Q4 2012 Earnings Call

Company Participants

- Alain Lessard, SVP, Commercial Lines
- Charles Brindamour, CEO
- Dennis Westfall, VP, IR
- Mark Tullis, SVP & CFO
- Martin Beaulieu, SVP, Personal Lines

Other Participants

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

Presentation

Operator

Good morning. My name is Megan and I will be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Corporation Fourth Quarter 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. Dennis Westfall, VP of Investor Relations, you may begin your conference.

Dennis Westfall {BIO 15155973 <GO>}

Thanks, Megan. 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.

Joining me today are Charles Brindamour, Chief Executive Officer; Mark Tullis, Chief Financial Officer; Martin Beaulieu, Senior Vice President, Personal Lines; and Alain Lessard, Senior Vice President, Commercial Lines. We will start with formal remarks from Charles and Mark, followed by a Q&A session. Martin and Alain will 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 announced the Fourth Quarter net operating income of CAD194 million, or CAD1.42 per share, 25% higher than last year reflecting our strong underwriting results. Overall, the exceptional performance in personal property offset actions taken in our personal auto business.

I believe our combined ratio of 92.1% is indicative of the true underwriting performance in the quarter, despite the large year-over-year movements within our personal lines businesses.

From a top-line perspective, premium growth of 7% was in line with our expectations for the quarter. You may recall from our investor day in November that I indicated that the JEVCO portfolio would require more re-underwriting than did the AXA book. So it is important to bear in mind that this re-underwriting did not impact Q4 growth as we remain in the early stages of the integration.

Our strong underwriting performance as well as CAD102 million of net investment income resulted in an operating ROE of 16.8% while book value per share increased 11% from a year earlier. The confidence in our earnings outlook, as well as solid financial position, enabled us to increase our quarterly dividend by 10% to CAD0.44 per share. This marks the eighth consecutive year of dividend increase for IFC's shareholders.

Before taking a look at our outlook for the industry in 2013 I want to make a few comments on the performance of our personal lines businesses in the quarter. The 103% combined ratio in personal auto is sure to raise some questions. So let me give you our view of the quarter by describing some of the larger moving parts, starting in Ontario.

First, it is important to stress that there is no change to our view of the effectiveness of the Ontario reforms. For a number of quarters now we have indicated that although we saw strong field results in Ontario we maintain our prudent reserving approach given the level of uncertainty in the environment. This was again the situation in Q4.

However, given the increased uncertainty regarding bodily injury claims, we increased our provisions. Second, a court decision from this past fall further expanded the definition of catastrophic impairment in accident benefit. So reflecting this expanded definition impacted current year results and led to a portion of the unfavorable development recorded in the quarter. Despite this adjustment our Q4 accident benefit loss ratio in Ontario was slightly improved versus Q4 of 2011.

Turning to Alberta, a system that has been quite stable since its own reforms in 2004, we have seen an increased level of activity on bodily injury files in litigation in recent months while certain types of injuries became excluded from the minor injury cap. So given these observations for Alberta, we prudently moved to stay ahead of this potential trend by increasing reserves for all accident years since the 2004 reforms, further contributing to the unfavorable development experienced in the quarter.

Having recently held a number of discussions with our chief actuary and numerous claims adjusters, I feel comfortable stating that we believe this quarter results are more the result of a number of adjustments than a turning point in the recent solid performance of our personal auto line of business. Despite the results in Q4, this business generated a full-year combined ratio of 95.7% versus 90.9% in 2011. Importantly, excluding the impact of cats as well as prior year development, the underlying loss ratio was unchanged from year over year.

Moving to personal property, clearly a 67% combined ratio is not something that anyone would expect. Looking at the 22 points loss ratio improvement versus the Fourth Quarter last year illustrates that 11 points of the 22 points relate to higher favorable prior year development, of which, in my view, a meaningful portion is one time in nature. The lower level of cat losses represents a further 5 points, while the remaining 6 points relates to our current accident year performance.

For the full year of 2012 we reported a combined ratio of 93.5% despite more than 10 points of losses from cats. So adjusting for some nonrecurring favorable prior-year development our results would have come in just above 95%, the minimum acceptable for this line of business as I have mentioned numerous times before. So to me, clearly, our actions are paying off but it is important to maintain our focus, in particular in the Alberta market, given the continued challenging environment caused by severe weather events.

