Q2 2012 Earnings Call

FINAL

Bloomberg Transcript

Company Participants

- Alain Lessard, SVP, Commercial Lines
- Charles Brindamour, CEO
- Dennis Westfall, VP, Investor Relations
- Mark Tullis, SVP and CFO
- Martin Beaulieu, SVP, Personal Lines

Other Participants

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

Presentation

Operator

Good morning. My name is Adam. And I will be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Corporation Second Quarter 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) Dennis Westfall, Vice President of Investor Relations, you may begin your conference.

Dennis Westfall {BIO 15155973 <GO>}

Thank you, Adam. 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, this slide presentation contains a disclaimer on forward-looking statements which also applies to our discussion on the conference call today.

Here with me today are Charles Brindamour, Chief Executive Officer; Mark Tullis, Chief Financial Officer; Martin Beaulieu, Senior Vice President, Personal Lines; and Alain Lessard, Senior Vice President, Commercial Lines. We'll start with formal remarks from Charles and Mark, followed by a Q&A session. Martin and Alain will also be available to answer your questions during the Q&A session.

With that, I will now ask Charles to begin his remarks.

Charles Brindamour {BIO 7012323 <GO>}

Thanks, Dennis. This morning, we announced the Second Quarter net operating income of CAD180 million, or CAD1.35 per share -- that's 55% higher than a year ago -- continuing our quarterly trend of solid operating results. Our strong broad-based underwriting results were partially upset by the impact of the severe storm system that brought substantial damage to a number of communities in late May. Overall, we reported a 92.3% combined ratio both during the quarter and in the first half of the year.

Our 46% top-line growth reflects the strong retention we've maintained on the AXA Canada portfolio. In fact, we've experienced retention in the AXA book comparable to that of the Intact portfolio. I consider this quite an impressive result, particularly in the context of an integration, where dislocation in terms of price and product are present for both brokers and customers.

The performance so far is no doubt superior to my experience in previous transactions. I indicated on our last quarterly call that we should have more clarity on a sustainable level of retention by today's call. So with that in mind, I'm comfortable saying that we expect the retention of the acquired portfolio to continue at the robust levels experienced to date. Our underwriting performance and steady investment income resulted in our operating ROE reaching 17.3% while book value per share was up 13% from a year earlier.

Our outlook for the industry remains unchanged from a top-line perspective as recent results have played out largely as we anticipated. The low interest rate environment and reinsurance market conditions should support our outlook and will likely lead to firmer conditions over time.

From an underwriting perspective, the industry ended 2011 with a combined ratio of 100%. So for 2012, we anticipate some improvement in personal lines but will likely be offset by a reduction in the level of investment income. The resulting industry ROE is likely to improve from 6% in 2011 to upper-single digits bolstered by the 11% industry ROE reported in Q1, driven in part by mild winter conditions. Looking specifically at Intact Financial, we strongly believe we will continue to outperform the industry's ROE by more than 500 basis points in 2012.

Turning to Ontario auto, we continue to see the benefits of the combination of the reforms and our own actions. But we remain prudent and disciplined in our approach. Although the industry made some headway in reducing its dispute resolution outstanding cases, a meaningful backlog remains. This leaves a level of uncertainty with respect to the interpretation of the regulations that were implemented through the reforms. The government, though, remains firm in its resolve to address this situation and improve conditions for Ontarians.

According to industry results, the loss ratio in Ontario auto for 2011 excluding Intact Financial improved by about 19 points from a year earlier. Preliminary results for Q1 show that the improvement continued into this year. However, the industry loss ratio in that line of business still translates into a combined ratio of approximately 105% for the industry, indicating that the industry still loses money in that jurisdiction.

In personal property, benefits from our actions to improve results helped to offset the elevated level of cat losses experienced during the quarter. The resulting 104.5% combined ratio was much improved from last year, which included losses related to the Slave Lake wildfires. It was, however, also a stark reminder of the importance of maintaining our focus on the actions already taken and to monitor and adapt to the increasing level of severe weather occurrences.

