Q1 2015 Earnings Call

Company Participants

- Alain Lessard
- Charles Brindamour
- Dennis Westfall
- Louis Marcotte
- Mathieu Lamy
- Patrick Barbeau

Other Participants

- Doug Young
- Geoffrey Kwan
- John C. Aiken
- Mario C. Mendonca
- Paul Holden
- Shubha Khan
- Tom MacKinnon

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Jonathan, and I will be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Corp. First 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.

Thank you.

And Mr. Dennis Westfall, Vice President of Investor Relations, you may begin your conference.

Dennis Westfall {BIO 15155973 <GO>}

Thanks, Jonathan. Good morning, everyone. Thank you for joining us on the call today. 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.

Here with me today are Charles Brindamour, CEO; Louis Marcotte, CFO; Patrick Barbeau, SVP of Personal Lines; Alain Lessard, SVP of Commercial Lines; and Mathieu Lamy, Senior VP of Claims. We will start with formal remarks from Charles and Louis followed by a Q&A session. The others will also be available to answer your questions during the Q&A.

With that, I would like to ask Charles to begin his remarks.

Charles Brindamour {BIO 7012323 <GO>}

Thanks, Dennis. Good morning, everyone, and thank you for taking the time to join us today. Earlier this morning, we announced a first quarter net operating income per share of $1.37, well ahead of last year, as a repeat of challenging winter conditions was offset by lower catastrophe losses and the benefits of our action plans.

From an underwriting perspective, our combined ratio of 93.4% reflects the negative impact of weather on our auto businesses but also the strong results in our two property and liability lines. Our efforts to grow our distribution activities also contributed to the earnings growth in the quarter. In combination, these factors led to an operating ROE of 17.2%, well ahead of last year.

Turning to our two primary financial objectives, 2014's significant rebound in net operating income per share put our trend back on track, with an average annual growth rate of 13% since 2011, above our target of 10% per year growth over time. From an ROE respective, we target to outperform the industry by at least 500 basis points every year. We've done so by 730 basis points on average since 2011 and did so by 820 basis points last year.

When I look at the results we generated in the first quarter, I'm pleased overall, but disappointed that we didn't make an underwriting profit in our personal auto line of business. We do not view this result as the beginning of a troubling trend, but rather the impact of a severe winter, particularly in Quebec and Atlantic Canada.

Our Home Improvement Plan was fully rolled out in 2014 and contributed to the very strong 80.7% combined ratio for personal property in Q1 2015. Our commercial P&C action plan also contributed positively to results and helped lead to a 90.9% combined ratio during the quarter.

In auto, the Ontario government's rate and cost reduction mandate has resulted in an average rate reduction of approximately 7.1% for the industry as of the end of the quarter. Government cost reduction measures to date include tightening of the minor injury guidelines, licensing of healthcare clinics to reduce fraud, and Bill 15, which was passed late last year and is becoming effective as regulations are defined.

The savings from Bill 15 include a reduction in prejudgment interest to levels closer to current interest rates, a streamlining of the dispute resolution system, and protection for consumers against untrustworthy towing and storage providers. In recognition of Ontario

Bill 15, we elected to take additional rate reductions, bringing our cumulative rate decrease to 9.6% since August 2014 – 2013, excuse me.

Two weeks ago, the Ontario government released the budget outlining additional actions to reduce costs. These include updating the catastrophic impairment definition and reducing the standard duration of medical and rehabilitation benefits to be more in line with that of other provinces. The budget also outlined some ways to translate cost savings to lower rates for consumers. As expected, these changes will go a long way to improve affordability of the product, though the precise impact will become more apparent, as regulations are defined in the coming months.

We feel comfortable with the changes taking place in Ontario auto and will continue to pursue growth in that market. Overall, for IFC, underlying growth of approximately 3% in Q1 maintained the similar pace to the prior quarter, as mid-single digit growth in commercial lines and personal property offset slower growth in personal auto.

The industry continues to move in property lines, as market conditions have firmed and our relative position has improved. Units were up 1% in personal property during the quarter despite the headwind from our full product changes and rate action. When it comes to our outlook for the industry, we expect continued hard market conditions in personal property to drive upper single-digit growth in that line of business, helping to offset our expectation of slightly negative growth in personal auto.

Commercial P&C has firmed in the past year. Rate increases at renewal in this segment were again close to 5% in the first quarter. We think that the low interest rate environment and minimal profits at the industry level give us comfort in projecting a mid-single digit level of growth for the commercial lines industry in 2015. Overall, we expect low-single digit industry growth across all lines.

