S&P Capital IQ

CONTENTS

Intact Financial Corporation TSX:IFC

FQ2 2013 Earnings Call Transcripts

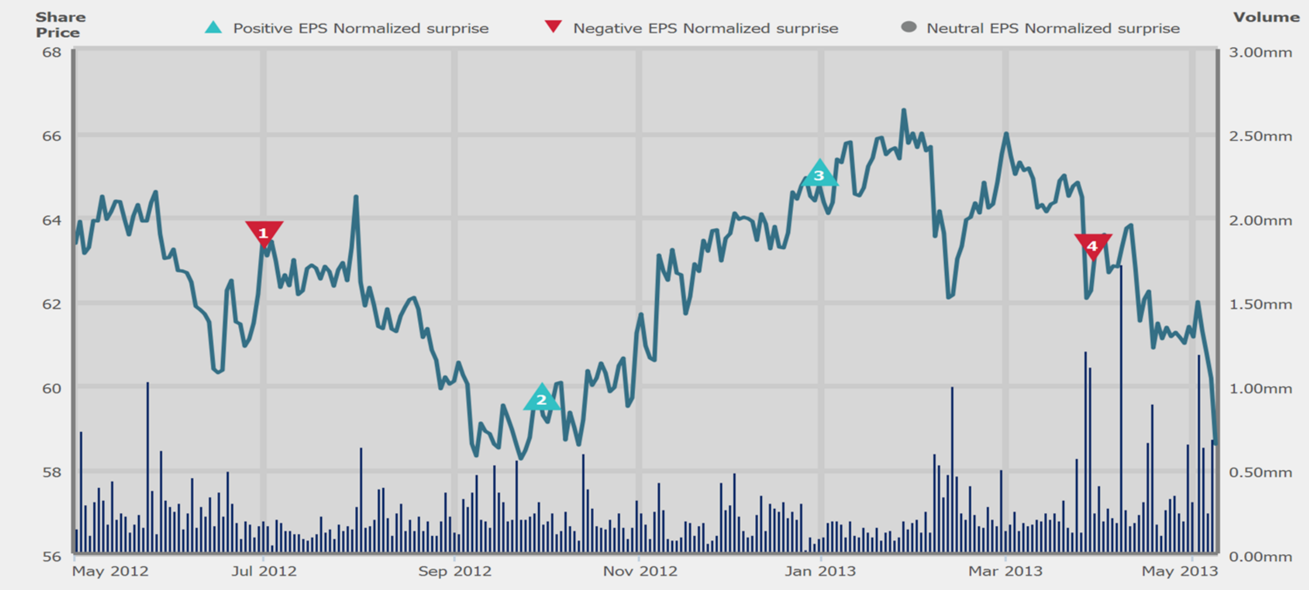
Wednesday, July 31, 2013 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2013-			-FQ3 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.74	0.89	▲20.27	-	3.99	6.26
Revenue (mm)	1784.49	-	▲3.28	1871.70	7237.36	7527.26

Currency: CAD

Consensus as of Jul-30-2013 1:12 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2012	1.41	1.35	▼1 (4.26 %)
FQ3 2012	0.56	0.93	▲2 66.07 %
FQ4 2012	1.35	1.42	▲3 5.19 %
FQ1 2013	1.32	1.27	▼4 (3.79 %)

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

Bryan Brown
Macquarie Research

Doug Young
TD Securities Equity Research

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Mario Mendonca
Canaccord Genuity Limited, Research Division

Paul David Holden
CIBC World Markets Inc., Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Good morning, ladies and gentlemen, my name is Martina, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Corp. Second Quarter Earnings Results Conference Call. [Operator Instructions]

I would now like to turn the call over to Dennis Westfall, VP, Investor Relations. Please go ahead.

Dennis Westfall
Former Vice President of Investor Relations

Thanks, Martina, 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 the disclaimer on forward-looking statements, which also applies to our discussion on the conference call today.

Joining me today are Charlie Brindamour, Chief Executive Officer; Mark Tullis, Chief Financial Officer; Martin Beaulieu, Senior Vice President, Personal Lines; Alain Lessard, Senior Vice President of Commercial Lines; and Mathieu Lamy, Senior Vice President of Claims.

We will start with the formal remarks from Charles and Mark followed by a Q&A session. Martin, Alain and Mathieu will be available to answer your questions during the Q&A session.

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

Charles Brindamour
Chief Executive Officer and Director

Thanks, Dennis, and good morning, everyone. Before getting into the second quarter's results, I want to first make a few comments about the events of the past 6 weeks. I can say without hesitation that the number and magnitude of catastrophic events that we've witnessed are unprecedented in my 21 years in the industry and with Intact. The flooding in southern Alberta was unique not only because of the volume of water involved, but also because entire communities where devastated. The recovery efforts will take months and even years for some areas.

I'm confident, though, that we have the people and the expertise to be there for as long as it takes. Our promise is to get customers back to their normal lives and we are more committed than ever to doing that.