When it comes to our overall outlook for the industry, growth last year appears to have played out largely as we anticipated. As the drivers behind this growth will likely continue to impact 2013, we foresee similar growth in the coming 12 months. We expect low single-digit growth in personal auto as well as in commercial and upper single-digit growth in personal property.

Risk to the upside exists in commercial P&C as broader signs of hardening are emerging for an expanding portion of the market. The low interest rate environment should support our outlook and will actually lead to firmer conditions over time.

From an underwriting perspective, the industry is tracking to about 97% combined ratio after the first nine months of 2012. So for 2013 we anticipate some improvement in personal property, largely driven from the continued hard market conditions in that line of business as well as potential loss mitigation actions. We do not foresee significant change in the loss ratio of personal auto while commercial lines should also remain relatively stable.

Turning to the industry's ROE, we do not expect material improvement in the near term from the 9% level at which it stood after three quarters. Although underwriting might improve slightly, we anticipate this would be offset by the negative impact on investment income from the low yield environment.

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

So Mark will provide updates on our two integrations in a moment. But overall I would say that both are progressing quite well and, on many fronts, we would say better than we expected. I am impressed with what has been achieved to date and I want to thank all our employees from coast to coast for their hard work in ensuring that our customers and brokers continue to receive what is, in my view, world class service.

In conclusion, I believe the importance we place on underwriting results will continue to serve us well as the environment of low interest rates persists. Given the quality of our operations, the flexibility provided by our financial position. And the additions of AXA and JEVCO, we firmly believe that we will continue to outperform the industry and strengthen our leadership position.

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

Mark Tullis {BIO 4180270 <GO>}

Thanks, Charles. Today we announced strong operating income driven by underwriting results. Earnings per share of CAD1.32 were more than double a year ago, reflecting improved operating results, higher investment gains. And reduced acquisition-related expenses.

On an adjusted basis, excluding the acquisition-related items, we recorded EPS of CAD1.51, 32% higher than Q4 of 2011. Q4 marked the First Quarter with AXA in the prior year comparable and was also the first full year with contributions from JEVCO. Premium growth of 7% was largely driven by the addition of JEVCO. But we also generated organic growth at a low single-digit level.

Slides 10 and 11 show results by line of business. In personal auto the 9% growth in premiums reflects the addition of JEVCO as well as organic growth. From an underwriting perspective, the 10-point combined ratio deterioration is largely attributable to the unfavorable prior-year development that Charles discussed.

The change in our underlying loss ratio, excluding cats and prior-year development, was 3 points, reflecting reserve actions as well as higher claims frequency in Alberta. Growth in personal property of 3% was driven by higher rates. It is worth highlighting that the JEVCO book included only a small amount of personal property business.

Underwriting results were exceptionally strong with several moving parts as Charles described. Looking specifically at the current year loss ratio, excluding cats, we reported results that were almost 6 points better than last year's very strong performance. This is attributable to the relatively benign weather from a property perspective as well as continuing efforts to improve results in this line of business.

The combined ratio in commercial P&C was relatively unchanged from the prior year and commercial auto reported another very strong quarter with a combined ratio of 84.2%. For the full year the commercial auto combined ratio was 81.5%, the fifth consecutive year with a combined ratio below 90%.

The expense ratio in total was 1 point higher in 2012 versus 2011. This change was the combined effect of an improvement in general expenses reflecting AXA-related expense synergies offset by an increase in commissions. This commission increase is due to mix differences with a full year of AXA business as well as increased profit commissions.

Keep in mind that a portion of commissions are variable in nature and are tied to underwriting performance so that improvements in the claims ratio are partially offset by higher commissions.

On the investment side, net investment income of CAD102 million in the Fourth Quarter was flat versus a year ago as additional investments, primarily related to JEVCO, were offset by a decline in yields. Our market-based yield of 3.6% was down from 3.9% in Q4 2011. We expect the prevailing interest rate environment to essentially offset the growth in our investments in the coming quarter.

Our financial position remained solid at the end of 2012 with an MCT of 205%, nearly CAD600 million in excess capital. And book value per share of CAD33.03, 11% higher than a year ago. We ended the quarter with a debt-to-total capital ratio of 18.9%, below the target of 20%.

