![S&P Capital IQ]

CONTENTS

Intact Financial Corporation TSX:IFC

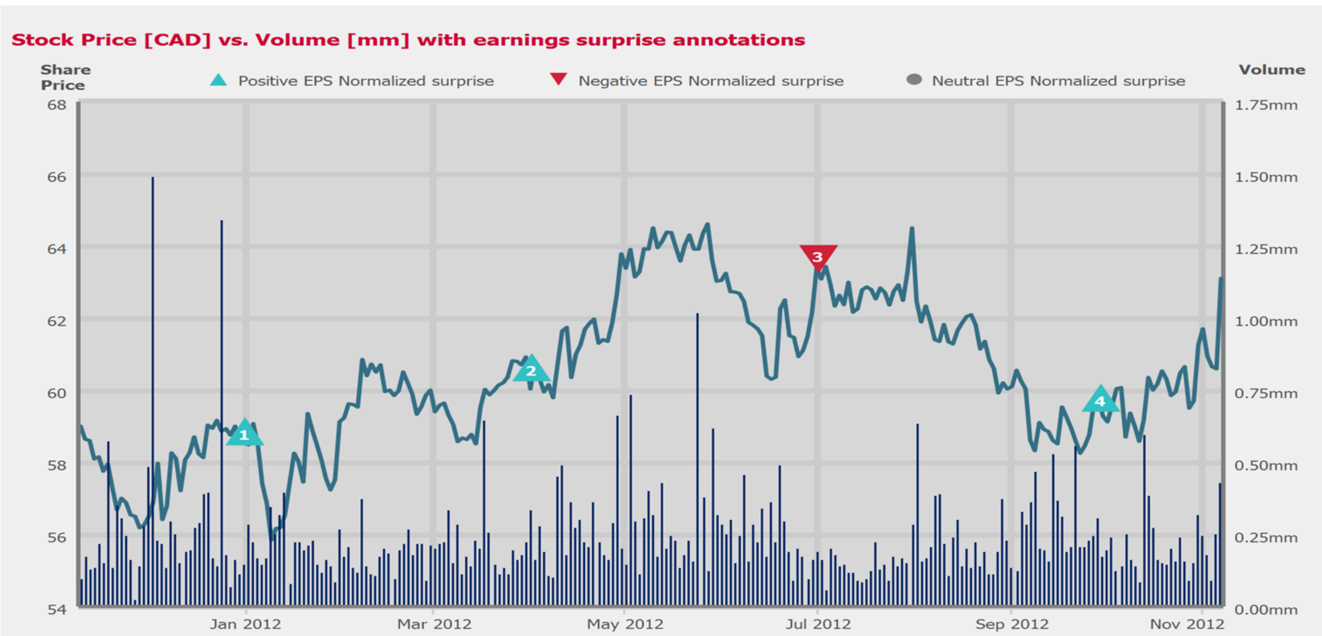
FQ4 2012 Earnings Call Transcripts

Wednesday, February 06, 2013 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2012-			-FQ1 2013-	-FY 2012-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.35	1.42	▲5.19	1.34	4.93	5.00
Revenue (mm)	1796.32	1690.00	▼(5.92 %)	1798.75	6746.98	6868.00

Currency: CAD
Consensus as of Feb-06-2013 11:26 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2011	1.12	1.14	▲1 1.79 %
FQ1 2012	1.25	1.34	▲2 7.20 %
FQ2 2012	1.41	1.35	▼3 (4.26 %)
FQ3 2012	0.56	0.93	▲4 66.07 %

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

Martin Beaulieu
Chief Operating Officer of Direct to Consumer Distribution and Senior Vice President

ANALYSTS

Andre-Philippe Hardy
RBC Capital Markets, LLC, Research Division

Bryan Brown
Macquarie Research

Doug Young
TD Securities Equity Research

Mario Mendonca
Canaccord Genuity Limited, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Good morning. My name is Megan, and I will be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Corporation Fourth Quarter Results Conference Call. [Operator Instructions]

Dennis Westfall, VP of Investor Relations, you may begin your conference.

