line with last year, as the combined ratio remains strong at 89.9%.

On the investment side, we generated about CAD73 million in net interest and dividend income. We expect this level of investment income to continue in the near term, as growth in invested assets is likely to continue to be largely offset by the impact of the low yield environment.

We recorded net investment gains of CAD84 million excluding debt securities carried at fair value through P&L compared to gains of CAD44 million in Q1 of last year. The bulk of the gains resulted from our annual First Quarter rebalancing and also the normal quarterly rolling of our common share portfolio. This was magnified by continuing strong capital markets and the unrealized gain position of the portfolio.

The adoption of IFRS did not have a meaningful impact on our operating results. Slide 12 illustrates that for the full year 2010, the impact on a per share basis was only CAD0.03. The larger impact on 2010 EPS and ROE is due to realized gains on assets whose values were restated upon transition to IFRS.

Slide 13 highlights the impact of IFRS on our financial position. As previously communicated, book value was reduced as IFRS requires accumulated actuarial pension losses to be charged to retained earnings upon transition. This resulted in a CAD0.90 per share hit to equity. There was also a reclassification of CAD228 million of unrealized losses from OCI to retain earnings pertaining to retroactive equity impairments, which would have occurred prior to 2010 under IFRS rules.

As previously communicated, this re-class had no impact on book value or excess capital but does improve our unrealized gain position.

As shown in slide 14, we ended the quarter in a strong financial position with approximately CAD784 million in excess capital after returning CAD122 million in the form of share buybacks during the quarter. The ratio of debt to total cap at 14.4% remains below our target ratio of 20%. With over CAD1 billion in excess capital and additional debt capacity, we have plenty of room to return capital to shareholders while retaining the financial flexibility to pursue strategic growth opportunities.

In summary, we remained well positioned through continued focus on operational excellence. We intend to leverage our strengths and to take advantage of opportunities in the market.

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

Dennis Westfall {BIO 15155973 <GO>}

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

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Tom MacKinnon with BMO Capital.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Question or two quick questions here. The first is on the favorable development in the quarter and, as I understand at what Mark said, it was largely due to, in short term, due to some of the mild weather in December and the First Quarter generally being higher than other quarters really because it all relates to the prior period. Now, first of all am I correct in that? And secondly if -- is there a possibility that the trend could run somewhat above your long-term average going forward if Ontario auto turns out to be a little bit more favorable than expected or if actually Ontario auto just turns out to be kind of as expected and would seem to suggest your somewhat optimism there and I have one follow up.

A - Charles Brindamour {BIO 7012323 <GO>}

Okay why don't I start with that one, Tom? First of all, your understanding of what Mark said is correct. If you looked at the past five or six years First Quarter favorable development, it's been slightly above the long-term average. The second thing that is worth talking about in the First Quarter favorable development is that there's been no change in actuarial assumption to lead to that favorable development. This is just how claims have developed.

A big chunk of the favorable development was short-term or short-tail driven. Therefore, these are reserves that we've set up three/four months ago that have been released in the quarter. So in my view a pretty good quarter from a favorable development point of view.

The second part of your question is Ontario. I think that's a really good question from my point of view. I mean it's pretty clear with regards to Ontario that we are prudent and you picked up very clearly that we're increasingly optimistic and I would say that our optimism, as it is early, is not fully reflected or is not fully reflected in our position in reserving. The range is pretty wide. I would say that our actuaries are cautious. So it is not impossible that the favorable development be slightly above the long-term average in the near term. I'd go as far as that at this point and I think as the year progresses we'll get certainly some more clarity on that.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay thanks for that and then the quick follow-up, the tax rate on the operating side, Mark, may seem to be a little higher than I think than the run rates and is there any kind of one-time stuff in there and how should we look at that?

A - Mark Tullis {BIO 4180270 <GO>}

Sure so I think other things being equal you would have expected a drop. The statutory rate dropped about two points from last year to this year and because we could pay zero on the dividends that would result in about a 1.5 point drop in the blended rate and in fact the rates went up a bit from about 23% to 24% and that's basically all noise. We had true ups last year in the First Quarter and true ups this year in the First Quarter that went the opposite direction and you can consider about half, kind of split the difference and you'd get the idea sort of what more to expect on an ongoing basis.