As for IFC, our growth ambitions have not changed. Our financial position remains strong with approximately $600 million of excess capital, after financing our acquisition of CDI solely with excess capital. Our objective is to leverage our underwriting performance by reinvesting our capital to expand our position here in Canada. Our multi-channel distribution strategy is gaining momentum, and the industry outlook is conducive to organic growth despite rate decreases in Ontario auto.

I mentioned the more focused branding approach on our last call. One of our major objectives is to see Intact Insurance and belairdirect, our two core brands, become household names for Canadians. We'll focus in the coming months and years our efforts on showcasing these brands with significant investment in marketing.

We've also been very clear that our direct and distribution operations are key areas of focus for growth in the near-term. Our acquisition of Canadian Direct broadens our direct-to-consumer platform from coast to coast and facilitates our goal of doubling our direct capabilities in the coming year. All this while providing immediate earnings accretion and surpassing our target of a 15% internal rate of return. I welcome the CDI team to Intact and look forward to shaping a strong platform in Western Canada together.

In conclusion, we're energized by our prospects for 2015 and beyond, and believe that the disciplined approach we take towards operating our business will continue to serve us well. I believe that we're well positioned to excel in the current environment, aided by a strong capital position, which enables us to execute upon a fortunate piece for profitable growth. As we look forward, we're confident in our ability to grow our platform and become one of the most respected companies in Canada.

With that, I'll turn the call over to our CFO, Louis Marcotte.

Louis Marcotte {BIO 18040440 <GO>}

Thanks, Charles. Good morning, everyone. I'll focus my remarks on three topics this morning; our operating results, our lines of business, and our balance sheet. First on operating results, from a top-line point of view, our underlying direct premiums written grew by 3% for a second quarter in a row, on the back of continued hard market conditions and personal property, firmer conditions in commercial lines, and low-single digit growth in auto.

Our combined ratio improved 3.7 points to 93.4% in the quarter, as benefits from our actions to improve profitability helped offset the impact of a long and cold winter, particularly in Eastern Canada. As weather-related losses tended not to reach the catastrophe threshold this quarter, our underlying current year loss ratio increased two points to 73.1% while catastrophe losses were lower by 3.7 points.

As usual, favorable prior-year development in Q1 is higher than other quarters of the year and helped mitigate the weather effect on our results. Net investment income of $105 million in the quarter was unchanged from a year ago, as the benefit of higher average investments was offset by lower yields. This is in line with our expectations and is a reasonable run rate for the rest of the year.

Net distribution income in the quarter increased by $9 million from last year to $20 million due to growth of our distribution operations as well as higher profitability. We remain on track to hit our run rate of $100 million in distribution income in 2015 and are happy to report that BrokerLink has now hit the $1 billion mark in terms of annual direct premiums written. Finally, our expense ratio of 30.2% was 0.4% higher than last year, which had benefited from a lower level of variable compensation.

Moving to our lines of business, personal auto premiums increased 1% in the quarter on a 1% increase in units, as growth in other markets offset the impact of rate reductions in Ontario. The combined ratio in the first quarter was 100.3% in a winter marked by record cold temperatures, which led to a higher underlying current year loss ratio.

This was partly offset by an increase in favorable prior-year claims development, due partly to our increasing comfort with the effectiveness of auto reforms. Personal property premiums grew by 5% on an underlying basis, while units grew by 1%, reflective of continued hard market conditions. All planned actions under our Home Improvement

Plan will have completed one renewal cycle in May of this year and we estimate that the ultimate benefits were roughly 90% earned in Q1 2015.

We reported a combined ratio of 80.7% in the quarter, 11 points better than last year, helped by an absence of catastrophe losses and by actions under our Home Improvement Plan. On the commercial side, auto premiums were up 8% year-over-year, as we continued to benefit from strong growth in trucking fleets. As with personal auto, commercial auto was also heavily impacted by challenging winter conditions, which drove the combined ratio 7 points higher to 96.4%.

The commercial P&C business saw decent top-line growth of 3%, benefiting from higher rates. Units declined slightly in the quarter due to timing of contracts, though retention levels and new business activity observed in the quarter continued to support our view that the commercial lines market is firming. The combined ratio improved by 15 points to 90.9%, helped by rate increases, low catastrophe losses and high favorable prior-year development. As such, we are continuing our commercial P&C action plan with the goal of running this business in the low 90%s on a sustainable basis.

Finally, a few comments on our balance sheet. Our investment portfolio is of high quality and well diversified. At quarter-end, investments amounted to $13.4 billion, 9% higher than a year ago. Our portfolio generated net investment gains of $101 million in the quarter, as higher bond prices more than offset $30 million of impairments on equity investments. The energy sector, which represents approximately 7% of our total portfolio, represented half of the impairments.