Pricing conditions in commercial lines remain soft. But we remain focused. From a growth perspective, our results are beginning to reflect our value proposition, which includes a broader product suite and combining expertise of both companies as well as a continued focus on small and mid-sized businesses.

Turning to our integration of AXA Canada, almost three quarters of policies and customers have already converted. As such, I'm very comfortable saying that our integration is on track. This is due to the hard work of countless individuals from across the organization who have come together to ensure that our brokers and customers continue to receive top-notch service as demonstrated by our national broker satisfaction being at an all-time high.

On JEVCO, our message is also unchanged from what we communicated on our last call. We continue to work to obtain the regulatory approvals required in advance of closing, which is targeted for the fall.

We followed a similar process to the one we followed last year in that integration planning started shortly after announcing the JEVCO acquisition. In planning for the integration, a key principle is to ensure that there will be no disruption to the AXA integration nor to the high level of service we currently provide to brokers and customers as we prepare a stronger offer for both customers and brokers. Current plans are to begin renewing the JEVCO business on our own platform in early 2013.

In conclusion, the resilience of our operating results was once again illustrated as we recorded a combined ratio of 92.3% despite more than CAD60 million of cat losses during the quarter. Given the strength of our operational platforms and the flexibility provided by our financial position, we believe that we will continue to outperform the industry and strengthen our leadership position in the coming months and years.

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

Mark Tullis {BIO 4180270 <GO>}

Thank you, Charles. This morning we announced operating income of CAD1.35 per share, up from CAD0.87 in the Second Quarter of 2011. Adjusted earnings per share of CAD1.11, excluding acquisition-related items, were slightly below the level from last year. These results reflect strong underwriting results across our lines of business with the exception of personal property, which experienced CAD51 million in losses related to the severe storm system that Charles referenced.

Top-line growth continues to be excellent at 46%. As Charles mentioned, AXA retention has been strong and we now have sufficient comfort that we expect this to continue through the integration period. Retention is impacted in two ways -- by customer attrition and by broker cancellations. Despite the integration, in total we have achieved retention similar to what we would expect in a normal year.

Slides 8 and 9 show results by line of business. In personal auto, premium growth benefited from organic growth as well as the AXA business. As AXA had a larger proportion of lower-premium Quebec business, our unit growth was even stronger than our premium growth. At 89%, our combined ratio was 3.3 points higher than last year's exceptional 85.7, driven by less favorable prior-year claims development, primarily due to industry pools.

We reported an underwriting loss of CAD16 million in personal property during Q2, due to severe weather which more than offset improved underlying results. Excluding the impact of prior-year claims development in catastrophes, our loss ratio improved 4 points from Q2 of last year.

AXA's contribution was once again most evident in our commercial lines business with premium growth at 71%. Commercial underwriting results were excellent with a total combined ratio of 88.2%. The commercial auto was exceptionally strong at 79.6% and commercial P&C improved to 91.3%.

On the investment side, net investment income of CAD95 million in the Second Quarter was up 25% from a year ago due to the additional investments related to AXA Canada. Declining yields have resulted in lower than expected investment income. And we expect this to continue in the coming quarters. Under current accounting rules, common shares are required to be impaired when the market value of the shares drops below book value for a given period of time. Declines in certain sectors of the market, notably energy and materials, thus resulted in CAD23 million of equity impairments this quarter. If markets remain flat, additional impairment through the end of 2012 would be expected to be around CAD15 million.

Our financial position remained solid at the end of Q2 with an MCT of 205% and CAD649 million in excess capital, while our book value per share was up 13% from a year ago. On the financing side, we successfully raised CAD200 million of medium-term notes. And we repaid the CAD150 million remaining on our term credit financing related to the AXA transaction. Our debt to total capital ratio is now 19.8%, in line with our target of 20%.

As Charles mentioned, the integration of AXA Canada continues to be on track. We remain comfortable with our CAD100 million after-tax synergy target and are on plan with CAD37 million run rate already secured in 2012 and a CAD50 million run rate expected by the end of the year as occupancy savings and internalization of claims functions take hold in the second half of this year. We're also on plan with respect to restructuring and integration expenses.