Dennis Westfall
Former Vice President of Investor Relations

Thanks, Megan, and good morning, everyone. A link to our live webcast and background information for the call is posted on our website at www.intactfc.com under the Investor Relations tab. As a reminder, the slide presentation contains a disclaimer on forward-looking statements, which also applies to our discussion on the conference call today.

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

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

Charles Brindamour
Chief Executive Officer and Director

Thanks, Dennis. This morning, we announced a fourth quarter net operating income of $194 million or $1.32 per share, that's 25% higher than last year, reflecting our strong underwriting results.

Overall, the exceptional performance in Personal Property offset actions taken in our Personal Auto business. I believe our combined ratio of 92.1 is indicative of the true underwriting performance in the quarter, despite the large year-over-year movements within our Personal Lines businesses.

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

Our strong underwriting performance, as well as $102 million of net investment income, resulted in an operating ROE of 16.8%, while book value per share increased 11% from a year earlier. The confidence in our earnings outlook, as well as solid financial position, enabled us to increase our quarterly dividend by 10% to $0.44 per share. This marks the eighth consecutive year of dividend increase for IFC shareholders.

Before taking a look at our outlook for the industry in 2013, I want to make a few comments on the performance of our Personal Lines businesses in the quarter.

The 103% combined ratio in Personal Auto is sure to raise some questions, so let me give you our view of the quarter by describing some of the larger moving parts, starting in Ontario. First, it's important to stretch -- or stress that there is no change to our view of the effectiveness of the Ontario reforms. For a number of quarters now, we've indicated that although we saw strong field results in Ontario, we maintain our prudent reserving approach, given the level of uncertainty in the environment. This was again the situation in Q4. However, given the increased uncertainty regarding bodily injury claims, we increased our provisions.

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

Turning to Alberta, a system that's been quite stable since its own reforms in 2004, we've seen an increased level of activity on bodily injury files in litigation in recent months, while certain types of injuries became excluded from the minor injury cap.

So given these observations for Alberta, we prudently moved to stay ahead of this potential trend by increasing reserves for all accident years since the 2004 reforms, further contributing to the unfavorable development experienced in the quarter.

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

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

For the full year of 2012, we reported a combined ratio of 93.5 despite more than 10 points of losses from cats. So adjusting for some nonrecurring favorable prior year development, our results would have come in just above 95%, the minimum acceptable for this line of business, as I've mentioned numerous times before.

So to me, clearly, our actions are paying off. But it's important to maintain our focus, in particular, in the Alberta market, given the continued challenging environment caused by severe weather events.

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

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

From an underwriting perspective, the industry is tracking to about 97% combined ratio after the first 9 months of 2012. So for 2013, we anticipate some improvement in Personal Property, largely driven from the continued hard market conditions in that line of business, as well as potential loss mitigation actions. We do not foresee significant change in the loss ratio in Personal Auto, while Commercial Lines should also remain relatively stable.

Turning to the industry's ROE, we do not expect material improvement in the near term from the 9% level, at which it stood after 3 quarters. Although underwriting might improve slightly, we anticipate this would be offset by the negative impact on investment income from the low-yield environment.

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

So Mark will provide updates on our 2 integrations in a moment. But overall, I'd say that both are progressing quite well, and on many fronts, we'd say better than we expected. I'm impressed with what has been achieved to date, and I want to thank all our employees, from coast to coast, for their hard work in ensuring that our customers and brokers continue to receive, what is in my view, world-class service.

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

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

Mark A. Tullis
Vice Chairman

Thanks, Charles. Today, we announced strong operating income, driven by underwriting results. Earnings per share of $1.32 were more than double a year ago, reflecting improved operating results, higher investment gains and reduced acquisition-related expenses. On an adjusted basis, excluding the acquisition-related items, we recorded EPS of $1.51, 32% higher than Q4 of 2011.

Q4 marked the first quarter with AXA in the prior year comparable and was also the full first -- first full year with contribution from JEVCO. Premium growth of 7% was largely driven by the addition of JEVCO, but we also generated organic growth at a low-single-digit level.

Slides 10 and 11 shows results by line of business. In Personal Auto, the 9% growth in premiums reflects the addition of JEVCO, as well as organic growth. From an underwriting perspective, the 10-point combined ratio deterioration is largely attributable to the unfavorable prior year development that Charles discussed. The change in our underlying loss ratio, excluding cats and prior year development, was 3 points, reflecting reserve actions, as well as higher claims frequency in Alberta.