The federal budget released in April included items which could affect the tax treatment of certain dividends. Although the rules are not yet final, they could increase our annual tax bill by approximately $12 million to $15 million, starting in November of this year. However, we believe we can offset most of these lost earnings through mix, strategy or other portfolio changes, while maintaining our prudent risk management approach.

We ended the quarter in a strong financial position, with an estimated MCT of 213% and excess capital of $763 million. Pro forma our CDI acquisition, which closed on May 1, we remain in a strong position with excess capital of $600 million. Our book value per share at quarter-end was 12% higher than a year ago and we delivered an operating ROE of 17.2% over the last 12 months.

The planning process for the CDI integration is already well underway and we continue to expect the acquisition to be 2% accretive to NOIPS in the near-term. This acquisition expands our direct-to-consumer presence from coast to coast and is expected to deliver $10 million in annual synergies once this run rate is reached in mid-2017.

In conclusion, we are happy with the strength of our operations through this challenging winter and are looking forward to the prospect of adding CDI with its track record of solid underwriting results into our platform. We remain in a strong financial position to pursue further strategic investments, which, coupled with our talented group of employees and our robust operating platforms, should allow us to continue to outperform the industry's ROE by at least 500 basis points every year.

With that, I would turn the call to Dennis.

Dennis Westfall {BIO 15155973 <GO>}

Thanks, Louis. Jonathan, we are now ready to take questions.

Q&A

Operator

Your first question comes from Geoff Kwan with RBC Capital Markets. Please go ahead.

Q - Geoffrey Kwan {BIO 7413168 <GO>}

Hi, good morning. First question I had was just on the Ontario auto. Obviously, I can appreciate it may not be easy to kind of quantify the impact of what came out from the budget, but directionally the way that you think about it and what might happen is – how much more, if any, do you think might still need to come on the cost reduction side if the 15% premium hit is going to get achieved?

A - Charles Brindamour {BIO 7012323 <GO>}

I'll ask Patrick to give you his perspective on this.

A - Patrick Barbeau {BIO 18476397 <GO>}

So, on the 15% to start with, it's not necessarily a target any more that is presented in our discussions. The recent budget of Ontario contains good reforms that will reduce costs. It will have to go through regulations in more detail for us to be able to exactly estimate the cost savings, but it's probably a few points. Based on the high-level information we have, it could be something like four points probably. It could vary with final regulations.

In terms of timing for rate decrease, the next steps are we expect in the next few days to get a more detailed description of what those reforms will look like and then it will take a few months to go through a detailed regulation. After that, the industry in collaboration with government will have to estimate precisely how much it's worth and we'll probably then go through the filing process to reflect that into our rates. But we don't expect that those rates could be effective before the first part of 2016.

A - Charles Brindamour {BIO 7012323 <GO>}

I think, Geoff, if you look at the budget, it is setting a very clear direction for the regulations to come out. And they're really focused on what I think are important items. Having a stronger cat definition and we've talked to investors about that in the past year, it looks like it's materializing now. I think to include attendant care with medical rehabilitation, both at the catastrophic level and in the base product are also I think pretty effective measures. And then to reduce the timeline on the med rehab front from 10 years to five years, these are all steps that move the product somewhat closer to other jurisdictions. It remains, let's be very clear, a richer product than in any other jurisdiction in the country. But I think the government is really focused on the right things here to bring back affordability of the product in the system.

It will take some time, as Patrick is saying, but there is meat in this budget, and we'll cooperate with the government to get the best regulation possible to achieve their objective. Timing, early 2016 in this case, we think, but we'll see as things evolve this summer.

Q - Geoffrey Kwan {BIO 7413168 <GO>}

Okay. And then, staying on the Ontario auto front, the change – the slight tweak in the wording on your outlook on Ontario or – sorry – personal auto, slight negative growth for the industry level versus low-single digit, I think, was the wording from last quarter. Was that just related maybe to what happened with the Ontario budget and the likelihood of further cost reductions and further kind of the revenue?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. I think, Geoff, we've been talking about flat low-single digit in part because of the Ontario reductions that were in the system. We've seen the second half of 2014 industry results come out a few weeks ago, where basically there is mild negative growth after one year of almost – maybe not one year, a little less than a year of Ontario auto rate decrease.

We're now seeing a budget with meaningful cost reduction, and I think we're taking a cautious stance here to say, in aggregate, I think you can expect at best a flat automobile industry growth, likely low-single digit negative growth for that line of business, driven by Ontario automobile.

Q - Geoffrey Kwan {BIO 7413168 <GO>}

Okay. And last question I had was just on the M&A landscape, maybe an update on anything domestic, international? And given the strong valuation multiple you guys are trading at, does that change, if at all, your appetite in terms of doing acquisitions?