Q - Tom MacKinnon {BIO 2430137 <GO>}

I mean I'm looking in the past that rate was probably closer to 20%; is that how we should be looking at that rate or even just slightly below that?

A - Mark Tullis {BIO 4180270 <GO>}

Yes. So I'm looking at I think in First Quarter the rate last year was around 23% and this year it was a little more than 24% and again this is blended with dividends. I think if you take out the noise last year it might have been 24.25/24.5% and this year if you take the noise out the 24% might go down to 23%.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay.

A - Mark Tullis {BIO 4180270 <GO>}

All right but, again, the big thing you need to remember is the dividends are going to have much more effect quarter-to-quarter on the blended rate than this kind of stuff.

Q - Tom MacKinnon {BIO 2430137 <GO>}

So this -- that rate you're quoting is that include the dividends or is it exclude the dividends?

A - Mark Tullis {BIO 4180270 <GO>}

Include, yes, yes.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay thanks very much.

A - Mark Tullis {BIO 4180270 <GO>}

Because the statutory rate again is in the 28% range.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Right great.

Operator

Andre Hardy, RBC Capital Markets.

Q - Andre Hardy

On the automobile direct premium written growth of 1%, presumably when you say you're cautious about Ontario auto it's really the Greater Toronto Area but perhaps I'm wrong. I guess my question is what would the direct premium written growth be excluding either Ontario or GTA, whichever way you want to phrase it?

Related to that, what gives you the confidence now to start writing more business where you've been more conservative in the last six to nine months? Is it the optimism on the reforms that you cited earlier?

And lastly, how much visibility do you have that you indeed should be back to mid single-digit premium growth by later this year in that line of business?

A - Charles Brindamour {BIO 7012323 <GO>}

There are many parts to your question. We don't want to quote growth by province here so I think we'll skip the first part of your question. Let me talk about why -- so you're right. The GTA is where we've been more cautious and if you look at our advertising presence it all but disappeared in the GTA nine months ago.

And so one has to understand, if you look at the nuts and bolts of marketing and advertising, there is a time lag between the moment where you decide to crank things up and the moment where you have ads on TV and billboards established. I mean, there can be up to six months time lag. So we've made those marketing and advertising calls earlier last year and therefore, as we see signs now, we are about to ramp up and started to ramp up in the province in general, more carefully in the GTA but there's a lag there because before this will have an impact.

The signs that we're seeing and they are on many fronts, we're seeing that what the reforms were meant to bring is actually happening, whether it's the number of claims and the minor injury category, the assessment cost and so on, things are panning out as we anticipated from the reforms' perspective.

We're also seeing signs that are positive as a result of the action plans that we've established internally to fight fraud and I would say more important from my perspective than what the reforms have been and will be doing quite frankly and I think that, as the weeks and months evolve if we see stability in what we've observed today, it will give us a greater comfort to crank things up even in the GTA later this year. And I would say that we have started to crank things up a bit outside the GTA where we had slowed down in the past few months and when I look at what my team is anticipating in the coming months, that's where I am coming from where I see that I expect we'll have slightly better growth in the fall.

Q - Andre Hardy

Okay let me rephrase perhaps the first part of the question and ask it this way. If the industry is growing auto premiums in the 5% range, which correct me if I am wrong is a rough number, the under performance at Intact is it driven basically entirely by the caution in Ontario or is there more than that?

A - Charles Brindamour {BIO 7012323 <GO>}

It's in large part the caution in Ontario.

Q - Andre Hardy

Thank you for all that detail.

Operator

Paul Holden, CIBC.

Q - Paul Holden {BIO 6328596 <GO>}

First question is related to Alberta, the rate for their recently announced that they intend to change to file an approved system, how do you view that potential change? And based on your discussions with the Rate Board, do you have any sense of the timing of that change?

A - Martin Beaulieu {BIO 15316652 <GO>}

Well the Rate Board there has been promoting this approach for the past two years and that comes from discussions that we've had with governments over the course of the last three, four years so, from our perspective this is positive that there would be more flexibility in the way rates will be adjusted by individual companies in that market. And in terms of timing, it's difficult at this stage to see if it needs to go through government to be changed and I think this has been on the table for a few years already so from my perspective it's not imminent.

