S&P Capital IQ

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Intact Financial Corporation TSX:IFC

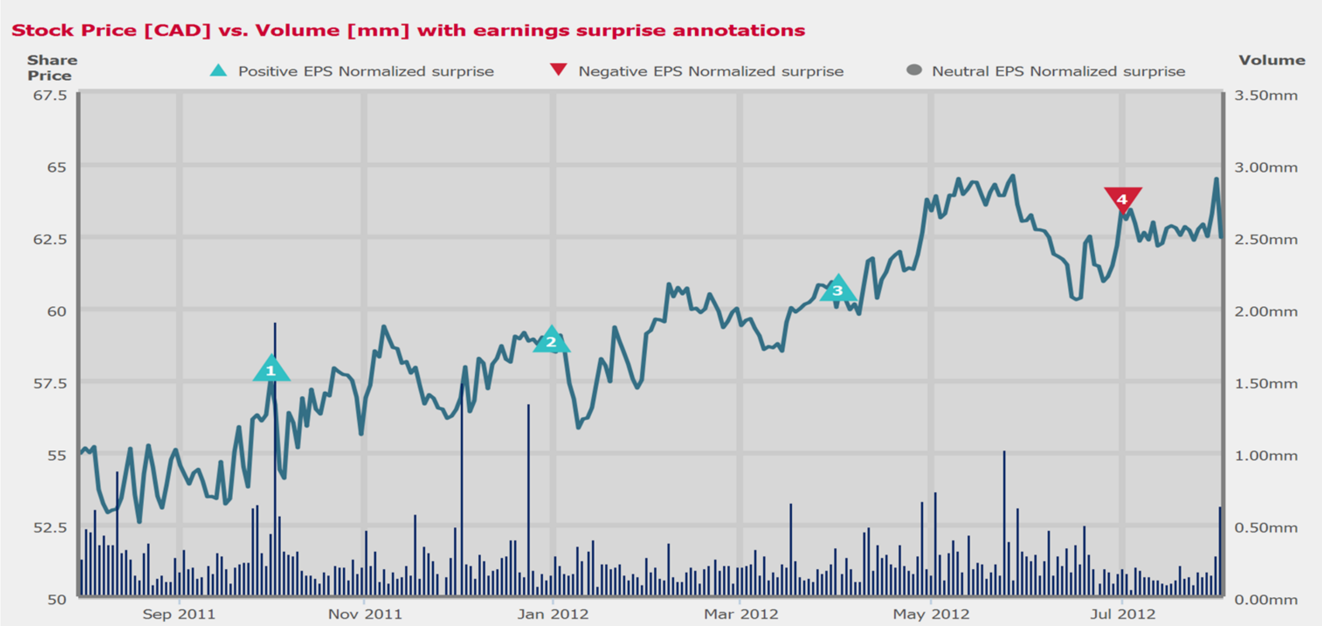
FQ3 2012 Earnings Call Transcripts

Wednesday, November 07, 2012 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2012-			-FQ4 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.56	0.93	66.07	1.33	4.69	6.17
Revenue (mm)	1692.28	1798.00	6.25	1759.45	6806.92	7392.02

Currency: CAD
Consensus as of Nov-07-2012 1:36 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2011	1.03	1.11	1 7.77 %
FQ4 2011	1.12	1.14	2 1.79 %
FQ1 2012	1.25	1.34	3 7.20 %
FQ2 2012	1.41	1.35	4 (4.26 %)

Call Participants

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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

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BMO Capital Markets Equity Research

Presentation

Operator

Good morning, ladies and gentlemen. My name is Ryan and I will be your conference operator today. At this time I would like to welcome everyone to the third quarter results conference call. [Operator Instructions] I would now like to turn the call over to your Vice President of Investor Relations, Dennis Westfall.

Dennis Westfall
Former Vice President of Investor Relations

Thank you, Ryan. 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. Here with me today are Charles Brindamour, Chief Executive Officer; Mark Tullis, Chief Financial Officer; Martin Beaulieu, Senior Vice President, Personal Lines; and Alain Lessard, Senior Vice President, Commercial Lines. We will start with formal remarks from Charles and Mark, followed by a Q&A session. Martin and Len will also 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 third quarter net operating income of $122 million, or $0.89 per share, sorry, despite incurring more than $1 a share in net losses from weather-related events. The $1.02 in losses from weather is comprised of $0.97 for July and August within our pre-announced range of $0.85 to $1. Overall, we reported a combined ratio of 95.9% as the very strong performance from our commercial lines businesses and solid underlying results in Personal lines, somewhat offset these weather-related losses. Our 47% top line growth reflects the strong retention we've maintained on the AXA Canada portfolio, and 1 month of premiums from our recent JEVCO acquisition. We continue to experience retention in the AXA book that's comparable to that of the Intact portfolio.