We have made good progress on both of our integrations. For AXA Canada, system shutdown projects are well under way and we should be complete by the first part of 2014. We maintain our CAD100 million after-tax synergy target and expect to largely reach this run rate by the end of 2013 and the remainder when system shutdown is complete. We estimate the run rate at CAD52 million at the end of 2012.

We continue to expect the JEVCO acquisition to be accretive to net operating income per share in 2013. Annual synergies amounting to CAD15 million after-tax are expected from a combination of external loss adjustment expense reductions, shared services savings, reinsurance. And system-related cost savings. And we expect the run rate to be at this level by the end of 2014.

In summary, we are pleased with the significant progress made to date on both integrations. We begin 2013 with a solid financial position and excellent long-term earnings power. These, combined with our disciplined approach to the business, provide a strong foundation for continued growth.

With that I will turn the call back to Dennis.

Dennis Westfall {BIO 15155973 <GO>}

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

Questions And Answers

Operator

(Operator Instructions) Tom MacKinnon, BMO Capital.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Thank you very much. Good morning. Just a question with respect to the cat definition in Ontario.

As I recall, the Fourth Quarter of last year you did a one-time kind of reserve increase in light of a recent court decision then on an expanded cat definition. What's different this time that maybe has expanded a little bit further? And can you tell us about the process of what you went through in terms of doing the reserve build?

Then can you talk about the outlook with respect to this cat definition? Any actions with respect to FSCO in that regard and how long before we might see any kind of legislative change in that regard? Thanks.

A - Martin Beaulieu {BIO 15316652 <GO>}

Good morning. So the process we have gone through is to look at our existing files and see how many of these files would now qualify for the now weaker definition of the cat impairment. The decision that had been taken was one where it now says that the spheres of life that you have to be impacted on -- in the past you had to have two of these spheres impacted; now it is only one. We could go through our files and see how much that would impact our current portfolio of claims.

So we have made an adjustment of roughly CAD11 million in 2012 on this. The adjustment that we have made in 2013 are to continue to reflect that weakened environment and also what is happening in BI uncertainty that we see in BI.

Where we have -- what we see as an outlook is that FSCO, the committee that was working on the proposed new definition of cat impairment, which would bring more clarity, less disputes. And it would address this situation of the spheres of life that are impacted. But also the case that was also made during the year which was around the stacking of physical and mental disability.

A - Charles Brindamour {BIO 7012323 <GO>}

Which is the case I think that Tom refers to in his question, the December 23 case decision last year.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. So continue here. It sounds like the Ontario adjustment in the quarter then was CAD11 million. So presumably the larger reserve adjustment must have been done in the Alberta case. If you can just expand a little bit on that and what the outlook could be; how you went through your book and what the outlook could be from a regulatory perspective there.

A - Martin Beaulieu {BIO 15316652 <GO>}

What we see there in Alberta is that the level of activity in files and litigation is increasing. The system is asking us now to negotiate more of these files and also some of the files that have been -- up until now that have not come with reports in our files of a diagnosis are now getting to that point.

It that has taken a long time for these files to get there so now we are seeing more activity. And that is what we are reflecting in these past three months of the year. We have been reflecting that increased activity. Now we are looking into how this will become a trend and we'll certainly react if we -- in terms of our pricing conditions if this is warranted.

Q - Tom MacKinnon {BIO 2430137 <GO>}

And just to follow-up with respect to FSCO --?

A - Charles Brindamour {BIO 7012323 <GO>}

Tom, I think in your question you asked about cats and accident benefit in Ontario. Martin, gave you the answer on cat. You concluded that the bulk was then coming from Alberta and Martin gave you the answer in Alberta. But I think that in Ontario bodily injury files on the tort side of the product has also been an area where we have made adjustments.

And I would say in the context of Ontario that is probably a larger adjustment than what we have done on accident benefit in Ontario to reflect this recent decision, which is, given the sort of new definitions that are being considered, not a concern at this point in time.

In the context of Alberta, unlike Ontario there is, in the past two, three months so it is very recent, hot off the press observations, there has been change in the field. In the case of BI Ontario we haven't seen much change in terms of what is being reported to us.

But in Alberta, as Martin mentioned, a number of court decisions have weakened the cap on pain and suffering awards. This has driven a number of files that were outstanding from the past to accelerate in the system and, as a result, we have taken a cautious stance on all accident years in Alberta since 2004 to make sure that we were in good shape there.