The JEVCO transaction continues on track and we remain confident of achieving both our financial and our strategic objectives, namely achieving an estimated IRR above 20% and book value per share accretion of 2.6%, strengthening our offer for brokers and customers while expanding existing product offering into complementary lines and strengthening our commercial and specialty line capabilities. Closing is still anticipated for this fall.

In summary, we are pleased with the significant progress made to date on the AXA integration and look forward to the integration of the JEVCO business in the months ahead. We believe our solid financial position and disciplined approach to the business provide a strong foundation from which to build. With that, I'll turn the call back to Dennis.

Dennis Westfall {BIO 15155973 <GO>}

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

Questions And Answers

Operator

(Operator Instructions) Andre Hardy, RBC Capital Markets.

Q - Andre Hardy

My line of questioning is around the CAD75 million of gross catastrophe cost in the quarter. So first of all, was that all Montreal and Thunder Bay?

A - Mark Tullis {BIO 4180270 <GO>}

Yes, largely.

A - Charles Brindamour {BIO 7012323 <GO>}

Largely, yes.

Q - Andre Hardy

Okay. So when we look at the industry numbers. And I realize you don't come up with the industry numbers; someone else does. But 75 into 200 implies 37% market share. So I presume you have a lower market share. But correct me if I'm wrong.

A - Martin Beaulieu {BIO 15316652 <GO>}

Yes. You are right that we don't have 37% market share. But it's significantly higher than our national market share.

Q - Andre Hardy

Okay. So when we look at the implied difference between what you are saying and what the industry estimate is, do you think we will wake up with a higher estimate for the industry, or you feel that you are being conservative? And if you can't really answer it the way I phrased the question, perhaps you could help us understand -- of the CAD75 million, how much of it relates to claims you have already received versus an estimate of claims that you will be receiving?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes, I think just a couple of points, Andre. The first point is that our view is that our market share in this market is probably greater than our national market share, which is at 17. And therefore not yet 37%. And the second point. And we've seen that in the previous cats in the West last year, is that we tend to be quite prompt to reserve for the ultimate of the cat, very soon after the cat. And the patterns we've seen in the past year is that we were a few quarters ahead of the ultimate industry numbers when we compared our numbers in personal property with the industry.

And what proportion of those two factors are driving the difference, I'm not 100% sure, because we don't have the industry data on that. But these are the two main reasons, absolutely no doubt. And Mark, maybe you want to comment?

A - Mark Tullis {BIO 4180270 <GO>}

Well I think the other thing to your question -- how certain are we? Obviously, cats continue to evolve through time. But these are May cats. So we have had a couple of months look at them and feel fairly confident with our estimate this point.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. If you want to get a sense of how much is unreported versus -- or how much is IBNR versus case reported, do you guys have that information?

A - Mark Tullis {BIO 4180270 <GO>}

Yes. We'll report to that.

A - Charles Brindamour {BIO 7012323 <GO>}

So I think that was the second part of your question, Andre.

Q - Andre Hardy

Yes, I'll wait for the answer later, thank you.

Operator

Tom MacKinnon, BMO.

Q - Tom MacKinnon {BIO 2430137 <GO>}

A specific question kind of really -- or two of them, one with respect to page five of the supplement. There's a -- and you may have addressed this in some of your remarks. But I just didn't hear -- I didn't get to the opening of the call. But there's corporate expenses and other, which are, in fact -- these things jump all over the place here on page 5. But they were negative 16 in the First Quarter and then positive 4 in the second. And we don't have a feeling for what they are or how they should trend, going forward.

A - Mark Tullis {BIO 4180270 <GO>}

Go ahead with your second question.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay, the second question is on the favorable reserve development in the quarter, just trending a little bit higher than the long-term average of 3 to 4. I understand the 3% to 4% is the long-term average. How should we look at that over the last little bit you've been able to beat that? How should we able to -- should we think of that going forward? And it looks like the favorable development was across all business lines here. And how much of that would have been attributable to the AXA book?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. So I think that we are not changing our view on the long-term pattern in the 3-ish range. I think that the level above the long-term range is, in part, driven by the AXA portfolio. And it is also, in part, driven by the fact that the environment, the core environment across the lines of business but, in particular, in Ontario continues to be favorable. And as such, the cautious stance that we've taken is still there. But as the time passes, clearly favorable development on the cases themselves have been slightly higher than historically they have been.