Growth in Personal Property of 3% was driven by higher rates. It's worth highlighting that the JEVCO book included only a small amount of Personal Property business. Underwriting results were exceptionally strong, with several moving parts, as Charles described.

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

The combined ratio in Commercial P&C was relatively unchanged from the prior year, and Commercial Auto reported another very strong quarter, with a combined ratio of 84.2%. For the full year, the Commercial Auto combined ratio was 81.5%, the fifth consecutive year with a combined ratio below 90%. The expense ratio in total was 1 point higher in 2012 versus 2011. This change was the combined effect of an improvement in general expenses, reflecting AXA-related expense synergies, offset by an increase in commissions. This commission increase is due to mix differences with a full year of AXA business, as well as increased profit commissions. Keep in mind that a portion of commissions are variable in nature and are tied to underwriting performance, so that improvements in the claims ratio are partially offset by higher commissions.

On the investment side, net investment income of $102 million in the fourth quarter was flat versus a year ago, as additional investments, primarily related to JEVCO, were offset by declining yields. Our market-based yield of 3.6% was down from 3.9% in Q4 2011. We expect the prevailing interest rate environment to essentially offset the growth in our investments in the coming quarter.

Our financial position remained solid at the end of 2012 with an MCT of 205%, nearly $600 million in excess capital and book value per share of $33.03, 11% higher than a year ago. We ended the quarter with a debt-to-total-capital ratio of 18.9%, below the target of 20%.

We have made good progress on both of our integrations. For AXA Canada, system shutdown projects are well underway, and we should be complete by the first part of 2014. We maintain our $100 million after-tax synergy target and expect to largely reach this run rate by the end of 2013, and the remainder when system shutdown is complete. We estimate the run rate as $52 million at the end of 2012.

We continue to expect the JEVCO acquisition to be accretive to net operating income per share in 2013. Annual synergies amounting to $15 million after tax are expected from a combination of external loss adjustment expense reductions, shared services savings, reinsurance and system-related cost savings. And we expect the run rate to be at this level by the end of 2014.

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

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

Dennis Westfall
Former Vice President of Investor Relations
Thanks, Mark. Megan, we are now ready to take questions.

Question and Answer

Operator

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

Tom MacKinnon
BMO Capital Markets Equity Research

Just a question with respect to the cat definition and the -- in Ontario; As I recall, the fourth quarter of last year, you did a onetime kind of reserve increase in light of a recent court decision then on an expanded kind of cat definition. What's different this time, and maybe just expand a little bit further? And can you tell us about the process of which you went through in terms of doing the reserve build? And then can you talk about the outlook, with respect to this cat definition? Any actions with respect to FSCO in that regard, or -- and how long before we might see any kind of legislative change on that definition, if at all?

Martin Beaulieu
Chief Operating Officer of Direct to Consumer Distribution and Senior Vice President

So the process we've gone through is to look at our existing files and see how many of these files would now qualify for the, now, weaker definition of the cat impairment. And the decision that had been taken was one where it now says that the spheres of lives that you have to be impacted on, in the past, you had to have 2 of these spheres impacted, now, it's only 1. And we could go through our files and see how much that would impact our current portfolio of claims. So we've made an adjustment of roughly $11 million in 2012 on this. The adjustment that we've made in 2013 are to continue to reflect that weakened environment and also what's happening in BI, the uncertainty that we see in BI. Where we have -- what we see as an outlook is that fiscal as -- at the committee that was working on the proposed new definition of cat impairment, which would bring more clarity, less disputes, and it would address this situation of the spheres of life that are impacted, but also the case that was also made in a bitter year, during the year, which was around the stacking of physical and mental disability, so...

Charles Brindamour
Chief Executive Officer and Director

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

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. So continue here, it sounds like the Ontario adjustment in the quarter then was $11 million. And so presumably, the larger reserve adjustment must have been done in the Alberta case. If you can just expand a little bit on that and what the outlook could be, how you went through your book and what the outlook could be from a regulatory perspective there?

