S&P Capital IQ

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Intact Financial Corporation TSX:IFC

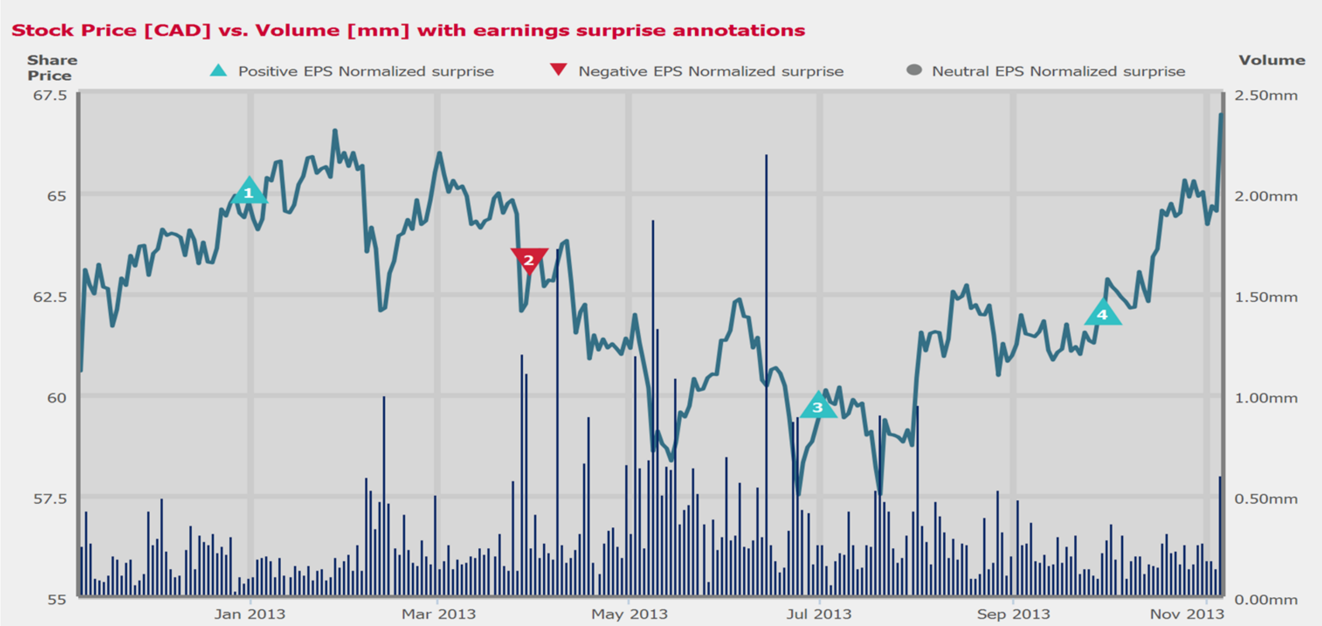
FQ4 2013 Earnings Call Transcripts

Wednesday, February 05, 2014 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2013-			-FQ1 2014-	-FY 2013-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.21	1.05	(13.22 %)	1.26	3.69	3.62
Revenue (mm)	1835.63	1702.00	(7.28 %)	1923.36	7195.34	7319.00

Currency: CAD
Consensus as of Feb-05-2014 3:02 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2012	1.35	1.42	5.19 %
FQ1 2013	1.32	1.27	(3.79 %)
FQ2 2013	0.74	0.89	20.27 %
FQ3 2013	0.32	0.39	21.88 %

Call Participants

EXECUTIVES

Alain Lessard
Senior Vice President of Commercial Lines

Charles Brindamour
Chief Executive Officer and Director

Dennis Westfall
Former Vice President of Investor Relations

Mark A. Tullis
Vice Chairman

Mathieu Lamy
Chief Information Officer and Senior Vice President

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Mario Mendonca
TD Securities Equity Research

Paul David Holden
CIBC World Markets Inc., Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Good morning. My name is Sharon, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Corp. Fourth Quarter Results Conference Call. [Operator Instructions] Thank you.