So we will go back to your first question, Tom.

A - Mark Tullis {BIO 4180270 <GO>}

Okay, I think to get to the chase, I would view Q2 as more representative from a going-forward basis. There were some unusual items in Q1, including the fact that AXA and Intact had different cutoff dates. And so there was some sort of noise that went through in Q1 to make up for the fact that the cutoff timing was earlier for AXA. So you could use some of that as a catch-up/true-up sort of thing. So I think, for purposes of anticipated going forward, I would view Q2 as more normal.

Q - Tom MacKinnon {BIO 2430137 <GO>}

And is that number, then, going to be modestly positive, kind of? If we got a 4 per quarter, is that what we should be thinking about going forward?

A - Mark Tullis {BIO 4180270 <GO>}

Well I think if you look at -- and I'm not only looking at the corporate expenses and others. But sort of that whole chart there. So the distribution revenues -- there is an increment because of distribution that we picked up from AXA. So the 23 versus, say, prior year's -- that's a bona fide increase from AXA.

A - Charles Brindamour {BIO 7012323 <GO>}

We've got more distribution (multiple speakers).

A - Mark Tullis {BIO 4180270 <GO>}

Correct. I think if you look at the pattern of what's been going on in the corporate expenses and others in prior years where it sort of bounces around from minus a little bit to plus a little bit, that's the sort of pattern that you will see going forward in the expense line.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thank you.

Operator

Doug Young, TD Securities.

Q - Doug Young {BIO 5640851 <GO>}

First question on Ontario auto -- I guess the message in reading what you've said and in your release, more needs to be done to fix it for the industry. And I think you said the industry combined ratio, roughly around 105%. But we're starting to see price increases are basically nonexistent for the industry. We're seeing, I think, more players wanting to write business in Ontario. So maybe getting a little more competitive. I'm just wondering how much more improvement should we be expecting, or what other changes might be coming that would provide further improvement for the industry?

A - Charles Brindamour {BIO 7012323 <GO>}

Well I think the first point I'd like to make, Doug, is that in 2012, you've got about 4% of rates running through the system coming from rate approvals from 2011. Okay? And so that's the impact on the written premium of the industry this year, is about 4%. The earned impact will be higher than that because of the rate increases that we are taken from the past as well.

So I think it's one thing that one should keep in mind. I think you are right to say that if we look at Q1 and Q2, rate changes have been largely nonexistent, though if you look at the pattern, by company you see mild decreases in some areas and increases in other areas.

Where could improvement come from? I think that clearly, providing greater clarity as a result of reducing the backlog is one area. Secondly, the definition of catastrophic injury will be another source of improvement or comfort for the industry. And my own view is that this is likely to come through this fall. Then the anti-fraud task force released a number of recommendations which, in the coming 24 months, I suspect are likely to have an impact as well.

So I think that there's still a number of meaningful elements on the table to improve the cost equation in Ontario. But until those elements are taking hold, it's hard to see how rates could go much the other way in Ontario. So as far as we're concerned, the industry is still running above 100%. Interest rates are putting additional pressure on the industry players and our view has not really changed unless additional cost reduction measures are taking effect.

Q - Doug Young {BIO 5640851 <GO>}

I guess, Charles, maybe just to ask you -- and I don't know if you can answer this or not. But is it realistic to think Ontario auto, from an industry perspective, could get down to 95%, considering all of these changes?

A - Charles Brindamour {BIO 7012323 <GO>}

Well I don't think that the industry combined ratio has to go down to 95% in Ontario because this is a line of business with a fairly long tail. And as a result, it is a line of business that has more investment income potential than other lines of business. But it's not unreasonable to think that the combined ratio of the industry should be below 100% in that line of business for the market to be healthy and optimal in terms of desire for growth.