Our underwriting performance and steady investment income resulted in an operating ROE of 16.4% while book value per share was up 10% from a year earlier. Our outlook for the industry remains unchanged from a top line perspective as recent industry results have played out largely as we anticipated. Going forward, we continue to expect mid-single-digit overall growth for the industry. And for personal property to be the primary driver of rate increases reflecting the ongoing trend of severe weather patterns. The low interest rate environment should support our outlook and will likely lead to firmer conditions over time. We expect an improvement in the industry combined ratio to be partially offset by a reduction in the level of investment income. The resulting industry ROE is likely to improve from 6% in 2011 to the upper single digits in 2012. We believe we'll continue to outperform the industry's ROE by more than 500 basis points in the period to come.

Turning to Ontario Auto. We continue to see the benefits of the reforms in our claims action. Although the industry made some headwind reducing its mediation backlog, now down 5% from January, a meaningful backlog remains leading to uncertainty around the ultimate impact of these reforms. The Ontario regulator fiscal is proactive and is now in a position to substantially increase its capacity to handle mediations and arbitrations. It should contribute to greater clarity throughout 2013. We expect auto mediation backlog down 30% since the start of the year to decrease at a faster pace than the industry's in the coming months. The industry's loss ratio on Ontario Auto, the first half of 2012 improved by close to 10 points over 2011, largely reflecting the benefits of the reforms. Though improved, this still reflects a combined ratio of approximately 100% indicating that a number of industry players continue to be in a loss position. The recently announced political changes in Ontario, and the prorogation of the legislature, creates uncertainty as to the timing of upcoming changes such as that of the definition of catastrophic impairment and other proposed measures from the anti-fraud task force. I mentioned previously that these changes will influence the rate environment for 2013. Given the uncertainty around these changes and the improvement in the industry's results, we can expect industry premiums in Ontario to be up in the low single-digit range in 2013.

In Personal Property, benefits from past actions to improve results were more than offset by the elevated level of weather-related losses resulting in a combined ratio of 119.8% in the quarter. On a year-to-date basis, our combined ratio is now 102.8% in Personal Property. We believe that our actions over the past few years did indeed bring about 15 points of improvement for which they were intended. More recently, however, the impact from catastrophes has been higher than in the past, resulting in reported combined ratios that are higher than what's acceptable to us.

Although we've experienced elevated losses from severe weather across the country, the situation has been most evident in Alberta. We've talked about an expected run rate of cats between $30 million and $40 million per quarter, net of reinsurance in the past. Our approach to Personal Property now assumes that cats will fall in the upper end of this range on an ongoing basis. As such, we will implement the number of actions and product changes, realizing that rate increases alone will not mitigate against losses from future catastrophic events. We are committed to operating our Personal Property business at a combined ratio of 95% or lower. Should cat remains on the levels observed in the past couple of years, it will take up to 24 months for our action to fully impact the bottom line.

Pricing conditions in Commercial Lines remain soft especially on new business, but we maintain our focus. As a matter of fact, our retention remains strong, and we're experiencing low single-digit rate increases on renewals across the country for the third year in a row now.

Turning to our integration of AXA Canada. We're completing the renewal processing for personal lines and commercial lines. Specialty lines conversion is now underway, and will proceed over the next 12 months. As such, I'm very comfortable saying that our integration is on track. And I want to thank all our people from coast-to-coast for the hard work and ensuring that both our customers and brokers continue to receive top-notch service.

The addition of JEVCO, enables us to strengthen our offer to brokers and customers by broadening our product offering into areas where we were underrepresented primarily, recreational vehicle, commercial specialty lines and nonstandard auto Insurance. In planning for the JEVCO integration, a key principle was to ensure that there will be no disruption to the AXA integration, nor to the high level of service we currently provide to brokers and customers. As you know, we closed the JEVCO transaction in early September and as of late last week, we began renewing the JEVCO business on our own platform with effective dates of January 2013.

In conclusion, the resilience of our operating results was again illustrated as we recorded an operating ROE of 16.4% despite severe weather. Given the quality of our operational platforms, the flexibility provided by our financial position, and the additions of AXA Canada and JEVCO, we strongly believe we'll continue to outperform the industry and strengthen our position in the Canadian market. With that, I'll now turn the call over to our CFO, Mr. Tullis.