The tragedy in the Lac-Mégantic is beyond anything I've seen before given it's atrocious nature and devastating impact on the lives of many individuals and families in that community. Within a few hours of the accident, we had a fully functional mobile unit on site and our people were there to help our customers in those trying times. Our thoughts are with these families

I was on site in both these places and had the opportunity to see our people in action as they helped our customers. I've been impressed by the speed of their response, but more importantly, by the empathy that they've displayed in those difficult times. I want to thank our people on location, as well as across the country, who went beyond and above to respond to these and other events this summer.

Despite the $0.92 per share in total losses from catastrophes, this morning, we announced second quarter net operating income per share of $0.89. Our combined ratio of 97.5% reflects the resilience of our business in light of these events. Continued strong performance in automobile insurance and improvements in our expense ratio were the drivers behind the underwriting profit.

From a top line perspective, premium growth of 10% reflects the continued successful integration of Jevco as well as solid organic growth. I'm pleased with our ability to leverage the Jevco products across our distribution platform. This has offset or more than offset the expected impact we've seen from re-underwriting parts of the acquired business, particularly in commercial lines. Our earnings over the past years have generated an operating ROE of 14.4% and a 9% increase in book value per share. From a capital perspective, we're comfortable with our MCT of 197%, and expect to maintain it between 195% and 200% through the remainder of the year.

The frequency of severe weather events in the past few weeks has made it clear to me that the sustainability of home insurance in its current form is being challenged. While we've made meaningful progress with underwriting profits on average over the past 3 years in that line of business, our approach needs to evolve further, given the environment we face and will likely face in the coming years. So while our 3,100 claims employees were focused on helping our customers, a special task force composed of folks from coast to coast, busied themselves laying out a robust plan to be implemented in the coming weeks, aimed at ensuring the sustainability of our offer in the coming years.

The plan we have in mind will focus on ensuring customers have a better understanding of the risk they face and what they can do to better adapt to climate change. We will further implement meaningful rates, risk selection, as well as product actions. This issue is not one solely affecting the insurance industry, but rather, society as a whole. And as such, we will work and support communities across the country to raise awareness and help provide guidance as to how they can better protect themselves against the impact of extreme weather. We expect our plan to generate a minimum of 10 points of combined ratio improvement in that line of business.

Moving to automobile insurance. Our view is largely unchanged from the first quarter. We are operating in an environment where both competitors and regulators behave fairly rationally, and costs have been generally stable in the recent past. Understandably, Ontario has been a source of concerns with investors in the past few months. It has been a source of concern for my team and I as well, but our view has not changed. While it will be difficult to achieve, we continue to work with the government to bring cost reductions in the system to improve affordability for Ontarians.

In their quest to achieve 15% reductions over time, the government understands that meaningful cost-reduction measures will be critical to ensure availability of the product given the fact that the industry operates at breakeven at the moment. We will continue to work with the government and the Insurance Bureau of Canada to identify and quantify additional cost-reduction measures. We expect new regulations resulting from the budget to become available in early fall. These will likely lead to rate actions in the first part of 2014.

We're pleased with the 50% reduction in mediation backlogs that the government has engineered so far in 2013. This is, in my view, another example of their focus on improving the environment. We expect the backlog to have disappeared by year-end. This should help alleviate some of the inherent uncertainty in the system. It's important to bear in mind, though, that the direct consequence of sharp reduction and mediations is an increase in arbitration. So during the first 4 months of 2013, the number of industry arbitrations increased 37%.

Now due to our proactive approach to managing our files and disputes, IFC's arbitrations have increased only 7%. Beyond that, our view of the Ontario market is largely unchanged. We feel strongly about our ability to outperform in that market.

When it comes to our outlook for the industry, we foresee similar growth in the near term to that of the past 12 months. However, we do expect the current hard market conditions in personal property to accelerate meaningfully for the foreseeable future. We continue to expect firming conditions in approximately 1 quarter of the commercial P&C industry in 2013. And we think that the low interest rate environment and elevated losses from catastrophes should support our outlook.

Turning to the industry's ROE. We do not expect the industry to reach its long-term average of 10% in the next 12 months largely due to the elevated Cat activity, which has already materialized.

Looking specifically at Intact Financial, we believe we'll continue to outperform the industry ROE by at least 500 basis points. Mark will provide updates on our integrations in a moment, but clearly, we've made some good progress in the quarter. I continue to be impressed with our employees' dedication and I want to thank them for their hard work in ensuring our customers and brokers continue to receive top-notch service.

In conclusion, I believe the disciplined approach we take towards operating our business will continue to serve us well. I'm confident that we will confront new challenges with the same level of determination that has brought us to where we are today. Given the quality of our operations and the flexibility provided by our financial position, we believe that we'll continue to outperform the industry and defend our superior level of profitability.

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

Mark A. Tullis
Vice Chairman

Thanks, Charles. Last month, southern Alberta experienced storms and flooding resulting in historic levels of damage to the homes, autos and businesses of our insureds in the Calgary and High River areas. Teams from Intact immediately went to work. The first day, we began to transform an industrial building on the north side of Calgary into a claims center with 100 desks and computer connections as our offices in downtown Calgary were closed due to flooding. Public transportation was shut down so we charted private buses so that our employees could go to work. We brought in claims staff from throughout Canada and within 3 weeks, we have visited and performed initial evaluations for virtually all of the claims. It will be months before everything is back to normal for the people of Alberta, but Intact moved quickly to help our insureds begin this process.