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

Dennis Westfall
Former Vice President of Investor Relations

Thanks, Sharon, and 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 today.

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

With that, I'll ask Charles to begin his remarks.

Charles Brindamour
Chief Executive Officer and Director

Thanks, Dennis, and good morning, everyone. We announced earlier today a fourth quarter net operating income of $143 million or $1.05 per share, down 26% from last year as severe weather took a toll on our underwriting performance.

The active winter season across much of the country led to an elevated level of Cat losses and increase in claims in our auto businesses, as well as higher claims severity in property.

The quarter brings a close to a challenging year, with more than $0.5 billion of catastrophes after reinsurance. That being said, we were able to generate an operating ROE of close to 11% and take advantage of the adversity to grow our business by close to 7%, as well as launch many initiatives to better position ourselves for the years to come.

I'm pleased with the progress we've made to date on our goal to improve results and personal property. As I indicated on our last earnings call, we started putting additional rate increases in the system in early November, resulting in total rate increases in the teens. We remain very confident that our action plan will bring roughly 10 points improvement in the coming 18 to 24 months.

As we are an early mover, this resulted in the loss of a couple of points of units in the quarter, largely in line with what we anticipated. But despite moving faster than our competitors, we generated an underlying growth of close to 4.5% in the quarter, which excludes the impact of converting 2-year fall season to 1-year fall season, as Mark will describe in a moment.

But rate action is only one element of our home insurance plan. As we've announced to our brokers earlier in 2013, we will implement meaningful product changes in the coming months, as well as offering customers the option to reduce premiums through prevention discounts.

The rise in losses these past few years has forced our peers to also announce profitability measures and begin taking underwriting actions, which should help with our retention in the latter part of the year.

I'm pleased to report that this line of business, which lags our outperformance in other lines, is now starting to show signs of outperformance with close to 5 points -- or 5 loss ratio points at the end of September.

Moving to automobile insurance. We've maintained our positive view on this line of business, which generated a solid combined ratio of 93.2% for the full year 2013. The Q4 combined ratio of 98.4% reflected the challenges presented by severe winter weather.

Overall, we're operating in an environment where both competitors and regulators behave fairly rationally, and costs have been generally stable in the recent past.

Understandably, Ontario continues to be an area of interest for investors, but our view has not changed. As far as the government's auto insurance cost and rate reduction strategy, half the market has filed for rate reductions, leading to roughly 4% reduction across the market, as a whole.

We will reduce our own rates to customers by about 5% beginning in April. We expect companies that have not yet filed rates will do so in the coming months to help meet the government's midterm target of a cumulative 8% average reduction by August 2014.

We're confident about our margins in this market, and we'll look for growth opportunities in the coming months. We trust that it's very clear for the government that further rate reductions can only come in conjunction with meaningful cost reduction measures.

Since announcing its strategy last year, the government has shown its determination and commitment to reducing the cost of insurance to Ontario customers by introducing a number of legislative and regulatory measures that has and will contribute to reducing the cost of claims in the months to come.

These are steps in the right direction, and we remain supportive of the government's efforts to make auto insurance more affordable for Ontarians, while also working on the sustainability of the product.

As we've expressed, we believe our margins are well protected as we enter 2014, with our rate reduction strategy in Ontario rooted in a combination of announced government cost reduction measures this fall, with a number of them effective this month, actually, as well as the introduction of usage-based insurance and a number of other initiatives.

In summary, the situation in Ontario remains in line with our base scenario.

When it comes to our outlook for the industry, we foresee low single-digit growth in the near term, with upper single-digit growth in personal property and low single-digit growth in personal auto and commercial lines. We continue to expect the current hard market conditions in personal property to accelerate meaningfully in the foreseeable future.

We also expect the commercial P&C market to continue to firm up with intensity, accelerating for approximately 1/4 of the market in the near term.

The low interest rate environment and elevated losses from catastrophes should support our growth outlook.

From a profitability perspective, we expect the industry's combined ratio to improve in 2014, given the unprecedented level of Cats seen in 2013.

Overall, we expect the industry's ROE to trend back towards its long-term average of 10% this year.