A - Charles Brindamour {BIO 7012323 <GO>}

Our review of the environment has not changed. On the contrary, I think that what we've been talking about for a number of years keeps materializing. And there is no external forces that would lead us to think that this perspective that 15 points to 20 points of market share will change hands has changed. As you know, we used to say 25 points to 30 points. There is more than 15 points that have changed hands. We think there is much less than the forces at play. You should see that happen in the near mid and right up to a 60-month horizon. Our view has not changed there.

And regardless of our valuations, I mean, we look at deals for what they are and they have to make sense regardless of the financing. So I would say, no, this doesn't really change our perspective. These deals have to be financial home runs, they have to be strategic, and that's where it stops.

Q - Geoffrey Kwan {BIO 7413168 <GO>}

Okay. And then, sorry, on the international side?

A - Charles Brindamour {BIO 7012323 <GO>}

Well, the international side, as you know, is positioning for the longer term. We've done a small transaction in Brazil last year. I think one can expect to see some activity in the coming 12 months. It is positioning for the longer term. Our focus is really to expand our platform here, integrate CDI and continue to bolster our distribution because the growth opportunity and the capital deployment opportunities are, I think, very attractive right where we're leading. So that's where the focus is.

Q - Geoffrey Kwan {BIO 7413168 <GO>}

Okay. Great. Thank you.

Operator

Your next question comes from John Aiken with Barclays. Please go ahead.

Q - John C. Aiken {BIO 21267604 <GO>}

Good morning. I would like to explore the prior-year claims recoveries that you had this quarter. Now, I know that there is a seasonality in the first quarter. You mentioned in the MD&A confidence in terms of the Ontario auto cost reductions. As well though, it does look like you've had some significant recoveries as well on the personal property and on commercial P&C lines. When does this flow through in terms of ongoing claims in terms of the Ontario auto? When will we see this actually go through into the lower claims ratios if you actually are confident in the lower cost associated with auto? And can we extrapolate that out as well in terms of the property lines?

A - Charles Brindamour {BIO 7012323 <GO>}

So – you're absolutely right, John, that the first quarter is always stronger in terms of prior year development. It's normal because it's the quarter that's the closest to the prior year. So if you look at the activity in Q1, half of the activity comes from 2014. If you go back in time, you see that last year, for instance, our prior year development in Q1 is 7.6%. And if you go back two years, it's about 6%. There's volatility. I think what the unusually strong prior-year development this quarter is, there's probably a two points, three points beyond what one should expect in Q1. And I think there's a number of areas where we're seeing maybe items that are not recurrent in nature. First, we've seen more favorable development on short-tail type claims for a number of reasons, but ranging from weather-driven right up to the positioning that our actuaries took at the end of last year on short-term claims.

We're seeing, indeed, a drop in uncertainty as a result of reforms from coast to coast, Ontario being the most important obviously, coupled with court decisions that have been rendered recently, which adds to our comfort. So you probably have a point there more than what one would expect. And finally in commercial lines, indeed, you probably have another point above what otherwise would have been a normal favorable development in the quarter, a bit of volatility and a bit related to large losses.

Q - John C. Aiken {BIO 21267604 <GO>}

So – and Charles, if – in 2014, there was some embedded conservatism in the claims development that if it's related to the Ontario auto reforms, at some point going forward, are the actuaries going to reduce the claims cost associated with that? Or are we going to see recurring, call it, 1 percentage point higher recoveries from prior years on an ongoing basis?

A - Charles Brindamour {BIO 7012323 <GO>}

If you look at the underlying current year loss ratio in automobile insurance in aggregate, and I don't want to start focusing on provinces per se, I mean, for the past four years or five years, they've been in the low 70%s, 70% to 73%. And indeed there's been favorable development, probably higher than what one should expect. The reforms are one element of that. The AXA transaction are also one element of that. And so I don't want to guide folks towards a lower current accident year loss ratio or a more favorable development. I think we're taking a cautious stance at running the business. Sometimes it goes above our historical pattern of 3% to 4%, which has been the case in the past few years. But I wouldn't want people to be too excited past 4-ish% going forward.

Q - John C. Aiken {BIO 21267604 <GO>}

Thanks, Charles. Appreciate the color. I'll re-queue.

A - Charles Brindamour {BIO 7012323 <GO>}

Thanks.

Operator

Your next question comes from Shubha Khan with National Bank Financial. Please go ahead.

Q - Shubha Khan {BIO 16255963 <GO>}

Thanks. Good morning. So, just a follow-up to Geoff's question on Ontario auto there. Should I – should we think of the government's initial previous target of hitting rate reductions – 15% rate reduction by August 2015 is no longer a firm deadline so that that's pushed out to 2016 and it's been made contingent upon further clarity on what the budget proposals might look like in regulation?