Martin Beaulieu
Chief Operating Officer of Direct to Consumer Distribution and Senior Vice President

Yes, all right. And what we see there in Alberta is that the level of activity in files and litigation is increasing. And the system is asking us now to negotiate more of these files, and also to some of these -- some of the files that have been, up until now, that have not come to -- with reports in our files of diagnosis are now getting to that point. And it has taken a long time for these files to get there. So now, we're seeing more activity, and that's what we're reflecting in these past 3 months of the year. We've been reflecting that increased activity, and now we're looking into how this will become a trend, and we'll certainly react if we -- in terms of our pricing conditions, if this is warranted.

Tom MacKinnon
BMO Capital Markets Equity Research

And just to follow up with respect to FSCO...

Charles Brindamour
Chief Executive Officer and Director

Sorry, Tom, I think in your question, you asked about cats and accident benefit in Ontario. Martin gave you the answer on cat. You concluded that the bulk was then coming from Alberta, and Martin gave you the answer in Alberta. But I think that in Ontario, voluntary files on the tort side of the product has also been an area where we've made adjustments. And I would say in the context of Ontario, that's probably a larger adjustment than what we've done on accident benefit in Ontario to reflect this recent decision, which is given the sort of new definitions that are being considered, not a concern at this point in time. In the context of Alberta, unlike Ontario, there's -- in the past 2 or 3 months, so it's very recent and hot-off-the-press observations, there has been change in the field. In the case of BI Ontario, we haven't seen much change in terms of what's being reported to us. But in Alberta, as Martin mentioned, a number of court decisions have weakened the cat on pain and suffering awards. This has driven a number of files that were outstanding from the past to accelerate in the system. And as a result, we've taken a cautious stance on all accident years in Alberta since '04 to make sure that we were in good shape in there. It is new information to Martin's earlier point. And so, when I think about Alberta, clearly, pricing is on the table right now. In Ontario, there's no change, in my view, that warrants pricing action in the short term. But in Alberta, we're looking at our price adequacy, and we'll decide in the coming weeks and months whether what we've observed is a trend. And if it is, what the pricing actions will be. I think it's important to see these changes in the quarter, or adjustments in the quarter, in 3 categories, AB Ontario, BI Ontario and BI Alberta. The one that looks more like a trend, though it's very recent, is BI Alberta.

Tom MacKinnon
BMO Capital Markets Equity Research

And in terms of the size of the reserve builds, which would -- how would you characterize which one would be the largest of those 3 that you took in the quarter?

Charles Brindamour
Chief Executive Officer and Director

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

Tom MacKinnon
BMO Capital Markets Equity Research

And then, finally, what's the -- what's happening with -- FSCO's got a new definition here in terms of the cat. When does that actually become law, if you will? Or when does that get passed through the legislature?

Charles Brindamour
Chief Executive Officer and Director

Yes, my take on this, and I forget if we talked about it in November or not, but we've seen earlier this week that FSCO announced new anti-fraud measures, 4 of them, all steps in the right direction. I think the cat definition is a bigger change. And I believe that the leadership change taking place will slow down at the speed at which the cat definition might be changed. Though in our view, the cat definition is -- can be an important lever to improve the cost of the product in the system at this stage because there's leadership change, there's uncertainty associated with that.

Martin Beaulieu
Chief Operating Officer of Direct to Consumer Distribution and Senior Vice President

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

Charles Brindamour

Chief Executive Officer and Director

Yes, which is at this stage is unclear because we'll have to see the priorities of the new government.

Operator

Your next question comes from the line of Andre Hardy with RBC Capital Markets.

Andre-Philippe Hardy
RBC Capital Markets, LLC, Research Division

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

Charles Brindamour
Chief Executive Officer and Director

Yes. So as I've mentioned, Andre, in Ontario, when we talked about these change -- court decisions last year, we had talked about of range of 0.5% to 1% for the Ontario book of business, which is about half of the Ontario Auto. This most recent decision leaves us, I think, in that range. In other words, doesn't really change our view materially of the Ontario automobile market, that's -- in Alberta, bear with me here because it's recent, it's very recent stuff, but let's assume that what we've seen in the quarter becomes a trend. And let's assume that we don't price for the trend, okay, because in theory, if we price for the trend, Andre, then nothing changes. But let's assume we were not to price for the trend, I think that this could have, on the automobile portfolio, between 1 and 1.5 points of impact on loss ratio. Now clearly, if we realize that this is a trend, then we'll price for it to mitigate that impact.