Q - Paul Holden {BIO 6328596 <GO>}

Okay got it. Second question relates to commercial auto saw a nice increase year-over-year in terms of written insured risks, sort of what are you doing in that market to grow your market share?

A - Byron Hindle {BIO 16343039 <GO>}

The first thing I would like to point out is the commercial auto segment is somewhat different from the private passenger automobile. We have generally much greater proportion of the risk would have collateral benefit and it has historically performed very profitably in virtually all of our market segments so it's a very profitable line of business and we have been refining our pricing and our segmentation right across our portfolio over the last 18 months to try to position ourselves more competitively to pick up our growth profile in this very profitable market. And I think what we see is that we are gaining success from that approach.

Q - Paul Holden {BIO 6328596 <GO>}

Then last question maybe for Charles if you can provide us a little bit of update what you're seeing on the M&A front. Do you think there's today do you see more potential for transactions versus say six months ago or 12 months ago?

A - Charles Brindamour {BIO 7012323 <GO>}

Paul, I think a quarter or two ago I've expressed the view that if I compared the past six months to the previous three years I felt this was a slightly better environment where people thought through their options and, as such, my view has not changed.

Q - Paul Holden {BIO 6328596 <GO>}

Okay no further questions, thanks.

Operator

(Operator Instructions) Doug Young, TD Newcrest.

Q - Doug Young {BIO 5640851 <GO>}

Just wanted to go back to the reserve development question and I guess maybe bigger picture, I mean you've been running above your historical average for some time and I am just curious is there a structural way that you're running your business today that's different than before that would mean that that ratio, that reserve development, would be above that or would continue to run above the 3% to 4% historical average?

A - Charles Brindamour {BIO 7012323 <GO>}

No, Doug, I don't think so. I think that we're doing lots to improve our performance in general and we're cautious from a reserving point of view to reflect the fruits of the action plans that we're taking until we're comfortable that those actions are sustainable but beyond that there's nothing that has changed structurally that would lead to a different outcome and, Mark, maybe you want to add.

A - Mark Tullis {BIO 4180270 <GO>}

Let me just -- if you look back over the past few years frequently in Q1 we talk a lot about prior year development so last year we had a lot. I think the year before it went the other way. Keep in mind in Q1 we're reporting as prior year development all the development from the reserves that we set up three months ago, whereas in a typical quarter that would be flushed out in the current year results. So there tends to be -- it's more reflective if you have a good immediate quarter there tends to better development.

Q - Doug Young {BIO 5640851 <GO>}

Okay so I guess you wouldn't be surprised as we move two, three, four years down the road that this does migrate back to the 3% to 4% as you get more comfort with the action plans that you've taken and the industry environment in general? Is that a way to read it?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes I think that that's a way to read it, Doug, yes.

Q - Doug Young {BIO 5640851 <GO>}

Okay going to just the commercial insurance side, I guess you're not expecting significant price increases over the near term and correct me if I am wrong. That's the way that I read your comments. But you are starting to grow in different segments and so I am just wondering what are the segments where you're seeing opportunities to grow and are you starting to grow -- are you starting to get more comfortable going into that mid market where there is that huge opportunity to grow but you can wait in until price rationality gets the -- improves? Are we getting to that point at this stage?

A - Byron Hindle {BIO 16343039 <GO>}

Doug, I think the -- we do approach this on a very segmented basis so we are, as you say, picking up some growth in the P&C portfolio but it is very segmented. There are certain markets in the western part of the country, which are quite attractive, performing very well and we are growing into those markets. There are other markets and I could cite the farm, realty, restaurant, which are more challenged and these would be markets where we are actually shrinking our unit base, even as we grow the portfolio overall. So it's very much a selected approach to the growth that we are achieving.

We do not see a hardening in rates beyond the 2% to 3% that we're able to with our pricing techniques implement in the marketplace over the next number of months. But those increases that we do implement are focused exactly where we think we can benefit from them most. So they are focused on actually controlling our profitability and our growth in some the more challenged market segments.