Mark A. Tullis
Vice Chairman

Thanks, Charles. This morning, we announced operating income of $0.89 per share, a strong result on the heels of the severe Calgary hailstorm. Despite elevated weather-related losses and exceptional performance from our commercial lines business, led to a combined ratio of 95.9%. Our operating return on equity improved more than 2 points to 16.4%.

Slides 8 and 9 show results by line of business. In Personal Auto, premium growth was 36% year-over-year, reflecting the addition of AXA Canada and one month of JEVCO. As AXA had a larger proportion of lower premium Québec business, our unit growth was stronger than the premium growth. At 94.9%, our combined ratio was 8.5 points higher than last year's exceptional 86.4%, driven by a $39 million increase in cat losses, less favorable prior year claims development and a $9 million increase in non-cat weather-related losses.

In Personal Property, the Calgary hailstorm contributed to an overall level of cat losses at $81 million, resulting in an underwriting loss of $73 million and a combined ratio of 119.8% for the quarter, 102.8% year-to-date. Because of the unacceptable recent results, we have established actions to be implemented in the first half of 2013 aimed at mitigating our exposure to catastrophic events. These actions are necessary steps to ensure that our Property business operates consistently below a 95% combined ratio, even if top line growth is hindered in the near term. Access contribution was once again most evident in our Commercial Lines business with premium growth at 78%.

Commercial underwriting results were unusually strong with Commercial Auto at 77% and Commercial P&C almost 19 points improved year-over-year to 81.4%. Results and Commercial P&C tend to be volatile on a quarterly basis and this particular quarter had several items in the right direction with elevated levels of favorable prior year development, fewer cat losses and a lower-than-average level of large losses.

Our year-to-date general expense ratio is 10.3% compared to 11% in 2011, and the decrease is due both to AXA-related expense synergies as well as the AXA business mix. This quarter, the ratio was 9.1%, lower than the year-to-date figure due to normal seasonality as well as timing. On the investment side, net investment income of $92 million in the third quarter was up 24% from a year ago due to the additional investments related to AXA Canada and one month of income from JEVCO, which contributed $2 million of income for the month on assets of approximately $1 billion.

Declining yields continue to impact investment income, and aside from adding a full 3 months of contribution from JEVCO, we expect this trend to continue in the coming quarters. Our financial position remains solid at the end of Q3 with MCT of 201% and almost $598 million in excess capital while our book value per share was up 10% from a year ago. On the financing side, we successfully issued an additional $50 million of medium-term notes in response to strong investor demand. As a result of the conversion of the subscription receipts related to JEVCO into common shares, our debt-to-capital ratio is now 19.5%, slightly below our target of 20%.

The integration of AXA Canada continues to be on track. We remain comfortable with our target of $100 million in after-tax synergies and are on plan with $45 million run rate thus far in 2012. We expect the $50 million run rate by the end of the year as occupancy savings and internalization of claims functions take hold. We are also on track with respect to restructuring and integration expenses.

The JEVCO transaction closed in early September. And as Charles mentioned, we've already begun renewing business on Intact systems. We expect the deal to be slightly 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 service savings, reinsurance and system related cost savings. We expect our run rate to be close to this level by the end of 2014.

In summary, we're pleased with the significant progress we have made to date on the AXA integration and look forward to similar success with the integration of the JEVCO business. We believe our solid financial position and 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. Ryan, we are now ready to take questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Andre Hardy from RBC Capital Markets.

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

Two questions. The first is a quick one. The weather more on Ontario than anywhere else related to Sandy last week, what impact would that have had on the company? And my second question is a little more big picture and more important I think. It's clear if you look at the quarter that Commercial Lines did better than normal and Personal Lines in home insurance did worse than normal. It's not clear from your commentary what you think about Auto outside of potential for reserve releases. When you look at the profitability on an accident year basis, today, in Auto, are you satisfied with that and are you trying to grow the top line as opposed to improve the combined ratio specific to Auto Insurance?

Alain Lessard
Senior Vice President of Commercial Lines

Andre, let me handle the Sandy question. We expect the impact to be fairly minimal on our results. As you know, we have a cat threshold of $7.5 million. It may qualify as a cat, but it wouldn't be much more than that.

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

And do you want to comment on Automobile Insurance?

Charles Brindamour
Chief Executive Officer and Director

And on Automobile Insurance, we're positive about the perspective of that product. There's the -- we're adequately priced in all provinces. We have stability in all provinces. Ontario still has a bit of uncertainty due to the backlog in mediations and a few cases that have passed into the court system that are weakening the cat definition. But overall, we're very positive about Automobile.