It is new information, to Martin's earlier point. And so when I think about Alberta clearly pricing is on the table right now. In Ontario, there is no change in my view that warrants pricing action in the short term. But in Alberta we are looking at our price adequacy and we will decide in the coming weeks and months whether what we have observed is a trend. And if it is, what the pricing actions will be.

So I think it is important to see these changes in the quarter or adjustments in the quarter in three categories -- AB Ontario, BI Ontario. And BI Alberta. The one that looks more like a trend, though it is very recent, is BI Alberta.

Q - Tom MacKinnon {BIO 2430137 <GO>}

And in terms of the size of the reserve builds, how would you categorize -- which one would be the largest of those three that you took in the quarter?

A - Charles Brindamour {BIO 7012323 <GO>}

I think that the businesses don't have the same size, Tom. So I think in relative terms the bigger adjustment was in relationship with Alberta BI where signs were here in the quarter that change was taking place.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Then finally, what is happening with FSCO has got a new definition here in terms of the cats. When does that actually become law, if you will, or when does that get passed through the legislature?

A - Charles Brindamour {BIO 7012323 <GO>}

My take on this. And I forget if we talked about it in November or not. But we have seen earlier this week that FSCO announced new anti-fraud measures, four of them. All steps in the right direction. I think the cat definition is a bigger change and I believe that the leadership change taking place will slow down the speed at which the cat definition might be changed.

So in our view the cat definition can be an important lever to improve the cost of the product in the system at this stage. Because there is leadership change, there is uncertainty associated with that.

A - Martin Beaulieu {BIO 15316652 <GO>}

But when government was prorogued FSCO had already tabled that recommendation with government and this was in the process of making some changes. So just to say the process had already started there and it is a matter of this becoming again a priority in the new government.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. Which at this stage is unclear, because we will have to see the priorities of the new government.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thank you.

Operator

Andre Hardy, RBC Capital Markets.

Q - Andre Hardy

Thanks. Sticking to Ontario -- to automobile insurance in general. And you can choose to answer it generally or isolate Alberta. But if you look at your current rates and assume that the issues that led to the reserve increases continue, what is the magnitude of the impact on ongoing profitability?

A - Charles Brindamour {BIO 7012323 <GO>}

So as I have mentioned, Andre, in Ontario -- when we talked about these change court decisions last year we had talked about a range of 0.5% to 1% for the Ontario book of business, which is about half of the Ontario auto. This most recent decision leaves us, I think, in that range. In other words, doesn't really change our view materially of the Ontario automobile market.

In Alberta, bear with me here because it is recent, it is very recent stuff. But let's assume that what we have seen in the quarter becomes a trend and let's assume that we don't price for the trend, because in theory if we price for the trend, Andre, then nothing changes.

But let's assume we were not to price for the trend. I think that this could have on the automobile portfolio between 1 and 1.5 points of impact on loss ratio. Now, clearly, if we realize that this is a trend, then we will price for it to mitigate that impact.

Q - Andre Hardy

You are talking about 1, 1.5 impact on the Alberta loss ratio or the aggregate auto business loss ratio?

A - Charles Brindamour {BIO 7012323 <GO>}

Aggregate auto business loss ratio.

Q - Andre Hardy

Okay. Then my follow-on question is obviously you won't sit still if this becomes a trend.

A - Charles Brindamour {BIO 7012323 <GO>}

Exactly.

Q - Andre Hardy

With the current structure of Alberta insurance do you believe you would be able to price within the regulatory constraints to appropriately price for the new trend? Now I understand there is a lag between writing and earning. But would you be able to do it?

A - Charles Brindamour {BIO 7012323 <GO>}

I think it is an important question. We will Martin tackle this one.

A - Martin Beaulieu {BIO 15316652 <GO>}

And there is a portion of it; the latest change that was granted by the Alberta Insurance Rate Board was 5% on mandatory coverages. So that piece we have not taken fully. So we could take the remaining part relatively easily. There is a mechanism where we can ask for an individual filing if we think that this warrants more. But it is still early to determine how much of that mechanism we would need.

A - Charles Brindamour {BIO 7012323 <GO>}

So I think what is clear to us is that a portion of it we could take without approval, basically. And if we felt we needed more than the room that exists today we would file and try to get approval from the government to get to it.

So let's see if this becomes a trend. But we have observed that in the past few months. When we see changes in the environment we are sort of on high alert and we will keep you guys posted in the coming months.