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

Our confidence in our earnings outlook and solid financial position enabled us to increase our quarterly dividend by 9%, $0.48 per share. This marks the ninth consecutive year of dividend increase for IFC shareholders.

Looking back on 2013, I'm proud of the work our employees do, in particular in challenging times and the resiliency they've demonstrated. And I say resilient because we were able to generate an operating ROE north of 11%, despite incurring more than $0.5 billion in pre-tax Cat losses.

While we are pleased with our substantial industry outperformance of close to 600 basis points at the end of September, an 11% operating ROE is not a level with which we're happy, and we intend to continuously improve and insulate our business from natural occurrences to return to our historical levels of profitability.

In conclusion, my team and I are energized by our prospects for 2014 and beyond, and believe that the disciplined approach we take towards operating our businesses will continue to serve us well. This, along with our solid capital level, places us in a strong position to benefit from the environment in which we compete.

I'll now turn the call over to Mark Tullis.

Mark A. Tullis
Vice Chairman

Thanks, Charles. Today, we announced fourth quarter net operating income per share of $1.05 with a combined ratio of 96.3%, compared to 92.1% in fourth quarter of last year. The active winter season across much of Canada contributed to a $39 million increase in Cat losses and negatively impacted the underlying current year loss ratio.

In addition, we recorded $19 million less favorable prior year claims development in the quarter.

Two items impacted our reported top line growth in the quarter. First, we have decided to no longer offer 2-year property policies. This is part of our action plan to improve home insurance results, giving us greater flexibility to adjust policy conditions and pricing.

For written premium, the required accounting treatment is to report 2 years' worth of premium for these policies, when they are issued or renewed. So as they convert to 1-year policies, it looks like the premium is down by half.

When removing the impact of 2-year policies, our reported growth of 1% is actually closer to 3% on an underlying basis. This will continue to impact our reported written premium growth for the next few quarters.

It's important to note that this does not affect earned premium or reported profit.

Second, although we began reporting Jevco premiums in the fourth quarter 2012, the effect of re-underwriting the Jevco business did not hit the books until January 2013. So in fourth quarter 2014, for the Jevco business, we are reporting 2013 premiums after re-underwriting, compared to 2012 premiums before re-underwriting.

As we have previously stated, this re-underwriting effort resulted in a trimming of exposure, particularly in commercial auto taxi and trucking fleets, and reduced our total growth by 1% for the quarter.

Note that this is the only quarter where reported year-over-year growth will be impacted by Jevco re-underwriting, as it's already included in all of our reported 2013 premium.

The combined ratio of our personal property business was 86.5% despite the difficult weather, which has unfortunately continued into January. We continue to target a combined ratio of 95% or better for this line on a sustainable basis. I believe we are well on our way to accomplishing this goal, and we will roll out the next wave of product changes in the coming months.

The actual underlying top line growth for this line of business, adjusting for the 2-year policies, was 4.5%, despite the anticipated reduction in units as we roll out our home insurance plan.

Moving to auto. Our underlying performance in Q4 was negatively impacted by the severe weather conditions, but our 98.4% combined ratio was almost 5 points better than a year ago due to a $43 million improvement in favorable prior year claims development.

From a top line perspective, growth of 2% in the quarter reflected the final stage of re-underwriting related to Jevco.

Premium growth in our commercial lines business during Q4 was also affected by our re-underwriting efforts related to Jevco and by our actions to reduce the earthquake exposure of our portfolio.

Overall, we've reduced the tail risk in our portfolio by about 15% since acquiring AXA, and we expect to reach our target of a 20% reduction by mid-2014.

Our underlying current year loss ratio and commercial P&C was unchanged from a year ago, though the overall combined ratio rose 4 points to 100%. The change from a year ago was largely driven by less favorable prior year claims development, partly due to development related to one particular file dating from a number of years ago.

The underlying performance in commercial auto was clearly impacted by the severe winter driving conditions.

Our expense ratio of 29.3% in the quarter was down from last year, driven by lower variable commissions.