A - Charles Brindamour {BIO 7012323 <GO>}

I think, Doug, with regards to mid sized business per se, as we've talked about in the previous quarters, there are a number of things that we've done. We've worked on the product. We've worked on the expertise. We beefed up our loss control units from coast to coast. That is the inspection folks that bring a fair bit of value add there. We've aligned ourselves better with brokers that are very strong in the mid market business and, as such, we've seen that segment expand faster than the small segment so, while it is a smaller portion of our portfolio, we've seen an expansion of about 11% while our commercial P&C book is growing at 5%.

I think Byron approaches it from a pricing point of view because the core of our growth strategy at this point in time is to be very, very targeted in that segment and to find those pockets of profit where demand is there and pricing is adequate. And I think we'd rather not necessarily lay out what those specific segments are during the call, rather keep that for ourselves and our brokers for now.

A - Byron Hindle {BIO 16343039 <GO>}

And in the growth that we are achieving in the mid market, the 11% premium growth in Q1 versus the year ago, Doug. This is growth that is achieved with the same disciplined approach so we are providing our underwriters the tools so that they see the profitability of the business as they're quoting on it and there are tolerances that -- and guidelines that they would follow when they are pursuing the winning of the business and we monitor this very closely to ensure that we are, in fact, adhering to our guidelines.

A - Charles Brindamour {BIO 7012323 <GO>}

And let me add maybe a bit of color so you visualize what we're talking about. We've seen signs of change in the market. We went from rate decreases to rate increases but we sit still very competitive. It's still very competitive in the mid-sized market. The demand for quotes is up north of 50%. Our overall growth in that segment is nowhere near the sort of level that the demand for quote would generate because our ability to close, our ability to sell on these quotes is still low and to me that's a sign that the market is still very competitive. But there certainly is a fair bit of increased interest for what we have to offer, product, service.

Q - Doug Young {BIO 5640851 <GO>}

And maybe just on the commercial side, obviously there's been quite a few disasters of late. Byron or Charles, when you chat with your industry competitors out there is there a sense that the pricing rationality or increases could pick up momentum as a result?

A - Charles Brindamour {BIO 7012323 <GO>}

Well let me first say, Doug, that we don't chat with our competitors, period. And let's have Byron explore the impact that those disasters have had on the reinsurance marketplace, which could be an additional trigger for a better environment from a pricing point of view.

A - Byron Hindle {BIO 16343039 <GO>}

Doug, the Q1, as we have all read I think in the press, has been a very challenging one from a world perspective in terms of the catastrophes in Australia, in New Zealand and most recently, in Japan. So these are significant. I think there was a survey done just in late last month of the 35 largest reinsurance companies in Canada by one of the brokers who has found that these losses are equivalent to about 8% of their insurer shareholder fund base. So they're significant. And but it's at this point it's kind of early for us to say that this is going to trigger a hardening in rates. Certainly the industry is more vulnerable to continuing high levels of catastrophes than it was at the beginning of the year. So we're just going to watch this. It's a little early for us to make a call on that.

But in our case, Intact, we buy catastrophe reinsurance in world markets and it's -- we want to take a close look at what's happening in those world markets. We buy about CAD60 million worth of cover each year. That works out to about 1.25% of our premium base so it's not a huge impact but it's one that we monitor.

A - Charles Brindamour {BIO 7012323 <GO>}

This would not move the needle from a reinsurance cost point of view for us. I think that's point number one. I think point number two, as Byron says, if you look at the big reinsurers a big chunk of capital was taken out in the quarter. We say 8%. I mean it is quite meaningful so it would be surprising that there would be no impact in global rates going forward but it is early to conclude, as Byron is saying.

Q - Doug Young {BIO 5640851 <GO>}

Okay and just one last one and I'll re-queue. The OSFI obviously put out a discussion paper, the potential impact 14 points on the MCT. I know it's not significant for you guys, given your capital position but are there any updates on that front? Thanks.

A - Mark Tullis {BIO 4180270 <GO>}

Yes they're due -- they've been continuing negotiations. I was at an industry conference with a lady from OSFI. I think it was a week and a half ago now. OSFI have been further considerations after that. I think the final numbers that come out will be significantly improved from the 14.0 number and there continue to be discussions on that.