We have shown the same response to the Toronto funding and the tragedy in Lac-Mégantic. Events like these separate world-class companies from the rest, and Intact has been up to the task.

With this as a backdrop, today we announced second quarter underwriting income of $42 million with a combined ratio of 97.5%. Strong results in our auto lines of business and strong property results outside of Alberta, particularly in Ontario, proved once again the advantage of diversification both geographically and by line of business. Both auto lines of business had combined ratios below 90% despite the elevated Cat losses. Personal auto, in particular, had a strong quarter with a combined ratio of 87.2%. Our 14% growth in premiums reflects the addition of Jevco as well as solid organic growth. The combined ratio in commercial auto remained excellent at 89.6% although higher than last year's exceptional performance.

Our personal property line of business has been most affected by the recent storms with a combined ratio of almost 9 points higher than last year due to the cats. As Charles mentioned, we are committing to -- committed to mitigating our cat exposure for this line of business and we're taking action on multiple fronts to build a sustainable product offering. Our actions will include product changes and risk selection, as well as additional rate increases starting on the fall on top of those already in the system.

Our commercial P&C business also experienced elevated catastrophe losses amounting to $40 million in the quarter, which in conjunction with a higher level of large losses, led to a combined ratio of 108.2%. As with personal property, we are reviewing our product and underwriting in light of the new climate reality.

Our expense ratio with the total company level was 0.9 points improved versus 2012. This change was driven by a drop in variable commissions from the lower level of profitability in the quarter and also from acquisition-related expense synergies. Our effective tax rate of 14.9%, reflects a higher proportion of tax rate dividend income relative to underwriting income, which was lower due to the cats.

Our net investment income of $102 million was up 7% from 1 year ago. This was primarily due to additional investments from Jevco, a portion of which included dividend-paying common shares. Our market-based yield of 3.8% was up from 3.4% last quarter, with the increase in yield due to the drop in market value of our investments driven by higher bond yields and weak Canadian equity markets.

We expect the low interest rate environment to continue to weigh on our results in the near term, and we expect second half net investment income to be similar to what we recorded in the first half of the year.

Our financial position remained solid at the end of second quarter with $486 million in excess capital and book value per share 9% higher than 1 year ago. Our MCT decreased to 197% on the heels of the Cat losses, our share repurchases and market-driven changes and other comprehensive income. We intend to manage our MCT to remain between 195% and 200% through the remainder of the year.

Since the introduction of our NCIB last quarter, we have purchased 1.8 million shares at an average price of $59.35. We will continue to approach the NCIB opportunistically, dialing up or down, depending upon opportunities in the market, volatility in the environment and capital availability. We continue to make good progress on both of our integrations. For AXA Canada, system shutdown is on schedule. We maintain our $100 million after-tax synergies target with a run rate at quarter end of $87 million. Most of the remaining synergies will coincide with final system shutdowns in early 2014.

The impact on growth from cross-selling the Jevco product suite within our distribution platform remains better than expected, with the second quarter traditionally the strongest for Jevco. We have completed our review of the rates and segmentation for nonstandard auto and motorcycles, and are rewriting portions of the Jevco portfolio where required. Greater-than-expected synergies, primarily from claims, will enable us to reach our initial $15 million after-tax synergy estimate by the end of this year, 1 year earlier than previously expected. Our new after-tax Jevco synergy estimate is $23 million after tax by the end of 2014.

The storm season is not over as we can see from the 3 small cats in the past 2 weeks. And if necessary, we will provide further guidance to the market later in the quarter. However, in this environment, I am particularly proud to work for a company that can respond so quickly when our clients need us most. Our people have responded professionally and with empathy for our clients during what has been a difficult summer for thousands of our customers. These challenging times best illustrate the resilience of our business, which, along with our strong financial position, will enable us to take advantage of opportunities in the market and to bolster our long-term earnings potential. Combined with our disciplined approach to the business, we have a strong foundation for continued profitable growth.

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

Dennis Westfall
Former Vice President of Investor Relations
Thanks, Mark. Martina, we are now ready to begin the question period.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Jeff Fenwick from Cormark Securities.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Just wanted to start off today with further discussion on the coming changes around the Ontario rate reductions. Charles, can you give us a little color there about the process and perhaps a rough idea of the timeline? Can you just describe, maybe a little more color, but what is it about the process here that is giving you some comfort that it's being done in an orderly fashion and how they've gone about consulting with the industry to ensure that you really are going to get those cost reductions when they start to put through those rate reductions? And do you have a sense of -- is this 15%, you said might be partially implemented at the beginning of the year, so is there a timeline for rolling out the all rate decreases as well?