On a full year basis, our reported expense ratio of 31.1% benefited from about 0.5 point of acquisition-related synergies.

For 2013, the overall favorable impact from synergies was evenly split between the claims ratio and the expense ratio. As the bulk of our synergies have now been realized, we expect less incremental benefit on the combined ratio in 2014.

Our net investment income of $104 million was 2% higher than a year ago as the improvement from migrating the additional investments from the Jevco acquisition into our higher-yielding asset mix offset the declining yield environment.

Now that the Jevco assets have been fully integrated, we expect investment income will remain relatively stable in 2014 versus 2013.

Our financial position at the end of 2013 remains solid, with $550 million in excess capital and a debt-to-capital ratio of 18.7%, below our target of 20%.

Our estimated MCT improved 4 points to 203% within the 105 -- 195% to 205% target Range outlined in last quarter's earnings call. The ratio was helped by our earnings in the quarter and improved capital markets.

Acquisition synergies remain on track as our integration activities are essentially complete. During 2013, we converted all remaining AXA Canada policies into Intact systems and are on track to reach our after tax synergy target of $100 million in the coming months as we continue to make progress on decommissioning systems.

Jevco was ahead of schedule from a synergies perspective, and its systems will be decommissioned throughout 2014.

I want to thank our employees for their hard work over the past 2 years. With the expertise they now have, we are even better positioned for future opportunities that may arise.

I believe that Intact continues to have sustainable competitive advantages due to our disciplined approach and quality operations.

As 2013 demonstrated, our employees have shown that they will work hard to provide our customers with world-class service even in the face of unprecedented level of weather events.

With that, I'll turn the call back to Dennis.

Dennis Westfall
Former Vice President of Investor Relations
Thanks, Mark. Sharon, we're now ready to take questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Geoff Kwan from RBC Capital.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

First question I had was just on Ontario auto. Just taking a look at the wording that you had around your outlook on it, and it may be splitting hairs, but it seemed like you might have taken a very, very slight more cautious wording around it. Maybe not so much around where you think the ultimate impact is, but maybe around the timing. Just wondering if you could comment on that?

Charles Brindamour
Chief Executive Officer and Director

No. I would say, Geoff, that maybe I should have checked the words more carefully, but the intention was not to telegraph any change in stance there. I think we're still very much in the base case. And we -- as we met investors throughout the fall, we've talked about the fact that there would be a number of cost reduction measures that would be introduced towards the end of '13, early '14. This actually happened. You see rates starting to come down. I think the key message and the key point, though, is that further meaningful cost reduction measures are needed, and we think the government gets that. But certainly, no change in perspective at this stage, very much in line with the base case.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Okay. And in terms of about what got announced in December, obviously, it's just a bit of a proposal right now rather than something concrete. With the potential process that's going on, and when it may ultimately get changed, would you say from -- how that impacts you on the cost side, is that how you've thought things would kind of play out so far?

Charles Brindamour
Chief Executive Officer and Director

I'll let Mathieu explain that to you, Geoff. But I would say there's actually stuff that became effective last week and last fall. So there's real concrete steps beyond intentions to change things in the coming weeks and months.

Mathieu Lamy
Chief Information Officer and Senior Vice President

Yes. What became effective February 1 is the SABS change in AXA and benefits Ontario. So the pre-existing condition must now be medically documented. So that's a good point, and we think that's worth some cost reduction. Non-earner benefits selection will be final, so the person may now choose between 1 of the 2 options, the Replacement and the Non-Earner Care Benefit. And the Attendant Care benefit will be now compensated on actual economic class. So those 3 things will bring cost reduction. We also look forward to the ADR review that will bring modifications to the system, and that, too, should be beneficial to the cost side.

Charles Brindamour
Chief Executive Officer and Director

Thanks, Mathieu. By ADR, Mathieu means dispute resolution system. And I think one important point is the fact that in the budget in August, they really reinforced the sustainability of the minor...

Mathieu Lamy
Chief Information Officer and Senior Vice President

Reaffirming that the means of our bank binding is also good in 2013, yes.