Q - Andre Hardy

Thanks. I had another question on personal property. As you said, in spite of everything, you actually had a pretty good year in personal property. Do those results change your appetite to make the various rate and product changes that you talked about at your investor day, particularly in Alberta?

A - Charles Brindamour {BIO 7012323 <GO>}

No, not at all. I think that Alberta's performance in this case doesn't look like the average performance of the book from coast to coast. So there is a lot of work to be done there.

I think, as I have mentioned before, for me home insurance, what we are looking for is a sustainable bold below 95% performance. And while I am pleased with where we finished the year, we have issues to fix, in Alberta in particular. And we have to make sure the product is sustainable, which calls for changes as well in how we price the product, how we manage the claims operations, as well as prevention.

So our outlook, Andre, has not changed on what we think the industry will look like in the coming 12 months.

Q - Andre Hardy

Thank you very much.

Operator

Doug Young, TD Securities.

Q - Doug Young {BIO 5640851 <GO>}

Thank you. Good morning. So Charles, just in trying to quantify all the changes on the (inaudible) book I think you mentioned there is three different buckets that went through; CAD11 million was broken out. And I calculate the total impact from the reserve adjustments around CAD50 million. You've have broken out the CAD11 million.

Can you break out the difference between the other two buckets? And is my CAD50 million in the ballpark?

A - Charles Brindamour {BIO 7012323 <GO>}

I think that you have reserve movements in general, Doug, that would take place regardless of those three buckets. While I don't think they are necessarily far, I mean these are the three most important buckets. Martin highlighted the AB portion of it.

Then, between Ontario and Alberta, I would say Ontario of what was left was a little higher. But then, as I have mentioned in the previous question, in relative terms the bigger impact was on the BI Alberta portfolio in relative terms and compared to the premium base of the Alberta market.

Q - Doug Young {BIO 5640851 <GO>}

Okay. Well that gives me enough color.

The second question, you talked on the Alberta side just about your flexibility potentially to get rates if need be, if you do consider that recent developments as a trend. We know Alberta is considering -- the Alberta Insurance Rate Board is considering regulating rates across the entire product, not just the mandatory product.

So I am wondering what is your view if that were to be the case on your ability to get rates and your outlook for just the Alberta market given some of the early trends that you are seeing.

A - Martin Beaulieu {BIO 15316652 <GO>}

This is not going to happen in the short, short run so the changes that are being contemplated in the system in Alberta are not going to be at least until the fall. The industry-wide adjustment is going to take place this summer so we are not expecting that there would be constraints on the optional side of the shop.

A - Charles Brindamour {BIO 7012323 <GO>}

And I think that the upside I see with the change that has been contemplated, Doug, is there will not be an industry-wide adjustment anymore. So there would be a regulation across the product while right now it is largely on liability and accident benefit. But then you will be able to file individually as a company for what you are looking for. But as Martin is saying, this is coming later.

With regards to the outlook in Alberta, I must admit that when I talk about Alberta BI in general terms like people have not seen this yet. So the impact on the outlook at this stage is really difficult to tell, because we seem to be the first ones to have noticed that there was a change there and we have taken action as a result.

But if people see what we have seen and if it repeats itself for another period, given how tough home insurance is in Alberta, I expect the market to react to these sorts of observations at the level that will be required to restore rate adequacy in that line of business.

Q - Doug Young {BIO 5640851 <GO>}

Okay. Then just lastly, I noticed just on the commercial side there was an uptick I guess in large losses. Just wanted to see if you can provide some color. We have seen that happen in past quarters; just wanted to see what occurred this quarter.

A - Charles Brindamour {BIO 7012323 <GO>}

We'll ask Alain.

A - Alain Lessard {BIO 17592535 <GO>}

If you recall throughout the year, throughout the quarter, we had a surge of large losses starting in the First Quarter which was slightly above average. Our Second Quarter fairly stable average. Our Third Quarter was exceptionally low on large losses.

The Fourth Quarter we came back to be slightly above our average, maybe about 3, 4 points above our average large losses in the quarter, which brings our year pretty much in line with what we have observed historically in the past. So it is more like random fluctuation from quarter to quarter that happened. It is not so much on the number of losses. But we had one or two very large losses that had an impact on the dollar amount in the quarter.

Q - Doug Young {BIO 5640851 <GO>}

Okay. So more quarterly noise than anything. Thank you very much.