Q - Doug Young {BIO 5640851 <GO>}

Okay. Then just on the mediation backlog, I think you quoted that it has been down for Intact 25% from the peak in 2011, which I think is the same amount that it was down in Q1. Has there been any improvement for Intact sequentially?

A - Charles Brindamour {BIO 7012323 <GO>}

No. It's about a third. And there hasn't been material improvements in the past few months. We keep seeing the good trend. But they're at -- because new mediations are coming in the system at the same time. So we are about at the same level of reduction.

The industry, over that period -- the industry backlog over that period stopped increasing and has actually dropped by 2%, which is positive. FSCO has a number of measures from a process point of view as well as they are bringing third parties to help on the mediation and the arbitration front. And the sort of numbers that I've been hearing about coming from FSCO is that the third-party help that will come on the mediation front could address 2000 mediations per month. And so when you look at a backlog of about 30,000 mediations, these are more than light measures that the government is considering to take action there.

Q - Doug Young {BIO 5640851 <GO>}

It's fair to say it's still going to take a long time to deal with? Like this isn't going to be a 2013 event? Is that fair to assume as well?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. I think it's fair to say that to get to certainty, you probably have a good 6 to 12 months ahead of us there. I don't think the backlog will go to zero. It will reach a run rate that is more reasonable than where we are now.

A - Martin Beaulieu {BIO 15316652 <GO>}

And we don't need the backlog to go to zero --

A - Charles Brindamour {BIO 7012323 <GO>}

No --

A - Martin Beaulieu {BIO 15316652 <GO>}

-- to eliminate the uncertainty. I think we need a volume of decisions coming from these mediations or outcomes.

A - Mark Tullis {BIO 4180270 <GO>}

Yes. No, exactly. And I think, Doug, the dynamic -- when you look at the outstanding mediations, part of the issue is that you've got -- what is it? It's 75%-80% coming from pre-reform claims.

A - Martin Beaulieu {BIO 15316652 <GO>}

That's right.

A - Charles Brindamour {BIO 7012323 <GO>}

So you hear that the backlog is dropping. And you say, well, okay. So when do we get clarity? Well part of the issue is that what is dropping are pre-reform claims, hence the uncertainty around the reform claims, even though the backlog drops; it's still there. But when I look at the core operation, the benefits are coming in as anticipated.

Q - Doug Young {BIO 5640851 <GO>}

Just one last one -- organic growth on the direct insurance, organic growth in Ontario auto. You've given the number last few quarters. But I didn't see it in your release. Do you have that number handy?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. It's north of mid-single digit on the direct side of the house.

Q - Doug Young {BIO 5640851 <GO>}

Okay, good, thank you.

Operator

(Operator Instructions) Mario Mendonca, Canaccord Genuity.

Q - Mario Mendonca {BIO 2450557 <GO>}

Charles, I want to pursue that line a little further, the questioning about the backlog. I understand that as much as three quarters relate to pre-reform mediation. But if you do go through -- if the industry goes through 2000 a month, you are going to be (through) 6000, presumably, over the next three months if, in fact, the third-party service providers get started in the near-term.

So by the next -- in three months from now, when we are having this discussion again, you're going to have a lot of information. What would be helpful to understand is, does it matter -- does it really matter to Intact what the industry learns if, in fact, Intact has already been through, say, 25% of the peak backlogs? Does it matter to you what the industry actually reports?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. I'll let Martin --

A - Martin Beaulieu {BIO 15316652 <GO>}

Yes. It does, because we are addressing our own backlog. But the outcomes of those mediations become the interpretation of the product on a go-forward basis. And we would be bound by these decisions. But assuming that these mediations are aligned with what arbitrations or court decisions would be. But that's the assumption we are going.

A - Charles Brindamour {BIO 7012323 <GO>}

I think arbitrations are binding and become common, long mediations not as much. But there's a backlog in arbitration, as well. And yes, there's an influence from other case settlements on our own cases, as such, caution on our part, Mario.

A - Martin Beaulieu {BIO 15316652 <GO>}

Because, if we go to mediations, these will be the same outcomes that we will get as the rest of the industry.