Charles Brindamour
Chief Executive Officer and Director

Exactly. So all concrete stuff. Now, we’re not at 15 with that. That's pretty clear, and that's why I think the government is looking at a number of meaningful measures that will be presented in the coming weeks and months to take effect, we're hoping, this year.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Okay. And the last question I had was on the prior year claims development, when you take a look at over the past couple of years, it's helped the combined ratio in and around kind of 5 to 6 percentage points. I know you guys have talked about, historically, I think, it was roughly kind of more 3% to 4%. As you kind of look out over the next 12 to 24 months, do you see it kind of gravitating back towards your historical range? Or do you think it may stay in and around what we've seen over the past couple of years?

Charles Brindamour
Chief Executive Officer and Director

I'll ask Mark to comment. But just so we answer your question properly, is that an auto question or a total question?

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

I'm sorry, on a total basis.

Charles Brindamour
Chief Executive Officer and Director

Total basis. So in total, our advice over the long term remains 3 to 4. I think it's been elevated the past few years for a number of reasons, some of which may maintain a bit of momentum into the future, but clearly, in the long term, we remain giving the advice of 3 to 4.

Mark A. Tullis
Vice Chairman

Yes, fair enough. And this year was around 5. Last year, slightly above 5. I think that as uncertainty dissipates to a certain extent where change has taken place, this -- if the uncertainty dissipates in line with what was originally anticipated, I think you can see in the short term potentially better favorable development. But structurally speaking, 3 to 4 is the right sort of number to think about.

Operator

Your next question comes from Tom MacKinnon from BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

My question, with respect to premium growth in the personal property. I think we talked about excluding the noise from the 2-year policies, you were up 4.5% year-over-year with respect to that, and you just started implementing in November, the kind of teens levels of price increases. So how should we look at that in terms of direct premium written growth in personal property going forward? I anticipate after we go through the whole book, we should probably see the number up into the mid-teens. Is that -- would that be correct? And would that be sort of by the fourth quarter of 2014?

Charles Brindamour
Chief Executive Officer and Director

Yes. So I think the 2-year policy, overall, on personal property, has had little more than 4 points, I think impact. And as Mark said, there'll be that kind of noise for a number of quarters this year. I think -- when I think about personal property, on an underlying basis, I would say that there's 3 things that you want to keep in mind. First of all, units. And so as we've mentioned, we've seen a drop in units by about 1.8 points so far. And then when you look at overall rate increases, and some insured, you can indeed, think about low- to mid-teens. That's pretty clear that this is flowing through the system. The wildcard, Tom, which is not earnings sensitive per se, but that is top line sensitive, is the mix. In other words, your growth might differ by province in relationship with the harshness of the actions that you're taking, which differ by province. And that might change the overall picture of the national top line growth, so to speak. The other thing is that your growth shifts towards tenants and condo, where we're not taking meaningful actions because that is profitable. And then you have the introduction of prevention discounts and sub-limits, where -- and that's also part of the mix, where consumers will have the option to introduce prevention in their homes to protect their house and so on, and that is the wildcard in my mind. So units, I think, pretty clear. Rates, we're seeing low- to mid-teens. Then if you look at this quarter, the impact of the mix was a little more than 3 points, for instance. So I think that's the one that we'll have to watch, but we're not concerned about that because it's not earnings sensitive.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And given the -- sort of the acceleration in the level of Cat claims that we probably saw as a result of the December storms, do you think that would do anything to accelerate the industry in terms of moving towards more firming that you talk about in personal property? And would that have any impact on your ability to, I guess, to get your 10-point improvement faster than the -- I think it's the 12- to 24-month timeframe that you've been talking about?

Charles Brindamour
Chief Executive Officer and Director

So I think about Val Bolbin [ph] some of you have met at the Investor's Day, has been on the job for 2 months, so we will get his fresh perspective on your question, and then I'll chip in at the end.

Alain Lessard
Senior Vice President of Commercial Lines

Yes, I think, for sure, the recent Cats will probably accelerate the actions that are -- that we'll see from competitors. We have seen, just recently, a few of them starting to move with more important actions on underwriting and rates. So I think the recent experience will just continue to put -- accelerate that.