Mark A. Tullis
Vice Chairman

I think that's right, the way see 95% 94.9% combined ratio in that line of business for the quarter and 93% year-to-date. There's in the quarter about 6 points of cats in that combined ratio. So I feel pretty good about the performance of Automobile Insurance, and we're certainly in a growth mindset in that line of business in every jurisdiction in Canada at this stage.

Operator

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

Doug Young
TD Securities Equity Research

Ontario Auto as well. Charles, I guess you mentioned you're pretty confident you can lower your mediation backlog faster than the industry. And I'm just curious what you're doing different than the industry to do so?

Charles Brindamour
Chief Executive Officer and Director

Well, if I just comment on the past 9 months, I think that as I've mentioned in my remarks, the industry's backlog is down 5, ours is down 30. And one of the main reasons why our backlog is down to a greater extent is that we've been I think, as far as fiscal is concerned and it's been their comment to us, we've been way more aggressive than our peers in embracing some of the changes that they've brought to the process, such as electronic scheduling of mediations and those sorts of things. So that is definitely an area that has made a big difference for us. And just being very proactive at dealing with the backlog and trying to settle before we end up in mediation. So that's the first historic context. Then prospectively, when I look at the pattern of fiscal scheduling mediations in the coming months, my sense in talking with Cisco is that we'll have a greater proportion of schedule mediation than our peer just by the nature of how we're positioned in terms of average date of these claims.

Doug Young
TD Securities Equity Research

Okay. And then just on Ontario Auto as well, back to, I guess, maybe something Andre was mentioning. Your current year AXA, your current year combined ratio in Auto did, by my calculations, deteriorate 2 points in the quarter. And I'm just wondering is there any -- is there's something abnormal in there or is there anything concerning?

Charles Brindamour
Chief Executive Officer and Director

I think there's a number of things there. And nothing much concerning. I think that there's a few -- a couple of points of prior development less than last year. But that being said, there's 2.5 points of prior year development in Automobile Insurance, roughly a ballpark. So that's prior year development, but still a the sense level of prior year development. There's, in our view, year-on-year in that line of business, noncat weather type effect causing about $9 million worth of worst performance in Automobile Insurance. So nothing that I'm concerned about, Doug, on that front.

Doug Young
TD Securities Equity Research

And there's nothing by province that, that's drastically different like obviously, this is a combined number, but I'm talking Alberta relative to Ontario or whatnot? There's nothing in there that sticks out to you as concerning then?

Charles Brindamour
Chief Executive Officer and Director

Yes. When I look at -- while not concerning, but in terms of explaining the numbers, when I look at the frequency by province, Doug, we see that our frequency in Ontario and Québec in the quarter was down, while our frequency in Alberta was up meaningfully 9%. And this stops to a certain extent probably of the non-cat weather impact. But overall frequency in Alberta is up, and that's not something that over a 3-month period, you would necessarily be concerned about.

Doug Young
TD Securities Equity Research

And then just related to the definition of catastrophic claims, obviously, I think the view was that, that would be settled this fall. I'm going to assume that, that's not necessary the case any longer. But correct me if I'm wrong. I know you mentioned in your comments, can you update us in terms of what your expectations are for that particular issue?

Charles Brindamour
Chief Executive Officer and Director

Yes. I guess, if we talk theory, the changes to the cat definition would not require necessarily legislative action because it can be dealt with through regulation. Okay. So in theory, the notion that the parliament is prorogued is not necessarily, in theory, an impediment to the cat definition being ruled out. In practice, the government is sort of in a state of transition at this stage and so to what extent will that move forward is where I certainly have a level of uncertainty and I'm not sure what your perspective would be here.

Mark A. Tullis
Vice Chairman

No. I think we're in a wait and see mode at the moment. We have no signs that this is not going to happen, hut the timing I think is.

Charles Brindamour
Chief Executive Officer and Director

Yes. But I think we're just being pragmatic when looking at the fact that you have a transition government. It takes some will and courage to a certain extent even through regulation. So we're personally not counting on that at this stage when we think about the Ontario auto market. So that will be very good for Ontarians if that came true.

Doug Young
TD Securities Equity Research

Okay. And just lastly and I'll re-queue. The -- is obviously looking to increase capital requirements and I think that's related to earthquake related risk, but again, correct me if I'm wrong, and I'm just -- and I know you mentioned in your release that you think there could be a slight negative impact -- can you quantify it at all what that impact might be from the changes coming in next year and what changes are you making potentially to mitigate some of that impact?