A - Charles Brindamour {BIO 7012323 <GO>}

I think the government's objective has not changed and I think they've created a lot of momentum. I mean, if you look at our own situations, rates have dropped by more than – are dropping by more than 9% into these reform on the back of a number of initiatives that the government has ruled out. So there's a lot of momentum in the system. And I think the point we're making is, we're seeing the budget now. Other meaningful reforms that have the potential of limiting inflation in the system and bringing, as Patrick said, I don't know, 3 points, 4 points, 5 points, we'll see what the regs will be in a few months from now. I think momentum is in the system and there's lots to show for.

Now, when it will be effective, I think it's indeed later in 2015, early in 2016. It's just practicality. But I think they've done what they had to do to come up with meaningful reforms. This is a pretty complex product that the government has to deal with and I think they've gone as fast as they could in the current context. Don't forget that they've had to go through an election last spring, which basically obviously slowed down, and I'm not sure it was their decision to go through an election process. So I think stakeholders understand that. They are going as fast as they can, and I think they are focused on the right things. And they are headed in the right direction definitely towards their objective.

Q - Shubha Khan {BIO 16255963 <GO>}

Okay. And just a follow-up to that. When I look at your -- the rate of reductions that IFC has delivered so far, so 9.6%, does any of that relate to your telematics rollout or is that immaterial so far?

A - Patrick Barbeau {BIO 18476397 <GO>}

Yes, there is about 2 points of that 9-plus% that is linked to the launch of our UBI initiatives or telematics. We've already reflected part of the penetration that we expect with that product and the average discount is about 10% for clients, and yes, it's part of the total 9%.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, absolutely.

Q - Shubha Khan {BIO 16255963 <GO>}

Okay. So that – and that would reflect the higher than industry rate of reduction that you delivered so far, right?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. And I think the other thing is that when Bill 15 came out, which is in the process of being finalized, we looked at that, decided to take a leadership position and reflect, I think, the good work that the government has done on Bill 15 before the others.

Q - Shubha Khan {BIO 16255963 <GO>}

Okay. Final question on commercial P&C, you're looking for another 4 points in combined ratio improvement under your action plan. Will those 4 points mainly come from product changes or are you contemplating rate increases as well? I mean, it looks like unit growth has suffered because of the action plan. So I'm just wondering whether you'll be looking to deemphasize pricing actions right now.

A - Patrick Barbeau {BIO 18476397 <GO>}

Well, I would say that there is no plan to deemphasize the pricing action that we have, and what we're seeing is there's about 4 points to be earned, because as the price increase are going, they're not effective immediately on the loss ratio. They need to be earned over a 12-month period. So, basically, what we're seeing is that with all the action we've done so far and what we're continuing to do, we're looking at still 4 points to be earned in the next 12 months coming from our current action plan although the impact on the unit and the growth is immediate on the top line.

Although I would have one comment on the unit growth on commercial lines, because commercial lines, we have average premium that can range from $500 to a few million dollar. So we track the growth mostly on the premium situation. And in fact, in our current first quarter result, the reduction in unit, more than half of it is related to a very small program that we canceled where we had a lot of certificates at very, very low premiums. So the impact on the premium is much less than the impact on the unit.

Q - Shubha Khan {BIO 16255963 <GO>}

Okay. That's very helpful. Thank you.

Operator

Your next question comes from Paul Holden with CIBC. Please go ahead.

Q - Paul Holden {BIO 6328596 <GO>}

Thank you. Just a couple questions for you. First one with respect to Ontario auto, just wondering how your loss experience is trending there, and in particular, what the experience was in Q1, given that the overall result was up, but you attributed to poor weather in Quebec and the Atlantic provinces. So, just wondering how Ontario is trending if you're actually seeing the margin stability you expected.

A - Charles Brindamour {BIO 7012323 <GO>}

I'll let Patrick comment on that.

A - Patrick Barbeau {BIO 18476397 <GO>}

Yeah. So our Q1 auto results are really driven, so the – if I start with the – mainly the underlying loss ratio, is really driven by the weather that we experienced in the Eastern part of the country. Overall, if you look at it by region, starting from Atlantic, the underlying loss ratio deteriorated by a significant margin in Atlantic, by also an important one in Quebec. Ontario, just a slight deterioration really compared to last year and it's flat in the Alberta. So, Ontario was slightly impacted by the weather, but not as much as

Quebec and Atlantic. And when you look overall in all those places, it's really physical damage or small collisions. It's not driven by any BI or AB trend.

Q - Paul Holden {BIO 6328596 <GO>}

Okay. And then in terms of your rate decrease, 9.6% versus the industry at 7.1%, would you expect that gap to narrow going forward or do you think that gap will be persistent? And then if it is going to be persistent, how should we look at that?