Charles Brindamour
Chief Executive Officer and Director

In terms of whether that will accelerate our ability to get to 10 points, I would say no, because we have a plan, we're rolling out the plan as planned. And that, over 18 to 24 months, we think we'll get to our 10 points. We're pretty confident about that. I think what this will help is our ability to retain our portfolio, and therefore, have better unit growth in time. And that's where, Tom, we're saying, look, we'll see what happens in the first half of this year. I think it takes some time for competitors to react from what the bolt-on of the issue says versus what happens in the field, but we're seeing some momentum, as Patrick have said.

Operator

Your next question comes from Paul Holden from CIBC.

Paul David Holden
CIBC World Markets Inc., Research Division

Just want to talk a little bit more about the year-over-year increase in the underlying loss ratio, with respect to commercial auto. Big jump there. I'm wondering if that had anything to do with the Jevco lines of business that you picked up, given that, historically, you haven't seen that type of volatility in that line.

Charles Brindamour
Chief Executive Officer and Director

I'll let Alain take this one.

Alain Lessard
Senior Vice President of Commercial Lines

Okay. Well, clearly, the fourth quarter increase in the commercial auto was very large, 16, although almost 16 points. And that's all driven by the current year loss ratio. And I would say there's like 3 phenomenon currently at play on this. The first one was, this year, this quarter, was affected by large losses more than the other quarter, but overall, for the year, there's no change between the level of large losses this year's and last year's. It was more like a distribution throughout the year. The other point is there was a slight increase in IBNR on -- in Québec, okay, related to a small change in reporting pattern. That accounts for about close to 4 points. The large losses account for about 5 points, a little bit more than 5 points. So leaving about 6 or 7 points in the quarter, and that's really weather-related in the quarter. But we saw an increase in frequency, an increase in severity. So that doesn't really change or gets associated with Jevco, and it doesn't change our view on the level of profitability of the line of business. It was more like everything happened in the fourth quarter for close to 15 to 16 point increase in the combined ratio. But there's no really change on the underlying view of our line of business there, either related to Jevco or a change in mix of business.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay. And then next question, with respect to commercial P&C. And we saw reinsurance rates in Canada increase by about 5% to 10% with Jan 1 renewals. How confident are you in your ability to pass through those type of rate increases?

Charles Brindamour
Chief Executive Officer and Director

Why don't you go ahead, Alain?

Alain Lessard
Senior Vice President of Commercial Lines

Okay. Well, I think that -- I think you're right. We saw, in our mind, rate increase in reinsurance about 5% or 6%. It's driven mostly in the lower layer of the Cat program. I think I'll go back to what Mark was saying earlier on, because we introduced, in 2013, a plan to manage our earthquake exposure in B.C. And we said, at the Investor's Day that we thought we would reduce our earthquake exposure by about 9%, but we thought that would be going beyond that and going a little bit further, and that was all to be implemented by the end of 2014. So basically, what happened is we've already exceeded our initial target of 9%. And like Mark said, we're estimating that we'll be reducing our earthquake exposure by the end of 2014, close to 20%. So that, basically, in our case, more than offset what happens on the situation on the reinsurance increase. So we'll see additional pressure on the market to put the firming condition in, but in our case, that additional pressure is basically offset by all the earthquake management that we did in 2014 and continue to do in 2014.

Charles Brindamour
Chief Executive Officer and Director

Yes, you're exactly right. So if I sort of bring it to the bottom line here, our ceded premium in '13 for Cat cover was about $134 million or close to that, I don't have the number in front of me. And given our consumption of reinsurance, because of the actions that both Alain's group and we've done in personal lines in B.C. our probable maximum loss in B.C. has dropped meaningfully, and as such, our consumption of reinsurance is dropping. And we think that our ceded premium for Cats will be down $7 million, $8 million this year.

Paul David Holden

CIBC World Markets Inc., Research Division

Great. And then I guess, just to follow-up on that in terms of the potential price increases in commercial P&C, sort of about 25% of your market that you're targeting. Is 5% to 6% sort of the range of price increases you're looking at? Or is it even something higher?