Andre-Philippe Hardy
RBC Capital Markets, LLC, Research Division

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

Charles Brindamour
Chief Executive Officer and Director

Aggregate auto business loss ratio.

Andre-Philippe Hardy
RBC Capital Markets, LLC, Research Division

Okay. And then my follow-on question is, obviously, you won't sit still if this becomes a trend. With the current structure of Alberta insurance, do you believe you'd be able to price within the regulatory constraints to appropriately price for the new trend? Now I understand there's a lag between writing and earning, but would you be able to do it?

Charles Brindamour
Chief Executive Officer and Director

I think it's an important question. We'll let Martin tackle this one.

Martin Beaulieu
Chief Operating Officer of Direct to Consumer Distribution and Senior Vice President

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

Charles Brindamour
Chief Executive Officer and Director

Yes. So I think what's clear to us is that a portion of it we could take without approval, basically. And if we felt we needed more than the room that exists today, we'd file and try to get approval from the government to get to it. So let's see if this becomes a trend, but we've observed that in the past few months, and when we see changes in the environment, we're sort of on high alert, and we'll keep you guys posted in the coming months.

Andre-Philippe Hardy
RBC Capital Markets, LLC, Research Division

And I had a question on Personal Property. As you said, in spite of everything, you actually had a pretty good year in Personal Property. Do those results change your appetite to make the various rate and product changes that you talked about at your Investor Day, particularly in Alberta?

Charles Brindamour
Chief Executive Officer and Director

No, not at all. I think that Alberta's performance in this case doesn't look like the average performance of the book from coast-to-coast. So there's a lot of work to be done there. And I think, as I've mentioned before, for me, home insurance, what we're looking for is a sustainable below 95% performance. And while I'm pleased with where we finished the year, we have issues to fix in Alberta, in particular. And we have to make sure the product is sustainable, which calls for changes, as well on how we price the product, how we manage the claims operation, as well as prevention. So our outlook, Andre, has not changed on what we think the industry will look like in the coming 12 months.

Operator

Your next question comes from the line of Doug Young with TD Securities.

Doug Young
TD Securities Equity Research

Just -- so, Charles, just in trying to quantify all the changes on the auto book, I think you mentioned there's 3 different buckets that went through and $11 million was broken out. And I calculate the total impact from the reserve adjustments around $50 million. You've broken out the $11 million. Can you break out the difference between the other 2 buckets? And is my $50 million in the ballpark?

Charles Brindamour
Chief Executive Officer and Director

Yes, I think that you have reserve movements in general, Doug, that would take place regardless of those 3 buckets. But I don't think they're necessarily far. I mean, these are the 3 most important buckets. Martin highlighted the AB portion of it. And then between Ontario and Alberta, I would say, Ontario, of what was left was a little higher. But then, as I've mentioned in the previous question, in relative terms, the bigger impact was on the BI Alberta portfolio, in relative terms, and compared to the premium base of the Alberta market.

Doug Young
TD Securities Equity Research

Okay, well that gives me enough color. Second question, you talk on the Alberta side just about your flexibility potentially to get rates, if need be, if you do consider that recent development as a trend. And we know Alberta is considering -- the Alberta Insurance Rate Board is considering regulating rates across the entire product, not just the mandatory products. I'm just wondering what's your view, if that were to be the case, on your ability to get rates and your outlook for just the Alberta market, given some of the early trends that you're seeing.

Martin Beaulieu
Chief Operating Officer of Direct to Consumer Distribution and Senior Vice President

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

Charles Brindamour
Chief Executive Officer and Director

Yes. And I think that the upside I see with the change that's being contemplated, Doug, is there will not be an industry-wide adjustment anymore. So there would be regulation across the product, while right now, it's largely on liability and accident benefit. But then, you'll be able to file, individually, as a company for what you're looking for. But as Martin is saying, this is coming later. With regards to the outlook in Alberta, I must admit that when I talk about Alberta BI, in general terms, like people have not seen this yet. So the impact on the outlook at this stage is really difficult to tell because we seem to be the first ones to have noticed that there was a change there, and we've taken action as a result. But if people see what we've seen, and if it repeats itself for another period, given how tough home insurance is in Alberta, I expect the market to react to these sorts of observations at the level that will be required to restate rate adequacy in that line of business.