Q - Mario Mendonca {BIO 2450557 <GO>}

Okay.

A - Charles Brindamour {BIO 7012323 <GO>}

The second point, Mario, is that one should not assume that third-party-providers are necessarily crunching 2000 files right now. You know, they have not started. I think that's the intent of the government. They are far down the road. And I'm not exactly sure when it will start. It will be in the coming months. That's why I want to be cautious on that front.

Q - Mario Mendonca {BIO 2450557 <GO>}

So if not next quarter, then presumably by the end of this year, you are going to (multiple speakers) have a lot of information?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. I think we will have more information by the end of this year.

A - Martin Beaulieu {BIO 15316652 <GO>}

The plan was for this to start by the end of the summer.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. But as every quarter progresses, we'll get more information. I think that our results to date show that the reforms are effective. As you know, we've said we are taking a cautious stance on the files that are in mediation. And if mediation and arbitration pans out as the reform anticipate, then I think that that will be positive. There's no doubt about it. But it's too early to tell or reflect that positive outcome, because it's not yet an outcome.

Q - Mario Mendonca {BIO 2450557 <GO>}

Can we take anything from the 2% reduction in the backlog? Those mediations that were resolved -- the resolutions that came through this quarter, were they favorable? Were they unfavorable? Is there anything you can offer there?

A - Charles Brindamour {BIO 7012323 <GO>}

No.

Q - Mario Mendonca {BIO 2450557 <GO>}

Just not enough information?

A - Martin Beaulieu {BIO 15316652 <GO>}

That's not enough information, because a lot of these mediations that are for the post-reform are around the minor injury guidelines. But no two cases are exactly the same. And you need to develop a certain volume to see patterns arising. So what we see as of yet -- there's nothing to cause an alarm. But that's not enough to change our pattern.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes, exactly. And let's go back to the point that if three quarters come from pre-reform claims, obviously the first claims to fall off the backlog are likely to be pre-reform claims. And I think where we express a view on uncertainty is more on the effect of the reforms themselves. Therefore, that will come at the tail end of dealing with the backlog issue.

Q - Mario Mendonca {BIO 2450557 <GO>}

I see. Then finally, when you do have information -- and, Martin, you made the point -- we don't need 100% resolution of the backlog. But at some point you are going to have enough information. Assuming the resolution is favorable, what sort of things can we expect? Would we expect to release a big positive reserve development in a given quarter or two? And could we expect the current year claims ratio to improve, if in fact the resolution is favorable? I'm just trying to think of how this could manifest itself in your results going forward.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. I think that our stance to date has been to say, all right, this is what we observe as files come in. And let's take a cautious stance in terms of both reserving. So to speak. And we've been doing that for now close to two years or 18 months, since the reforms.

As I don't think certainty will come in a quarter but will likely come over time, if things pan out well, there could be favorable development slightly in excess of the historical pattern. But not on a structural basis. It would happen over a number of quarters, as the information becomes clearer.

Q - Mario Mendonca {BIO 2450557 <GO>}

And it would be temporary?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes, I think so. I think, we have seen, Mario, the 12 points that I've been talking about since the reforms, materialized in the results throughout the latter part of 2011 and this year. And structurally, will there be much more than that? I don't think so.

Q - Mario Mendonca {BIO 2450557 <GO>}

Thank you very much.

Operator

There are no further questions at this time. I'll turn the call back to the presenters.

A - Charles Brindamour {BIO 7012323 <GO>}

Well I think I'd like to come back to Andre's earlier question about the Second Quarter cat level and your question in relationship with our number versus the industry's number. My point was that we tend to be quick to get to the ultimate number in terms of reserving. At the end of the quarter, on these cats, Andre, about a third of the amount was IBNR driven. Okay? So that is a reflection of the fact that, as the reporting has largely matured, we are pretty comparable to where we will ultimately be on that front.

I don't know what the industry is doing. Our experience in the last year is that there has been deterioration from prior cats in subsequent quarters looking at the industry results. So I would leave that for you to think about.