Alain Lessard
Senior Vice President of Commercial Lines

Okay. Well it's -- on the -- I would say, first of all, that we have been saying throughout the year that we were expecting firmer condition on about 25% of the book. I think what we're seeing right now is that 25% increase -- those increases are happening, okay? On the 25% of the book we're targeting, we see rate increases that are close to 10%, very close to being double-digit. The overall impact on our books, because it doesn't affect all the book, but the overall increase we saw in the fourth quarter, were about 3.8%, and that was up from 3% in the third quarter, and basically up from last year's, where we were seeing about 1.5% to 1.7% rate increase. So we're seeing an acceleration of the rate increases throughout the year, and we expect to continue at least at that level in 2014.

Paul David Holden
CIBC World Markets Inc., Research Division

Great. Final question. Charles, at the Investor Day, you mentioned that this is probably a good point in the cycle to get a little more aggressive in terms of growing premiums written. Has that view changed at all? Or is that still what you're thinking for 2014?

Charles Brindamour
Chief Executive Officer and Director

Yes. I think we're comfortable with our outperformance. We're comfortable with the underlying profitability, pretty much in all markets where we operate, with a caution, obviously, in personal property. We've completed our 2 integrations. Where we're essentially done, we have to shut the systems down. But operationally speaking, I think our troops are keen to grow services pretty strong across the operations. And I think we're in great position, actually, to seize opportunities in the market this year, both one client at a time or from a corp dev point of view. So that view has not changed at all.

Operator

Your next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

First, on the personal auto side. Do you have a similar number that you provided for the commercial auto with kind of non-CAT weather was for the personal auto in the quarter? Loss ratio?

Charles Brindamour
Chief Executive Officer and Director

The non-Cat loss ratio...

Brian Robert Meredith
UBS Investment Bank, Research Division

It's like increased frequency because of weather, yes.

Charles Brindamour
Chief Executive Officer and Director

Yes. So in terms of -- there's two things that happens. In terms of -- you've got a frequency change and then you've got a change in the profile of the claims as well in the quarter. So what is non-Cat frequency in commercial automobile is up about 6%.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay, perfect. All right. And then my next question is, you mentioned that the weather continued to be pretty bad in January. Can you give us any sense of kind of how bad? Is there anything we should be thinking about as far as what Cat losses or trends should look like in the first quarter so far?

Alain Lessard
Senior Vice President of Commercial Lines

Yes. Well, it's early to talk about the first quarter when we've just experienced January. And I would say there's been nothing of the magnitude of some of the events we've experienced in 2013, but we've clearly had a lot of snow.

Charles Brindamour
Chief Executive Officer and Director

Yes, a lot of snow, a lot of cold. And I think that sort of translates into frequency in automobile. Clearly, phones have been busier. And then in the context of Canada, you see on the props side of things, more fires than you normally would. Certainly something we've seen in Q4. And then frozen pipes is the other factor that you otherwise wouldn't see, but that we've observed in Q4, and we've observed in Q1 to a certain extent. In terms of guidance, Brian, there's nothing at this stage that we're comfortable sharing.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. And then with respect to the Ontario rate reductions that you've -- you're going to be pushing through in April, any impact from UBI on that?

Charles Brindamour
Chief Executive Officer and Director

Yes. So definitely, in fact, we think that there's a meaningful portion of that 5-point that is, indeed, UBI-driven, close to -- a little more than 1.5 points, we think.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Great. So from that perspective, it really shouldn't have any impact on margin?

Charles Brindamour
Chief Executive Officer and Director

No, exactly. Because it is a new business strategy, and the idea is to attract customers that have a better profile with that strategy. And then government introduced a number of cost reduction measures, and there's a number of levers we've pulled internally to make sure that our margins were protected.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And my last question, just curious, have you seen any -- in Ontario, any increase in nonstandard auto writings or anything going to the residual facility yet? Or would that be something we would see maybe later in the year as your competitors, perhaps, start to shed business?