Operator

Mario Mendonca, Canaccord Genuity.

Q - Mario Mendonca {BIO 2450557 <GO>}

Good morning. Charles, just on the reserve development in personal auto you have done real good job describing why it was unfavorable this quarter.

Assuming you have done the math correctly and you have been sufficiently conservative in setting up that additional reserve, would it be fair to assume that the model of positive reserve development we have seen in prior quarters prior to this quarter we should just return to the previous levels? Understanding there is a lot of volatility. But is that a fair statement?

A - Charles Brindamour {BIO 7012323 <GO>}

I think that the fair statement in my mind is to say that the long term average is 3% to 4%. We have seen a little more than that in the past. Depending on the evolution of the Ontario product, we might see a little more than the long-term average because, as I have mentioned in previous quarters, we have taken a cautious stance there.

So other than keeping that in mind, I would keep the long term 3% to 4% as what to expect.

Q - Mario Mendonca {BIO 2450557 <GO>}

And to be clear, you are talking about that on a total company basis, or were you specifically referring to personal auto?

A - Charles Brindamour {BIO 7012323 <GO>}

No. I was talking about total company basis.

Q - Mario Mendonca {BIO 2450557 <GO>}

Okay. So rather than give us some comfort on where the personal auto, you would rather just keep it at that aggregate level then?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes, I would rather keep it at the aggregate level. And I will say, Mario, that when you take the picture at the end of the year we are wanting to make sure that we position ourselves going forward to generate favorable development levels in line with the historical average. And that is true by line of business as well.

Q - Mario Mendonca {BIO 2450557 <GO>}

One sort of -- maybe this is just a technical thing. But your disclosure on the number of written insured risks -- you don't include JEVCO in the number of written insured risks but it is included in the direct written premium. The only line where that kind of has an -- where that matters I think is in personal auto.

First, was there some technical reason why it was appropriate to include it in direct written premium but not in the written insured, the number of written risks?

A - Mark Tullis {BIO 4180270 <GO>}

So let me handle that. So a couple things. First of all -- so I think there is several things. First of all, it will be included beginning the First Quarter. It was included in direct written premium because it's a key metric and we can calculate it correctly.

Their basis for risks is different than ours and, as of Q4, we were still on their system so it would not have been an easy conversion to switch from their basis to our basis. So we thought it was just cleaner to leave it out for now, reset it in Q1, report it going forward.

Q - Mario Mendonca {BIO 2450557 <GO>}

That makes perfect sense to me. Then the question is maybe fairly straightforward then. The change in the direct written premium per written insured risk, it looks like it is higher than it probably should be because of this sort of temporary technicality. Could you help me think through then what would have happened?

A - Mark Tullis {BIO 4180270 <GO>}

I think one thing. And I think I had mentioned this in my comments, in personal auto a good chunk of the 9% growth -- so if you look at JEVCO, of the 9% about 7% -- well, 5% in total of the 7% was due to JEVCO. But if you look at personal auto alone more like probably 7% of the 9% growth in premiums is due to JEVCO, because JEVCO was overrepresented in the auto versus some of the other lines of business.

Q - Mario Mendonca {BIO 2450557 <GO>}

So then if I pull that then would it would be fair to say that the change in direct written premium per written insured risk would actually have been down? Essentially the pricing, it would have been down year over year?

A - Charles Brindamour {BIO 7012323 <GO>}

The thing you need to be careful about, Mario, here is that there are important distributional shifts by province taking place as a result of the AXA acquisition. Where AXA had a huge Quebec automobile portfolio and as a result as you integrate the business the average premium, because the weight of Quebec becomes bigger, is down a bit. As we look through 2012 as we have integrated the business this had a big impact on the mix.

Q - Mario Mendonca {BIO 2450557 <GO>}

That makes sense.

A - Mark Tullis {BIO 4180270 <GO>}

Your analysis, are you doing it for the full year or just for Q4?

Q - Mario Mendonca {BIO 2450557 <GO>}

Just for Q4.

A - Mark Tullis {BIO 4180270 <GO>}

Okay. Because the full year it would be extremely difficult because of the mix changes.

Q - Mario Mendonca {BIO 2450557 <GO>}

Yes, I wasn't trying to do that. But I understand. Thanks very much. Appreciate it.

Operator

Bryan Brown, Macquarie.