Doug Young
TD Securities Equity Research

Okay. And then just lastly, I noticed just on the Commercial side, there was an uptick, I guess, in large losses. Just wanted to see if you can provide some color. We've seen that happen in past quarters. I just wanted to see what occurred this quarter?

Charles Brindamour
Chief Executive Officer and Director

We'll ask Alain to take that.

Alain Lessard
Senior Vice President of Commercial Lines

Well, if you recall, throughout the year, throughout the quarter, we had a surge of large losses starting in the first quarter, which was slightly above average. Our second quarter was fairly -- very stable average. Our third quarter was exceptionally low on large losses. The fourth quarter, we came back to be slightly above or are to be about 3, 4 points about our average large losses in the quarter, which brings our year pretty much in line with what we've observed historically in the past. So it's more like random fluctuation from quarter to quarter, okay. That happened and it's -- there is -- it's not so much on the number of losses, but we had 1 or 2 very large losses that had an impact on the dollar amount in the quarter.

Doug Young
TD Securities Equity Research

Okay. It's more quarterly noise than anything.

Operator

Your next question comes from the line of Mario Mendonca from Canaccord Genuity.

Mario Mendonca
Canaccord Genuity Limited, Research Division

Charles, just on the reserve development in Personal Auto, you've done a good job describing why it was unfavorable this quarter. If assuming you've done the math correctly and you've been sufficiently conservative in setting up that additional reserve, would it be fair to assume that the level of positive reserve development we've seen in prior quarters, prior to this quarter, should just -- we should just return to the previous levels? I understand there's a lot of volatility, but is that a fair statement?

Charles Brindamour

Chief Executive Officer and Director

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

Mario Mendonca
Canaccord Genuity Limited, Research Division

And to be clear, you're talking about that on a total company basis, or were you specifically referring to Personal Auto?

Charles Brindamour
Chief Executive Officer and Director

No, I was talking about total company basis.

Mario Mendonca
Canaccord Genuity Limited, Research Division

Okay. So rather than give us some comfort on where the Personal Auto, you'd rather just keep it at that aggregate level?

Charles Brindamour
Chief Executive Officer and Director

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

Mario Mendonca
Canaccord Genuity Limited, Research Division

Okay. And one sort of -- maybe this is just a technical thing, but the -- your disclosure on written -- the number of written insured risks, you don't include JEVCO in the number of written insured risks, but it is included in the direct written premium. The only line where that kind of has an -- where that matters, I think, is in Personal Auto. First, was there some technical reason why it was appropriate to include it in direct written premium but not in the number of -- in the written insured -- the number of written risks?

Mark A. Tullis
Vice Chairman

Yes, so let me handle that. So a couple of things. So first of all -- so I think there's several things. So first of all, it will be included beginning the first quarter. It was included in direct written premium because it's a key metric and we can calculate it correctly. Their basis for -- in risks is different than ours. And as of Q4, we were still on their system. So it would not been an easy conversion to switch from their basis to our basis, so we thought it was just cleaner to leave it out for now, reset it in Q1 and to report it going forward.

Mario Mendonca
Canaccord Genuity Limited, Research Division

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

Mark A. Tullis

Vice Chairman

Yes. So I think one thing, and I think I mentioned this in my comments, in Personal Auto, a good chunk of the 9% -- so the -- if you look at JEVCO, or back out of the 9%, about 7% of -- well, 5% in total of the 7% was due to JEVCO. But if you look at Personal Auto alone, more like probably 7% of the 9% growth in premiums is due to JEVCO, because JEVCO was over-represented in the Auto versus some of the other lines of business.