Alain Lessard
Senior Vice President of Commercial Lines

No, we haven't seen that much of an increase yet. I think that transfer towards nonstandard of facilities usually lagging the other effect in the market. It might happen later in the year, but probably more towards 2015.

Charles Brindamour

Chief Executive Officer and Director

Yes, those signs are bad at this stage.

Operator

Our next question comes from Mario Mendonca from TD Newcrest.

Mario Mendonca
TD Securities Equity Research

Can we read anything into the lower reserve development in personal auto this quarter? And can you tie it into anything insofar as your outlook for arbitration?

Charles Brindamour
Chief Executive Officer and Director

No. No, I wouldn't read that. I think that, first of all, there is a pattern of -- there is seasonality with prior year development. The further you move in the year, the less favorable development there seems to be structurally speaking. So that's the first point. The second point is that one shouldn't read too much in quarter-to-quarter favorable development. Third point is, overall, automobile had 4.5% favorable development for the year, and I would say there's no arbitration or remediation outcome that we're concerned about. Maybe Mathieu you could give some color there.

Mathieu Lamy
Chief Information Officer and Senior Vice President

We've maintained the mid percentage that we had in the past, so the number of cases and accidents that we classify as minor injury has remained stable, so there's no change in our view.

Mario Mendonca
TD Securities Equity Research

Is that the 55% number you referred to in the past?

Mathieu Lamy
Chief Information Officer and Senior Vice President

Yes.

Mario Mendonca
TD Securities Equity Research

And then the current year core claims ratio in personal auto, I think, this might be the sixth consecutive quarter where it's increased year-over-year. And I can't see that there's any pattern emerging, because it's always for something somewhat different in the previous quarters. Is that a fair assessment? That there's still nothing on the personal auto side that's disconcerting from a trends perspective?

Charles Brindamour
Chief Executive Officer and Director

Alain, I think, even though you've been there for 2 months, have you observed the trend? And then I'll give you my perspective after.

Alain Lessard
Senior Vice President of Commercial Lines

Really, in Q4, we think that it's linked to the weather and driving conditions, so no real new trend emerging. We have seen an increase in loss severity outside of Ontario linked to whether, mostly. More collisions.

Charles Brindamour
Chief Executive Officer and Director

Yes. No, there's nothing new. I mean, we've talked in Q4 last year about Alberta. We clearly have our eyes on that province, but nothing new to report at this stage.

Mario Mendonca
TD Securities Equity Research

And then finally, in the context of acquisitions, and this may be a rather specific question, but I'll try it anyway. Would -- a company's exposure to -- or earthquake exposure, exposure to B.C., would that be an important consideration in an acquisition or is that something you think you can manage around overtime?

Charles Brindamour
Chief Executive Officer and Director

It's something we could manage around in the short term, in the midterm and in the long term. And I'll take you to the AXA acquisitions, where you will recall that we had about the same level of direct premium, AXA at 4x the quake exposure that we had. So I came out, basically, explained that to investors. We bought additional reinsurance so that our degree of conservatism was largely in line with what we had before the deal. And then, over a 24-month period, it actually moved from reinsurance to exposure management, which is what Alain just reported. So then the question becomes, is the reinsurance available? Should you pick up bulk of quick exposure? And the answer is, there is ample capacity in the reinsurance. And in negotiating the renewal, you'll see that at the upper layer levels, which is where quake actually comes in, more so than at the bottom layers, there's plenty of capacity.

Mario Mendonca
TD Securities Equity Research

So you would just bake it into the price that you pay in any particular asset, then?

Charles Brindamour
Chief Executive Officer and Director

Yes. Yes.

Operator

[Operator Instructions] We have no further questions at this time. I'll turn the call over to the presenters.

Charles Brindamour
Chief Executive Officer and Director

Thank you, everyone, for participating today. The webcast will be archived on our website for 1 year. A telephone replay will be available at 2:00 p.m. today until Wednesday, February 12. The transcript will be made available on our website. Please note that our first quarter results for 2014 will be released on May 7. That concludes our conference call for today. Thank you, and have a great day.

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