Second point I'd like to make, Andre, is that the CAD200 million number -- it's not clear to me it was measured at the end of the quarter for the industry, while our number is measured at the end of the quarter. So therefore, there's a degree of maturity that might be different, as well in the interpretation.

So I think we feel pretty good about our number. We don't have great visibility in the industry number. And our track record shows that we've been quicker to get to ultimate in our assessment of cats.

I don't hear Andre's reaction because he's not on the line. But I trust that's what you are after. I think that's it.

A - Dennis Westfall {BIO 15155973 <GO>}

I think there's one more question on the line. Go ahead.

Operator

Tom MacKinnon, BMO.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yes. Thank you very much, Charles. With respect to -- you talked about potential improvements in Ontario auto. And one of them was this definition of cat. Now, I assume that has to be -- does that have to do with the stacking? Where do we stand in terms of stacking? And I know you took a reserve to suggest if the outcome was going to be negative in terms of that interpretation. Are we looking at any change in the rules with respect to stacking?

A - Martin Beaulieu {BIO 15316652 <GO>}

Yes. The proposal has a multiple number of recommendations. But one of them is reversing the latest trends in courts that physiological and psychological damages could be stacked. The new definition would remove that stacking. So that would not change -- from a reserving perspective, that would not change the past. But it could change the future.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. And in terms of whether the previous decisions which allowed stacking, whether that's holding or not -- Tom, I think part of the issue in cats is you don't get a large number of cats. These are small numbers. They just happen to be high severity. So I think, still, same story there.

Q - Tom MacKinnon {BIO 2430137 <GO>}

So if -- you said they reversed the trend in the courts. Now, does that mean if there's -- I mean, you set up a reserve to handle this in the Fourth Quarter. Why wouldn't that reserve --

A - Charles Brindamour {BIO 7012323 <GO>}

(multiple speakers)

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. So it doesn't apply retroactively to those open claims, then?

A - Charles Brindamour {BIO 7012323 <GO>}

No.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thanks for that clarity.

A - Charles Brindamour {BIO 7012323 <GO>}

Okay, no problem.

Operator

Doug Young, TD Securities.

Q - Doug Young {BIO 5640851 <GO>}

Just on the commercial side, I believe it was mentioned -- and correct me if I'm wrong -- that there was a decrease in severity on commercial P&C. And I know, last quarter, you had a number of large fire-related losses. Now, was there, again, another increase in severity this quarter in commercial P&C? And if so, can you give some details around that?

A - Charles Brindamour {BIO 7012323 <GO>}

I'll ask Alain Lessard, our Senior VP Commercial Lines, to take this one.

A - Alain Lessard {BIO 17592535 <GO>}

Okay. Well on the severity side, the loss ratio -- the current year loss ratio for the quarter dropped by about a point, which was largely due to the catastrophe, the Slave Lake fire last year, which affected us in commercial lines. But going back to large losses, last quarter we reported a surge in large fire. This quarter, we are basically back to normal levels. We are about 8 points lower than the last quarter, in line with our historical average. And we are slightly above last year, as you know, about a point higher than last year in numbers or in dollars of large losses. So we don't see any trend or anything emerging in the severity side. It's within, I would say, a reasonable fluctuation from quarter to quarter.

A - Charles Brindamour {BIO 7012323 <GO>}

The bump in severity that we've observed in Q2, Doug, was, in part, driven by a number of reserving calls we had made. So nothing to be concerned about in relationship with large losses. And I would say, nothing to be concerned about in relationship with the performance of that line.

Q - Doug Young {BIO 5640851 <GO>}

Okay. Great, thank you.

Operator

There are no further questions at this time.

A - Dennis Westfall {BIO 15155973 <GO>}

Thank you, everyone, for participating. The webcast will be archived on our website for one year. A telephone replay will be available at 2 PM today until Wednesday, August 8. The replay number is 1-855-859-2056. And the passcode is 95492189. A transcript will also be available on our website. Please note that our Third Quarter results for 2012 will be released on November 7. That concludes our conference call. Thank you. And have a good day.

Operator

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