Q - Bryan Brown {BIO 16358540 <GO>}

Thanks. With the Ontario auto the anti-fraud task force recommendations, once those are implemented is that something that might make you less conservative in your reserve positioning?

A - Martin Beaulieu {BIO 15316652 <GO>}

The measures are there to generate further savings. So that is something that we will consider when they are implemented to reflect that in the way we transact our business. But I would not say that these measures are creating uncertainty per se at the moment. I think there is uncertainty if they are going to be implemented. But once they are -- I don't think it creates uncertainty in the cost of the product at the moment that they are not.

A - Charles Brindamour {BIO 7012323 <GO>}

But I think the question comes from the fact that we have said before we are taking a cautious stance, because in part there is an important mediation and arbitration backlog. And so will this measure change our view? I think this largely will impact newly reported claims or new claims.

These measures, there is four of them in particular. One of them would be requiring insurers to provide -- or giving claimants the right to receive a bimonthly statement of benefits paid on their behalf; increasing the role of claimants in fraud prevention, that is having them confirm their attendance. Those sorts of things really will have an impact on upcoming claims as opposed to what is in the backlog right now for mediation. So the answer to your question I think is, no.

Q - Bryan Brown {BIO 16358540 <GO>}

Got you.

A - Charles Brindamour {BIO 7012323 <GO>}

These are good steps, by the way. Steps in the right direction, which shows that the government, even as the leadership is changing, is intending to curb fraud. I think these guys really understand that the issue in Ontario is one of fraud. And I do believe that the upcoming leader will be focused on that as well.

Q - Bryan Brown {BIO 16358540 <GO>}

Okay. Thanks. Just one last one. With JEVCO I noticed that rates in the quarter declined quite a bit and I just wondered if that was necessary to maintain customers.

A - Martin Beaulieu {BIO 15316652 <GO>}

The reason why the rates reported are changing is because a part of the portfolio will now be considered as standard. So a portion of the JEVCO book is moving to the Intact insurance manufacturing capability. So this is what is reflected there. But our nonstandard JEVCO rates have not gone down.

A - Mark Tullis {BIO 4180270 <GO>}

Absolutely not.

Q - Bryan Brown {BIO 16358540 <GO>}

Thank you.

Operator

Tom MacKinnon, BMO Capital.

Q - Tom MacKinnon {BIO 2430137 <GO>}

My question has been answered. Thank you.

Operator

Mario Mendonca, Canaccord Genuity.

Q - Mario Mendonca {BIO 2450557 <GO>}

I will be fairly quick. Just is there -- we haven't talked about buybacks in sometime. And previously when the conversations come up or the question has come up you said you wanted to be a little more comfortable with the environment before you would contemplate buybacks. Charles, is there any update to your thinking on that?

A - Charles Brindamour {BIO 7012323 <GO>}

I will let Mark take a crack at it and I will comment afterwards.

A - Mark Tullis {BIO 4180270 <GO>}

Sure. Our capital plan remains the same, which is to maintain a strong capital base, maintain and increase dividends every year, pursue growth opportunities internal and external. And return capital to shareholders.

We just announced a 10% dividend increase. We are settling down from the acquisitions. I think we will continue to evaluate, as we have in the past. But this quarter I think the focus was on the 10% dividend increase.

A - Charles Brindamour {BIO 7012323 <GO>}

I think, Mario, you are absolutely right. When we talk about capital priority before getting to making a decision on buyback you start with are you comfortable with your dividend level? I think we have done that this quarter.

Then the question is how do we feel about the uncertainty in the environment. And the third question is do we see opportunities for us to use the excess capital. Right now we have got close to CAD600 million capital.

I think that the uncertainty is there. There is a sense globally of greater comfort, though it is not clear it is necessarily warranted. But the factor that would hold us from buying back shares at this stage is that I do think that this is an environment that will present opportunities within a reasonable period of time. And on that basis there is no buyback activity at this stage.

But rest assured that this is a question that is debated every quarter depending on how we feel about A) the environment and B) the opportunities to deploy the excess capital. And I feel pretty good about the latter at the moment.

Q - Mario Mendonca {BIO 2450557 <GO>}

That is helpful, thank you.

Operator

There are 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 2 p.m. until Wednesday, February 13. A transcript will also be made available on our website.

Please note that our First Quarter 2013 results will be released on Wednesday, May 8. That concludes our conference call. Thank you. And have a good day.

Operator

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