Charles Brindamour
Chief Executive Officer and Director

Yes. I think the government understands that this is a complex process because you have to make changes in the system. And as such, I think very responsibly, they said, "We'll aim at 15% and that will take place over a number of years." The budget that will be translated into regulations in early fall, add a number of ingredients in there to tackle first portion of the rate reductions. Whether it's reinforcing the definition of minor injury, whether it's regulation of clinics, tow trucks and so on, or a number of measures in there which are really quite beneficial I think and will likely translate into rate impact. We'll see what these regulations actually look like in the coming month or 2. And following that, we'll reflect that in our rates so as to have a commensurate impact on premium with the cost reduction measures that they're putting in place. Now the fact that, it is an environment that is evolving, the fact that it is a complex environment, really calls for very tight cooperation between the industry and the government to find measures that will be effective at bringing affordability in the market. And there's been a lot of work between both parties, and the Insurance Bureau of Canada has been very active on that file with the government. And the nature of these interaction are now constructive. They've been -- gives me comfort that we're headed in the right direction there. But I think, this is not a walk in the park. 15%, we've said it all along, is a big number and therefore that will take time to materialize. And I think we'll see a portion of that, I suspect, a fraction of that materialize in the coming year. But process so far has been good. I don't know, Mark, think you want to add to this.

Mark A. Tullis
Vice Chairman

No, I think this is right in line with what I see in the relationship with FSCO and with the Ministry of Finance where I think they want to do things right. They are expecting that within the next couple of months, the process will be better defined and that the rate reductions would start flowing, not the 15% but this -- that Q1 of 2014 or so, that the market should start seeing rate reductions to reflect the cost.

Charles Brindamour
Chief Executive Officer and Director

Yes. We'll see what's in there. I think -- I mean, these guys are smart and responsible in my view. And they understand the industry operates at breakeven at the moment. And they know that if cost reductions don't come along, there'll be in availability problem. And this is not an empty threat. I mean, it happened 8 years ago. They completely understand that and I think they want to avoid that because that could be a much worse outcome for Ontarians. So I have great confidence in their leadership on that front.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Okay. And then maybe just a follow-up on that in terms of the -- where we are today in the Ontario market. And we saw TD yesterday take some additional strengthening charge there, mentioning some more recent developments in Ontario auto. Is this something that's specific to TD and do you feel like the strength you took last year is adjusting for, I guess, what may perhaps they're seeing today?

Charles Brindamour
Chief Executive Officer and Director

These guys are smart. They're disciplined. I think they're very good. And when they notice -- or when they talk, I certainly pay attention. And I try to see if there are parallels in our business. It's tough, though, from the outside to know exactly what they are talking about. I can tell you that we have been following the reforms that were effective in September, 2010. We knew that bodily injury costs will increase by close 25%, that's something we've talked about for 2, 3 years now. And we, in September 2010, increased our pricing or certainly reflected that in our pricing assumptions, reflected that in our reserving assumptions. And as a result, increased our reserves gradually over the past 3 years to reflect that assumption. So very hard for me to judge. But these guys are smart, they're disciplined. And I think -- I pay attention to what they say. So we're pretty confident with what we've done. And quite frankly, we have not noticed on the bodily injury front, meaningful changes in the environment. We have seen an increase in litigation over time. Maybe not yet at the level of what we expected and what we're reserving for. But it is early, and therefore, we remain cautious on that front, both in pricing and reserving.

Operator

Your next question comes from line of Paul Holden from CIBC.

Paul David Holden
CIBC World Markets Inc., Research Division

Within your results, you mentioned on the personal auto side that the core-loss ratio ticked up year-over-year, and that was due to an increase in severity, which I think you quantified at 6% year-over-year. So curious what's driving that severity if it's not BI?

Charles Brindamour
Chief Executive Officer and Director

Want to take that, Mathieu?

Mathieu Lamy
Chief Information Officer and Senior Vice President

Well, when we looked at the severity in the quarter, it's increasing 6% versus last year. We don't see any trends in litigation or in patterns that would lead us to believe that there is a trend there. When we look at the last 3 or 4 years, we noticed that this is a fairly stable severity level. We had a small adjustment last year that decreased somewhat the severity in the quarter. So this is the -- we're not concerned by what we're seeing in this particular quarter.

Charles Brindamour
Chief Executive Officer and Director

Yes. I think current accident year deteriorated by a couple of points and be driven by severity increase. And we've seen that in a number of jurisdictions here. Alberta was up a bit. Ontario was up a bit, and that's not like saying the denominator there, might have been understated. So it's not an area of concern. And Paul, given the noise in the environment, I can tell you that Mathieu and myself has spent time with people in the field to make sure that we were not missing anything from a trend point of view. Either in AB, either in BI Ontario; either in BI, Alberta. So there is activity, but not much different from what we anticipated. I don't know Mathieu, if there's anything you want to add there.

Mathieu Lamy
Chief Information Officer and Senior Vice President

No, I think in terms of our view, remains unchanged on the benefit of the reform in BI and in AB.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay. So if I'm understanding the answer correctly, then we should not expect to see that same type of 6% cost inflation in future quarters? Is that the correct way to interpret that?

Charles Brindamour
Chief Executive Officer and Director

Yes, I think that's not -- that's the right way to interpret that. I think we talked about 6%. We probably should talk about the fact that there's drift upsetting that as well and that's in part why the current accident year is not up 6%, it's actually up 1.5% or 1.6%.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay. And then in terms of Alberta, the rate board approved the 5% increase for mandatory coverage, effective, I guess, November this year. Would you anticipate that you will be taking all 5 points of that?

Charles Brindamour
Chief Executive Officer and Director

Yes.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay. And then in that case, do you anticipate that, that 5-point increase is sufficient to offset cost inflation, or is there other options you might have to take with the optional coverage?