Mario Mendonca
Canaccord Genuity Limited, Research Division

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

Charles Brindamour
Chief Executive Officer and Director

Yes, I think -- yes, the thing you need to be careful about, Mario, here, is that there are important distributional shifts by province, taking place as a result of the AXA acquisition. Where AXA had a huge Québec automobile portfolio and, as a result, as you integrate the business, the average premium, because the weight of Québec becomes bigger, it's down a bit. And as we looked through 2012, as we've integrated the business, this had a big impact on the mix.

Mark A. Tullis
Vice Chairman

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

Mario Mendonca
Canaccord Genuity Limited, Research Division

Just for Q4.

Mark A. Tullis
Vice Chairman

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

Mario Mendonca
Canaccord Genuity Limited, Research Division

Yes. I wasn't trying to do that, yes, but I understand.

Mark A. Tullis
Vice Chairman

[indiscernible] was partial, yes.

Operator

Your next question comes from the line of Bryan Brown with Macquarie.

Bryan Brown
Macquarie Research

With Ontario Auto, the anti-fraud task force recommendations, once though they're implemented, is that something that might make you less conservative in your reserve positioning?

Martin Beaulieu
Chief Operating Officer of Direct to Consumer Distribution and Senior Vice President

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

Charles Brindamour
Chief Executive Officer and Director

But I think the question comes from the fact that -- we've said before, we are taking a cautious stance, because in part, there is an important mediation and arbitration backlog. And so will these measures change our view; I think this largely will impact newly reported claims or new claims. These measures, there's 4 of them in particular, 1 of them would be requiring insurers to provide -- or giving claimants the right to receive a bimonthly statement of benefits paid on their behalf, increasing the role of claimants in fraud prevention, that is having them confirm their attendance. Those sort of things really will have an impact on upcoming claims, as opposed to what is in the backlog right now for mediation. So the answer to your question I think is no. These are good steps, by the way, steps in the right direction, which shows that the government, even as the leadership is changing, is intending to confront. I think these guys really understand that the issue in Ontario is one of fraud, and they'll -- I do believe that the upcoming leader will be focused on that as well.

Bryan Brown
Macquarie Research

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

Martin Beaulieu
Chief Operating Officer of Direct to Consumer Distribution and Senior Vice President

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

Charles Brindamour
Chief Executive Officer and Director

Absolutely not.

Operator

Your next question comes from the line of Mario Mendonca with Canaccord Genuity.

Mario Mendonca
Canaccord Genuity Limited, Research Division

I'll be fairly quick, just is there -- we haven't talked about buybacks in some time and, previously, when the conversation's come up or the question's come up, you said you wanted to be a little more comfortable with the environment before you'd contemplate buybacks. Charles, are there any updates to your thinking on that?

Charles Brindamour
Chief Executive Officer and Director

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

Mark A. Tullis
Vice Chairman

Yes, sure. I mean, our capital plan remains the same, which is to maintain a strong capital base, maintain and increase dividends every year, pursue growth opportunities, internal and external, and return capital to shareholders. We just announced a 10% dividend increase. We're settling down from the acquisitions. I think we'll continue to evaluate, as we have in the past. But this quarter, I think the focus was on the 10% dividend increase.

Charles Brindamour
Chief Executive Officer and Director

Yes, I think, Mario, you're absolutely right. When we talk about capital priority, before getting to making a decision on buyback, you start with, "Are you comparable with your dividend level?" I think we've done that this quarter. Then the question is, "How do we feel about the uncertainty in the environment?" And the third question is, "Do we see opportunities for us to use the excess capital?" Right now, we've got close to $600 million capital. I think that the uncertainty is there. There is a sense, globally, of greater comfort, though it's not clear it's necessarily warranted. But the factor that would hold us from buying back shares at this stage is that I do think that this is an environment that will present opportunities within a reasonable period of time. And on that basis, there's no buyback activity at this stage. But rest assured that this is a question that's debated every quarter, depending on how we feel about, a, the environment and b, the opportunities to deploy the excess capital. And I feel pretty good about the latter at the moment.

Operator

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

Dennis Westfall
Former Vice President of Investor Relations

Thank you, everyone, for participating. The webcast will be archived on our website for one year. The telephone replay will be available at 2 p.m. until Wednesday, February 13. A transcript will also be made available on our website. Please note that our first quarter 2013 results will be released on Wednesday, May 8. That concludes our conference call. Thank you, and have a good day.

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