A - Charles Brindamour {BIO 7012323 <GO>}

We expect that gap to narrow. Of course, every player makes their own decision. It's super-competitive. In Ontario, there's 25 active players. Very few industries that I think are competitive like that. People are waiting to see the color of Bill 15. I think then we'll get more color on regs and I think it's a question of month, as far as I'm concerned, where people will reflect that into their rate positions.

Q - Paul Holden {BIO 6328596 <GO>}

Okay. And just one final question is, with respect to progress on growing specialty lines, cyber risk, long-haul trucking, et cetera., maybe you can provide some commentary on those growth initiatives.

A - Charles Brindamour {BIO 7012323 <GO>}

Paul, I'll ask Alain Lessard to comment on that, just to clarify that cyber risk part as an initiative for the main products and then will comment on specialty lines as well.

A - Alain Lessard {BIO 21962461 <GO>}

Well, Paul, I can maybe start with cyber risk. We just launched our offer on cyber risk, basically April 1. So it's just after the end of the first quarter. So far, we are very pleased with the response either from broker and from clients. Like I said, our product is the first venture into that product. It's adapted to the type of clients we have. We're not looking at international clients. We're looking at basically simple risk commercial lines. So our offer is targeted to that. But so far, we are pleased with the response. We'll be in a better position to comment on numbers and growth probably in a quarter or two quarter to see what's the take-up rate.

On the trucking side and the specialty lines, I would say we're – the trucking is basically when we look at the growth in commercial auto, which is in the range of about 7.8% in the quarter, half of the growth is coming from the commercial auto – half of the growth in commercial auto is coming from trucking. And we're pleased, because what we're seeing right now, some of that growth is associated with account that we lost a few years ago at much lower premium. And it's probably – although the commercial auto is still very competitive, the trucking piece in the commercial auto is a sector, which we're now seeing a little bit firming up. And some of those accounts are coming back to us at the same kind of pricing we had when we lost them to lower price. So we're quite happy for the response. And in fact, I think we're now being in a position to leverage the acquisition we did with Jevco, an acquisition on the trucking side. Okay?

On the specialty line, this is a more long-term objective. To grow that, it's a much more complex market, lots of lines and everything. Our focus right now is basically making sure we're growing the trucking. And we're looking at seeing how we can improve our presence on the Ontario side.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. So there is good growth in specialty lines, upper single-digit, low-double digit depending on the segment you're looking at. This is – we could be bigger in specialty lines. I find our progress is slow on that front, and more efforts will be put on that front I think in the coming months and 2016, but good performance overall and good organic growth. Just not enough.

Q - Paul Holden {BIO 6328596 <GO>}

Got you. Thank you.

Operator

Your next question comes from Mario Mendonca with TD Securities. Please go ahead.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

Good morning. I think, Charles, you may have addressed this – I'm sorry, you may have addressed this in the previous question. But specifically on page 13 of the MD&A, you refer to the Ontario Superior Court decision related to prejudgment interest. And my – the first part of the question is, I would assume that went through reserve development in personal auto. And if so, could you just describe that dynamic, how that actually affects the company, and if you could quantify it as well?

A - Charles Brindamour {BIO 7012323 <GO>}

Absolutely. I'll ask Mathieu to give you the operational perspective and what that means in practice.

A - Mathieu Lamy {BIO 15207469 <GO>}

Is that – in Bill 15, there was a reduction of the prejudgment interest from 5% to 1.3%. The question is in the implementation, does that apply to open cases or to interest earned on open cases as of January 1.

A - Charles Brindamour {BIO 7012323 <GO>}

On new cases.

A - Mathieu Lamy {BIO 15207469 <GO>}

On new cases. Recently we had a court decision on April 15 that stated that this would apply to all open cases. So this is more, I'd say, a generous position for us compared to what was in the expected. So it is reflected in our Q1 results, a small portion of it. There is uncertainty. This will be appealed or will probably be appealed. And so that's why there's a margin of conservatism on how much we reflected in Q1.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

Could you tell us how much that affected Q1 and if there – maybe a sense for what's remaining?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. When I talk about the reduction in uncertainty and confidence in reform, I mentioned there probably was a point there. Part of that point, a little more than $15 million is related to this decision.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

Okay. But presumably there is more than $15 million remaining if you became fully confident?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, indeed, Mario, because this was a court decision post-quarter, which we felt needed to be partly reflected in the quarter results, and it's early. There is uncertainty. There is various thresholds that this will need to go through, and as such, yes, indeed. The -

Q - Mario C. Mendonca {BIO 2450557 <GO>}

The $15 million pre-tax is the right number to think about?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

Okay. And then, if you could provide some context around the $22 million gain on investments in associate – it's a number I haven't paid too much attention to, but it sort of – it moved higher this quarter. So, some context there would be helpful.