Mathieu Lamy
Chief Information Officer and Senior Vice President

Well, the 5% on the mandatory coverages was against the -- an indication by both the board actuary and the IBC actuary of low teens. So we don't see this as being the full remedy to rate adequacy. So...

Charles Brindamour
Chief Executive Officer and Director

Or the industry.

Mathieu Lamy
Chief Information Officer and Senior Vice President

Or the industry. So there will be activity also on the optional side of the product where, as you know, the rate approval process is not as stringent.

Paul David Holden
CIBC World Markets Inc., Research Division

Great. And final question is with respect to reinstatement premiums. This was a fairly meaningful number in Q2, I anticipate there will be something in Q3 as well. Any way you can quantify what the number may be in Q3 for us? And remind us if there's any kind of limit on the number of times you can reinstate your reinsurance coverage in any given year?

Charles Brindamour
Chief Executive Officer and Director

Yes. So premium, it's -- there's actually a separate premium for each layer of coverage. And since the event in Q2 was larger than the individual events in Q3, the reinstatement effect will be smaller. We're maybe looking at sort of half the level in Q3 so far, assuming there's not another major event, is what we looked at in Q2.

Operator

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

Doug Young
TD Securities Equity Research

First question, just, Charles, in your description to the first question, the question around the Ontario auto and how do you see it unfolding, it sounded like, and correct me if I'm wrong, you think that the cost mitigation items will be determined first and adopted first, and then the rate reductions will take place. Is that how you see it unfolding? Did I hear that properly?

Charles Brindamour
Chief Executive Officer and Director

Yes. I think the framework for the cost reduction will, I suspect, be laid out in the regulations. I haven't seen the regulations yet, I'm speculating to a certain extent, but that's the objective of translating the budget in the regulations. And once we see that, we'll reflect that in pricing. I think the pricing exercise will likely be an exercise as well of making sure that the assumptions we're making about the impact of the reforms of September 2010 are in line with the reality as we see it today. That's the other element that I think will be part of that process. But indeed, as I have said before, I think the cost reductions are a critical part of how one gets to premium reductions.

Doug Young
TD Securities Equity Research

Okay. And just want to go in a different direction away from auto, I'm sure you'll get lots more questions. But on the commercial P&C side, there was an increase in a number of large losses. And I just want to dig in a little bit further in what you're seeing, because this is in the first quarter where you've had an increase in large losses, and just can you give us some more color on that?

Charles Brindamour
Chief Executive Officer and Director

Want that, Alain? Okay.

Alain Lessard
Senior Vice President of Commercial Lines

Well, if you look at the large losses, we -- first of all, I would say, we're not seeing right now any trend. And I can look at, let's say, the last 6 quarters as an example, Q1 and Q4 of 2012, we had higher large losses than in average. Q2 and Q3 were very weak in terms of large losses. And this year, Q1 was below average slightly, and Q2 were slightly above average. And on top of that, the kind of losses we're seeing in the second quarter are coming from marine business or a little bit of surety business, which is different than what we've experienced in the past in 2012. So basically, there's no trend. There's a lot of fluctuation. But the level we're seeing right now on the direct business is still within expected normal variation in terms of large losses.

Charles Brindamour
Chief Executive Officer and Director

But I will tell you that, Doug, even though -- I mean, that's not necessarily see a pattern, we're looking at these losses one by one to see if there's anything in our risk selection process, pricing process and so on that needs to be tightened and trying to learn as much as we can out of that. So we don't take these lightly. Even though they're not a trend as far as that concerned.

Doug Young
TD Securities Equity Research

Okay. And I just wanted to go -- and I know I've asked this question before, and it sounds like the way you describe the personal property changes, there's been a lot of changes to the product over the last few years, it sounds like you're going to lean further into the product, make substantial changes in that product. And you've had many discussions with the government around, obviously, the issues that have materialized for the industry. Has there been -- have you been approached at all, or has there been any discussion with the government or the regular about more tightly regulating this product?

Charles Brindamour
Chief Executive Officer and Director

I would say that our interactions with the government -- we often have been the ones approaching the government to let them know of the evolution we saw in the weather patterns and implications this had on availability and potentially, affordability. More so than the government's coming to us and saying, "We're -- we intend to do something there." I think we want to make sure they understand the sort of cost pressure that took place over time. There's been, in particular in Alberta, ongoing dialogue with the superintendent on the home insurance front. As we understand that Alberta is the province that has been the most impacted on home insurance in the past few years with natural occurrences. I don't think it is the intention of regulators to own that problem at this stage but there's certainly a dialogue there even though this product is not regulated.

Doug Young
TD Securities Equity Research

Okay. So it doesn't seem like there's any further additional push at this point?

Charles Brindamour
Chief Executive Officer and Director

No. I think the thing would need to be very careful about is, is that if the reaction to the storms is too abrupt, and you end up with a meaningful of availability issues in a number of markets, well, then you call, to a certain extent, for greater supervision. And I trust my competitors to understand that. But overall, there's no sense that I have that -- there's an intention to regulate that product at this stage. There's an intention to cooperate and make sure the awareness is pretty high across the country.