I think the other thing to keep in mind, Doug, those kind of numbers assume no other adjustment so, to the extent there's -- you can measure what it is assuming no other adjustments but obviously there will be -- people will react as a result.

Q - Doug Young {BIO 5640851 <GO>}

Thank you.

Operator

Stephen Boland, GMP Securities.

Q - Stephen Boland {BIO 5546446 <GO>}

Morning, just one question again on Ontario auto, you mentioned that you're increasing your focus, your initiatives on anti-fraud. I think with your scale and I guess and the size a lot of other competitors probably don't have the ability to do that kind of focus or put in initiatives. Do you expect this will give you a competitive advantage over the next two to four years?

A - Charles Brindamour {BIO 7012323 <GO>}

Well that's the objective. I think there is obviously improving our bottom line in absolute terms but clearly maintaining or expanding our advantages is important in that thought process so I think a focus on program that uses our size in executing quickly and effectively on that program is I would say a big focus of the organization at the moment and I am quite optimistic about what I've seen so far. I think when you look at automobile Ontario our out performance is pretty big right now and partly because we've moved faster from the pricing point of view so I see this fraud program as a way to maintain or expand our out performance as our competitors catch up from a pricing point of view over time. And Martin, anything that you want to add?

A - Martin Beaulieu {BIO 15316652 <GO>}

I think it's complete.

Q - Stephen Boland {BIO 5546446 <GO>}

I'm not trying to nitpick too much but when I read your MD&As for the last two or three quarters you mentioned improvements 18 months, 18 months, 18 months. I am not sure if I am just -- I mean, is it taking longer for the improvements to roll in or is it it's the timing is a little bit uncertain?

A - Charles Brindamour {BIO 7012323 <GO>}

Are you talking about home?

Q - Stephen Boland {BIO 5546446 <GO>}

I believe there's something in the MD&A just about the outlook should see improvement in 18 months, in Ontario auto I thought it was so is that -- is it still -- is it meeting I guess your time line in terms of seeing improvements?

A - Charles Brindamour {BIO 7012323 <GO>}

I'll let Martin comment on that.

A - Martin Beaulieu {BIO 15316652 <GO>}

Well the reforms are -- have kicked in on September 1st so it will take 12 to 18 months for these reforms to fully be reflected in terms of the procedural changes that were effective immediately but also the coverage that is being changed and that applies only at renewal so it will take at least that period for the full policy portfolio to be affected by the reforms and then the changes that are expected from the claim savings to be -- will then be within reach for the insurers.

A - Charles Brindamour {BIO 7012323 <GO>}

But I think getting back to the 18 months I was wondering where that was coming from but indeed you're right. This is the case. The fact that the policy is 12 months, policies need to renew. It will take 18 months. There is nothing at this point that would lead us to say that the improvements will not have materialized over that period. I think bottom line is that the signs we're seeing are positive or prudent about those signs.

A - Martin Beaulieu {BIO 15316652 <GO>}

And it takes a bit of time for the signs to become credible so that's why we're not yet confirming well, all of this is materializing but that what we see is very positive.

A - Charles Brindamour {BIO 7012323 <GO>}

There is nothing that would lead us to retract from statements we've made in the past, on the contrary.

Q - Stephen Boland {BIO 5546446 <GO>}

Okay thanks, guys.

Operator

There are no further questions at this time. I'd like to turn the call back over to our presenters for any closing remarks.

A - Dennis Westfall {BIO 15155973 <GO>}

Thank you, everyone, for participating. The webcast will be archived on our website for one year. Telephone replay will be available at 1 PM today until Wednesday, May 11th. The replay number is 1-800-642-1687 and the pass code is 55130188.

A transcript will be made available on our website. Please note that our Annual and Special Meeting of Shareholders will be held at 2 PM today at the Art Gallery of Ontario. The meeting will be webcast on our website at www.intactfc.com.

Finally, our Second Quarter results for 2011 will be released on Thursday, August 4th. That concludes our conference call. Thank you. And have a good day.

Operator

Ladies and gentlemen. that concludes today's conference call. You may now disconnect.