A - Louis Marcotte {BIO 18040440 <GO>}

So, Mario, as we are growing our broker network and increasing our equity stakes in them, we basically have step acquisitions if you want. And when we increase the ownership, that figures a gain from the historical cost to the current value, and those are the gains that you are seeing through non-operating earnings.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

The $22 million is a fairly meaningful number in a given quarter. Should we just assume it's going to be lumpy and every once in a while, we'll see a gain like this?

A - Louis Marcotte {BIO 18040440 <GO>}

Once in a while.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

Okay.

A - Louis Marcotte {BIO 18040440 <GO>}

It's been active. As you know, we've been very active last year. So you're seeing a couple of transactions close in Q1, which triggers these gains. But I would say it's lumpy going forward.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

Thanks very much.

Operator

Your next question comes from Doug Young with Desjardins Capital. Please go ahead.

Q - Doug Young {BIO 5640851 <GO>}

Hi. Most of my questions have been asked and answered, but one thing I want to go back to was just the impact of weather in this quarter. If I look at your current year accident year combined ratio deterioration year-over-year, it looked like it was around 2.5 points, and maybe, Louis, I think maybe you mentioned it, that weather had a 2 point impact in the quarter. Is that right? So, essentially, if we were to exclude weather, the current accident year combined ratio would be relatively flat. Am I thinking about that correctly?

A - Louis Marcotte {BIO 18040440 <GO>}

I guess my two points was the overall underlying loss deterioration, and we think most of it is weather.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. It's the right way to think about it, Doug. And in fact, if you look at where the current accident year deterioration is taking place, it's essentially in personal and commercial lines automobile, which from our perspective is largely weather-driven.

Q - Doug Young {BIO 5640851 <GO>}

Okay. And then just coming back to the prior-year reserve development question, I guess presumably once you get some comfort with the new reforms and the budget, there would be an additional release of reserves that would come through. I would presume that you're holding some conservatism around that as well. I guess, is that correct? And can you kind of talk about – if you could quantify and talk about what that could mean. But what I'm trying to go with it is, essentially, are we talking about positive reserve developments for Intact over the next few years, staying in the 7% to 9% range versus maybe the 3% to 5% that you mentioned is more the historical average?

A - Charles Brindamour {BIO 7012323 <GO>}

Couple of points, Doug. If you look at the past four years, it's been on an annual basis closer to 4%, 5%, which is above the range we've guided towards historically. When you say 7% to 9%, I would say this is a Q1 observation, and therefore, very important to understand the seasonality that exist there. I think that the fact that we've been above our 3% to 4% range in the past four years or five years, AXA came on board with a stronger financial position than we had assumed when we bought that business. That contributed to the excess of 3%, 4%, or the excess of 4% here, and clearly reforms were another factor.

I wouldn't plan for 5% necessarily going forward. I think 3% to 4% with a stronger bias on 4% is probably closer to what one should think about longer term. We're in a transition period. We had about 10 different types of reforms that have taken place in the past 18 months. So, clearly a transition. As you know, on bodily injury in particular in Ontario, these are long-tail type claims. And you've got still – even though the reforms were at the end of 2010, you have still a few years worth of transition. We think that what we observe in the environment is coming along our expectations, sometimes better. We need to keep an eye on inflation at the same time and integrate the impact of the reforms that have been ruled out in the past 18 months, plus what's coming in the budget. There's a lot of vectors crossing each other here, hence our caution.

Q - Doug Young {BIO 5640851 <GO>}

Okay. And just lastly, the new MCT guideline, you mentioned in the release that it's 2 point positive impact quarterly through 2015. So presumably 2 points was in Q1, 2 points for – six points is still yet to come. And – but I think this has been phased in through 2015, 2016 and 2017. Is this more front-end loaded or is there additional benefits that come in 2016 and 2017?

A - Louis Marcotte {BIO 18040440 <GO>}

You're absolutely right. It is phased in over three years. We're very cautious over the prediction after 2015 because the rules change, tend to change more frequently. So I think it's baked in for 2015 at nearly 2 points a quarter, and then there's more to come in the next two years. But we're cautious with other changes that could occur that would offset the rest of the phase-in.

Q - Doug Young {BIO 5640851 <GO>}

Is this specific or is this just being conservative, or are there specific issues of changes that you see that would – like if everything stayed the same, what would be the benefit in 2016, 2017, and what would cause that not to -?