Doug Young
TD Securities Equity Research

Okay. And then, just, Mark I just want to clarify, you talk about the MCT being negatively impacted by 6 points from cats, yet you were profitable in the quarter. I'm just trying to understand how the cats -- was there a the change in your reserve requirement as a result of the cats?

Mark A. Tullis
Vice Chairman

Sure. Okay. So I think on the slide, we talked about 7 points of MCT due to elevated Cat losses. What that consists of, if you take the net cost of the cats in the quarter, net of tax which is $123 million, and just reduce the available capital by the $123 million, that costs 6 points of MCT. Now we also had to setup those reserves and so -- then we have the capital on the reserves, that's how you get the extra point. So the 6% is just mathematically the cost of the MCT, cash out the door. The extra 1% is capital we have to hold on the reserves, that's how you get to the 7%. You're correct, we are earning other underwriting income, we're paying dividends and we're doing other normal things. So I think if you look on Slide 13 in the deck where we do the sort of abbreviated resolution and the intent here was just to show the unusual items in the quarter. So the unusual items being the cat losses, the share repurchase and the movement in the OCI. The normal stuff, like the normal underwriting income and dividends and stuff, we didn't include that.

Operator

Your next question comes from the line of Tom MacKinnon from BMO Capital Markets.

Tom MacKinnon
BMO Capital Markets Equity Research

I got a couple of questions. The first one is, when you preannounced, and I got on the call late, so you might -- maybe I missed this. When you preannounced, I think you had $0.92 in terms of whatever you call -- cat hits, and then there was $0.79 in the quarter, so what's the difference in there?

Mark A. Tullis
Vice Chairman

$0.79 is Calgary only, $0.92 is Calgary plus the other cats in the quarter.

Tom MacKinnon
BMO Capital Markets Equity Research

Yes, but I think the cats in the quarter don't they just sum up to the -- the cats that you noted in the quarter, were they -- did they all sum up just to the $0.79 or do they sum to the $0.92, or is there something different in tax rates? I can take this one offline, but...

Mark A. Tullis
Vice Chairman

I can, let me walk you through. The 136 is the current year cat level, you add to that the 31 reinstatement premiums that we talked a little earlier, gets you to 167. About 26.5 point tax rate and there's 133 million shares in the quarter that gets you to the $0.92. Calgary was $1.05 after tax, which is $0.79 a share.

Charles Brindamour
Chief Executive Officer and Director

You got to get the reinstatement premium in.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. That's probably it then. Okay, great. The second one is, have you quantified -- maybe I missed it, did you quantify some of the action you're going to be taking in terms of tightening terms and price hikes with respect to personal property? Are you able to quantify what the improvement would be to the combined ratio in this? And over what time we might be able to get it?

Charles Brindamour
Chief Executive Officer and Director

10 points.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And then over what time will we be able to get that?

Charles Brindamour
Chief Executive Officer and Director

Look, we're -- actions will start in the coming weeks, taking effect this fall. As you know, the renewal process, you need 60 days really to put that in the machine and send the renewals out. So that will start -- when we think about our action plan, I mean, there's 2 phase. There's an immediate phase that will start this fall and then there's a broader product and offer phase, so to speak, that will start in Q1 2014. These are meant to take effect in the coming 12 to 24 months.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And this would all be on accident year x cat basis, the 10 points?

Charles Brindamour
Chief Executive Officer and Director

Well, no, not x cat. I think that's the key.

Tom MacKinnon
BMO Capital Markets Equity Research

Well, assuming you had a normal level of cats. But I guess, we just -- the issue is, we don't know the normal level of cats.

Charles Brindamour
Chief Executive Officer and Director

Yes. I think -- Tom, if you looked at the past 3 years, the non-cat combined ratio has improved dramatically. I would say 15 points point in fact, steady. Very clear. So what we're after now and what we've been after in the past 12 to 18 months is to tame the consequences of cat levels, of cats and the volatility that this creates. So that our ability to run the business at 95 is not hampered by cats over 3 years, basically. And so we're taking an action on -- a number of actions on a number of fronts to achieve that. The difference between this time and previous action plan is we're going coast-to-coast with these actions. Our approach has been perils driven depending on the problems in the past. Focused on hail in Alberta and so on. Now we're saying, "Who knows where hail will happen next? Who know where flood will happen next?" We're going coast-to-coast with the changes in our offer, as well as pricing and that's starting this fall.

Tom MacKinnon
BMO Capital Markets Equity Research

I guess I could paraphrase that. That if you like to think of these events as being sporadic and, I don't know, 1 in 100 or 10 in 1,000, however you want to look at them. Do we actually -- are you going to limit some of the variants? But if you have what would be a normal level of cats, and that's really hard to define, then you would probably find your accident year x cat loss ratio improve. Am I safe in saying that?

Charles Brindamour
Chief Executive Officer and Director

I think if we say this year, for instance, is a freak year because things came at us from everywhere at the same time. One should not expect to see that every year. Well, the first thing we're saying is that we're trying to protect our offer in every region, in every business to mitigate the impact of those sorts of events. When that doesn't happen or when you have a normal level of cats, in theory, the result should be better, because you're protecting yourself against the events that will materialize once in a while.