A - Louis Marcotte {BIO 18040440 <GO>}

This thing is a straight-line amortization at 2 points a quarter. Basically it's 21 points roughly over the entire gain and amortizing over three years. Again, we're just being a bit prudent into the impact of future changes that might come, and we're not sort of counting on the increases in the next two years.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. I think there will still be changes in the MCT, likely in the coming two years, three years, and I think we need to face ourselves.

Q - Doug Young {BIO 5640851 <GO>}

There's nothing in particular, you're just being over – you're being conservative?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. Not overly. Just conservative.

Q - Doug Young {BIO 5640851 <GO>}

Just conservative. I didn't want to put overly in there. Just, just – okay. Thank you.

Operator

Your next question comes from Tom MacKinnon with BMO Capital. Please go ahead.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yeah. The question has been asked and answered, but maybe you just elaborate a little bit about the tax impact on the treatment of the dividends. What's – in particular, what that relate to and how you might be able to mitigate that?

A - Louis Marcotte {BIO 18040440 <GO>}

Sure. So, firstly, important to note that it's uncertain we don't know the final outcome. They might be changed. What it really relates to is some of the dividends basically on the alpha strategies were tax-free for us, and given the changes that are coming up, they would become taxable. And that's where we calculate. We estimate the impact at $12 million to $15 million a year of lost earnings because these dividends would become certainly taxable, and this starts at the end of this year if there are no changes. And -

A - Charles Brindamour {BIO 7012323 <GO>}

We're market neutral and dropped alpha-type strategies.

A - Louis Marcotte {BIO 18040440 <GO>}

Yeah.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay.

A - Louis Marcotte {BIO 18040440 <GO>}

Yeah. So it's actually the alphas that are mostly impacted. And then in terms of changing it, it's fairly new. So our team is looking at what kind of actions they can take. But I think it's important to reiterate that what action we take to offset will be done in a measured way within our current risk management approach. So we're not going to be chasing yield here. It's just a matter of finding something. This was a very effective strategy and now trying to find something as effective as what we're trying to do but within the same sort of risk management approach.

Q - Tom MacKinnon {BIO 2430137 <GO>}

How should we look at this going forward? Should we assume $12 million to $15 million annual increase in your tax bill or to what extent we should assume some of this is mitigated?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. I think that – so this is a recent decision. We're working with the investment guys (49:37). We'll relocate the capital that will be freed up as a result of this change. So I don't think one should assume that the tax bill goes up by $12 million and $15 million. That's not what we assume anyways, and we'll try to bridge the gap working within our existing risk (49:56).

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thanks very much.

A - Charles Brindamour {BIO 7012323 <GO>}

We're looking at options, though. Yeah.

Operator

And there are no further questions at this time. I will now turn the call back over to the presenters.

A - Charles Brindamour {BIO 7012323 <GO>}

Well, maybe I understand that Brian Meredith from UBS had a tough time logging in. And one of his questions, which I thought was very pertinent, was related to frequency and whether there was more kilometers driven as has been observed in the U.S., here in Canada. So I'll let Patrick comment on your observations on frequency in the quarter and maybe talk about what UBI will allow us to do going forward with that sort of information.

A - Patrick Barbeau {BIO 18476397 <GO>}

Yeah. So, when results in automobile are affected by weather, we're talking about frequency of smaller claims. So we've seen this frequency go up slightly in Q1. Regarding UBI or our telematics situation, we have now reached above 90,000 clients enrolled. That – together, all those clients have driven something like 350 million kilometers that we can analyze in our database. And so that's where we are for UBI. And I'm not sure, Charles, the link that you were telling between two.

A - Charles Brindamour {BIO 7012323 <GO>}

Well, the exercise we haven't been able to do, Brian, because UBI is the recent rule-out, is to compare what the pool was driving last year versus what the pool is driving this year.

A - Patrick Barbeau {BIO 18476397 <GO>}

Yeah.

A - Charles Brindamour {BIO 7012323 <GO>}

The upside is, well, you relied on indirect statistical information in the past, now we have the data to have an actual direct comparison in driving. And I must admit we were not necessarily focused on that in aggregate. But I think your question is a good one, and we'll try to tackle that in the coming weeks just to get a better grasp on this. I think it's a very good point. Thank you. Dennis, sorry about that.

A - Dennis Westfall {BIO 15155973 <GO>}

No. Great.

So, thanks, everyone, for participating today. The webcast will be archived on our website for one year. A telephone replay will be available at 2 PM today until Wednesday, May 13. And a transcript will be made available on our website.

Please note that our Annual Meeting of Shareholders will be held at 2 PM Eastern Time today at the Art Gallery of Ontario in Toronto. Our second quarter results for 2015 will be released on July 29. That concludes our conference call for today. Thank you, and have a great day.

Operator

And ladies and gentlemen, this concludes today's conference call. You may now disconnect.