Tom MacKinnon
BMO Capital Markets Equity Research

And given that the personal property -- this is all just in personal property. And I guess given that it's about 25% of the business, we should probably see a 2- to 3-point -- that would translate just into the 2- to 3-point improvement over the company overall? I guess that's...

Charles Brindamour
Chief Executive Officer and Director

I think that's a fair statement. Then I think you need to ask yourself, do I think that the cat levels going forward will be higher than they've been in the past given what we've seen this summer? And I think it's early for us to make the call there. But it's not early for us to protect our business in that regards.

Tom MacKinnon
BMO Capital Markets Equity Research

No, I appreciate that, and I think that's being proactive. With respect to commercial, I think seeing firming in 25% of the industry, could you elaborate that? Is there certain parts that you're seeing it in? And how are you positioned in those segments? And then you did talk about taking some action in terms of commercial and product offerings. If you can elaborate a little bit on that? And what -- how that might improve your accident ratios x cats for the commercial line?

Charles Brindamour
Chief Executive Officer and Director

I'll ask Alain to take this one because he's a focused on that.

Alain Lessard
Senior Vice President of Commercial Lines

Okay. Thank you very much, Charles. So just rephrasing, what we're seeing is we expect the market to firm up on what we see as being 25% of the market, which is the worst part of the market underperforming. And that's coming from discussion and everything that those classes are underperforming all over the market. If I talk specifically about what we did at Intact, we did, in the second quarter, increase and I would say, mid-teen. By mid-teen digit, those classes of business, that 25%, so we did increase the new business. But what we saw at the same time on this was a drop in our closing ratio. The closing ratio is, how often when we get a quote are we successful. So basically, like the mid-teen increase over that 25% of the book translated and then like 2%, 3.5% increase on new business, and we saw the closing ratio drop by 2%. So that tells us that currently, there's still, at that point, there was still a very competitive market. There was still plentiful of capacity. So we're not seeing it turn immediately. We're going to be starting and what we're starting in August is to do a similar situation on our renewal book of business. So starting to push significant increase or important increase on the same class of that business. We'll have a better view with what's happening at the end of the third quarter. We'll have a better view on how successful we were. What will be -- what will happen on the retention ratio. But at the same time, what we saw with the catastrophe or the event in the last few weeks, either Calgary or Toronto, these are additional, I would say, pressure point on the industry to a little bit sober up the level of competition and to question the underwriting and the situation on those line of business. And that builds against the confidence that we will see in the next probably quarter, the markets start to turn but it's difficult to predict exactly when.

Charles Brindamour
Chief Executive Officer and Director

So bottom line, I think, is that we're pushing on the quarter of the portfolio double-digit rate increases.

Alain Lessard
Senior Vice President of Commercial Lines

Yes.

Charles Brindamour
Chief Executive Officer and Director

We did that at new business, we'll do that at renewal. We're getting a couple of points of rate increases already in our portfolio. So what's happening in the market with these changes should help that situation. But I think the point that Alain is making is that we've seen some compression in our closing ratios by taking those bold moves on the quarters. So there's change, we expect the environment will bring additional change and we're pretty focused at the moment.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And then one final one for Mark. I'm trying to look at how much the MCT will go up quarter-over-quarter on a -- everything was kind of normal and you didn't have any a AOCI noise quarter-over-quarter. Obviously, that quarter will never happen, but what would be the normal run rate of the MCT? I assume, it will have to go up a little bit.

Mark A. Tullis

Vice Chairman

Yes. I'd say, if there was no noise and if it was a typical quarter, maybe 1 or 2 points up, something like that.

Tom MacKinnon
BMO Capital Markets Equity Research

One or 2 points up quarter-over-quarter.

Mark A. Tullis
Vice Chairman

But obviously, there's going to be more seasonality, we pay out more cash in Q1 so there's got to be more of a drop from Q1 to Q2, it varies from quarter-to-quarter. But if you look at it over the course of the year, it might be 6 points or something like that.

Operator

[Operator Instructions] Your next question comes from the line of Mario Mendonca from Canaccord Genuity.

Mario Mendonca
Canaccord Genuity Limited, Research Division

A quick question. Charles, you referred to not really seeing any trends in personal in current-year claims ratios, or that core claims ratio in personal auto. But over the last 4 quarters, we have seen a year-over-year increase in that core claims ratio. So I mean, what I'm trying to understand here is, with 4 consecutive quarters under your belt of an increase, what gives you confidence in saying that there isn't some sort of trend emerging here?

Charles Brindamour
Chief Executive Officer and Director

When you look at -- so we're talking personal auto?

Mario Mendonca
Canaccord Genuity Limited, Research Division

Right.

Charles Brindamour
Chief Executive Officer and Director

When you looked at first 6 months of '13 versus first 6 months of 2012, you're seeing very mild frequency increase, a little more than 1 point, which is not too far from the drift or the value of the insured carpool. I think the other thing that one needs to take into account is the areas where we have seen movement. We're pricing for it. So I think what we're saying is we're not seeing anything new or anything that was not anticipated emerging in the market at the moment.

Mario Mendonca
Canaccord Genuity Limited, Research Division

Okay. So if this were to persist, if the core claims ratio, would you increase year-over-year for another, say, 12 months. What would that then indicate, that there are pricing increases will be necessary, or you need to do more on the cost front? Because presumably, it can't go on for too much longer before it becomes a problem.

Charles Brindamour
Chief Executive Officer and Director

No. Fair enough. I think that's exactly what this would mean. That one would need to reflect that trend in pricing. So as to ensure that, once you know it's a trend that you're actually pricing for it.

Mario Mendonca
Canaccord Genuity Limited, Research Division

But I guess you're just saying you're just not there yet.

Charles Brindamour
Chief Executive Officer and Director

Well, I think, Mario, if we look at the areas that we have talked about in the past 6 to 9 months, Alberta was one of the areas where we said, "You know what, we are seeing things that are different than what we anticipated as a result of a number of core decisions and so on." On the BI front, we did reserve adjustments in Q4 and we've taken rate and we'll take rate the second time as a result. So there are a number of areas where rate actions are being taken. A number of areas where cost actions are being taken to react to the things that we've observed in the past 12 months.

Mario Mendonca
Canaccord Genuity Limited, Research Division

Another question then. The mediation cases are down significantly and obviously, arbitration is up. Have you learned anything from the mediation or early arbitration that tells you -- that informs your call on reserve development? Have you learned anything new?

Charles Brindamour
Chief Executive Officer and Director

Not learned anything new, actually. It's better defined or removed some uncertainty. The fact that the backlog is down. But I think it's largely unfolding as we were expecting.

Mark A. Tullis
Vice Chairman

Yes.

Mario Mendonca
Canaccord Genuity Limited, Research Division

And then finally for Mark on buybacks. The MCT below 200% you're giving us some comfort here that it will be between 195% and 200%. What I'm not sure about is, how has the company repurchase stock in the past when the MCT is below 200%? Would that be an unusual thing?

Mark A. Tullis
Vice Chairman

No. I'd say, it wouldn't be unusual if we buy it below 200%. I think what we intend to do is manage the MCT level between the 195% and 200% range. And share buyback is sort of one of the variables in that determination.

Mario Mendonca
Canaccord Genuity Limited, Research Division

So does that necessarily mean that buybacks have to sort of cool it for a while? Because the buybacks in this quarter would've taken the -- I think, in your presentation, I think you said it's 5 points?

Mark A. Tullis
Vice Chairman

Correct.

Mario Mendonca

Canaccord Genuity Limited, Research Division

Does that necessarily -- and if you're adding, as you described to Tom, in answering his question, you're adding, say, 2 a quarter, does that necessarily mean the buyback has to be a fair bit smaller or not at all in the near term?

Mark A. Tullis
Vice Chairman

No. I think there's a lot of variables in a lot of levels, including what happens to OCO -- OCI, what happens to underwriting. Some other levels there. One of the levers is what we would do with the buyback.

Operator

Your final question comes from the line of Bryan Brown from MacQuarie Capital Markets.

Bryan Brown
Macquarie Research

Just 2 quick questions. The first one for investment income. Saw that increase sequentially by about 6% while the market-based yield declined by about 20 basis points. Could you explain the decrease -- or the increase, sorry, in investment income?

Mark A. Tullis
Vice Chairman

Sure. So I think the market-based yield was up. If you look -- I think the best way to look at that is quarter-over-quarter, so it was 3.4% last quarter and 3.8% last quarter. And so -- and that's a bit of an odd calculation because it's our -- what we -- the income we earn divided by the market value of the assets. So the reason for that increase, that it went from 3.4% to 3.8% is that the market value assets went down due to the increase in interest rates and the decline in market value of the share portfolio. I think the best way to look at this is, I mean, in my comments, I gave the advice that we expect investment income to remain relatively the same the second half of the year as the first half of the year. I think because, as the market values go up and down, it's going to impact the market-based yield but not really so much impact the investment income.

Bryan Brown
Macquarie Research

Okay, thanks. And just one last one in personal auto. For the last 2 quarters, we've seen some pretty large prior year claims development and if you could explain what's driving that.

Charles Brindamour
Chief Executive Officer and Director

Want to take this, Mark, or...

Mark A. Tullis
Vice Chairman

We've seen about 5.5% favorable development, relationship with the premium anyways, in the second quarter, a little more than that year-to-date. And we've seen favorable developments in automobile insurance across many of the jurisdictions in which we have operate would be my first sort of perspective. We've seen some of it in Ontario automobile. I think, as I've mentioned before, that in Ontario automobile, we're seeing probably more development in the field, favorable development in the field than what will had flow through because we want to be conservative here. Still early in the game, there's still uncertainty. And so, we're seeing that across jurisdictions. Clearly we're seeing some in Ontario, but I do believe that we remain conservative despite the fact that there is favorable development in that province.

Operator

You have no further questions in queue. I turn the call back to Mr. Westfall for closing remarks.

Dennis Westfall
Former Vice President of Investor Relations

Thank you, everyone, for participating. The webcast will be archived on our website for 1 year. The telephone replay will be available by 2:00 p.m. until Wednesday, Augurst 7. The replay number is 1 (855) 859-2056, and the passcode is 11292411. A transcript will be also made available on our website. Please note that our third quarter results will be released on November 6. Thanks, and have a great day.

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