Charles Brindamour
Chief Executive Officer and Director

Yes. I think a couple of things. The big thing -- so nothing major in the near term. There are some issues with regard to changing the factor for the interest sensitivity. In fact, which will be created over a few years. But again, that's going to be graded in over 2 years. We see sort of a couple of points per quarter, nothing else being the same. I think it's important to point out on all these stuff, we plan for the changes and it's not -- it's hard to say exactly what that change in effect will have because we'll take mitigating factors to offset to some degree.

Charles Brindamour
Chief Executive Officer and Director

Yes. And let me comment on the earthquake change that is being contemplated. There's sort of a draft on the table now that would start to look at what we call PMLs or probable maximum loss on a national basis as opposed to a local basis, which would effectively increase requirements either from a reinsurance point of view or from a capital point of view. And I'd like to make a few points on that. The first point is that, we tend to reinsure to a greater extent than our peers to start with. Second of all, we don't think this proposed change makes sense. And therefore, it is subject of discussions at the moment with us. So I'm not sure where this thing will end, but what I know though is that, when OSFI lands on a framework, it will be implemented over a period of 6 or 10 years. So that's the OSFI story. I would say, though, that regardless of that, I've talked about our earthquake exposure and the fact that we spent way more on reinsurance last year to increase our reinsurance cover. We are proactively working on the West Coast to reduce our exposure through pricing and underwriting actions. Regardless of where OSFI is going. So when you put that in the mix, Doug, I'm not concerned about where the impact that the OSFI change might have on IFC, though I don't think this change make complete sense at this stage and that's why we're working with them to present a different perspective.

Operator

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

Paul David Holden
CIBC World Markets Inc., Research Division

Two questions. The first on Commercial Lines, I mean given the low combined ratios you're getting there. Is there the potential to increase your market share both in Commercial Auto and Commercial P&C or does pricing on new policies sort of prohibit you from doing that?

Charles Brindamour
Chief Executive Officer and Director

So I'll let Alain take this one.

Alain Lessard
Senior Vice President of Commercial Lines

Well first we're -- like Mark mentioned, we had a very good quarter on Commercial Lines, but pretty much everything went in the right direction being either prior development of large losses. Basically, when you look at the past quarter, we've seen that those line are fairly volatile moving from quarter-to-quarter anywhere between 80% to 100% or in Automobile, anywhere 75% to 95%. So overall, our view on the profitability of those line has not changed because of this current quarter. That being said, we're pushing the growth as much as we can, but the market currently is remaining very, very soft. We're able to push some rate increase on renewal, but on new business, the market is being very soft. In Canada, we're not seeing any of the rate increase we're seeing south of the border in the U.S. In Canada. We're seeing either price level being the same or slightly decreasing also on new business. So because of that, we're keeping a very focused and disciplined approach to new business to maintain our profitability margin on those line of business.

Paul David Holden
CIBC World Markets Inc., Research Division

Yes. No, I mean these are great lines of business and Alain talks about the quarterly volatility absolutely. I think when you look at it year-to-date, 9 months into the year, Commercial Auto is running at 81%, Commercial P&C is running at 90%, very healthy performance. The more we can grow on that market, the better. Now our focus at the moment is clearly completing our integration where we've acquired a substantial block of Commercial Lines business, and my view a very good time in the market. Our retention has been pretty good and the upside for us here post integration, is to leverage the new product lines. And so clearly, to expand some of these specialty lines, the fact that we have a broader product than we had before, the transaction across our distribution network is how Alain and the Intact insurance team will grow their market share in a competitive new business environment. I hope you agree with that, Alain.

Paul David Holden
CIBC World Markets Inc., Research Division

One follow-up question, perhaps then is, I mean, given the rate increases we're seeing in the U.S. and the soft market in Canada, I mean, is there any -- are there any specific factors you can point to between those 2 markets that explains the difference and is it reasonable to expect that maybe the U.S. is a leading indicator of what might happen in Canada eventually on the rate front?

Charles Brindamour
Chief Executive Officer and Director

Our understanding of the basic difference between the Canadian market and the U.S. market is that the rate increase in the U.S. is currently being driven much more by workmen's compensation, which is a private line both of the states in the U.S. While here in Canada, it's nationalized, it's government insurance. So that factor, not being present in Canada has an important impact on the different behavior on both markets.

Charles Brindamour
Chief Executive Officer and Director

I think the -- just to put things in perspective with regards to the market, I mean, we're -- so new business in many sectors is really quite competitive. That being said, the retention, you could comment on the retention, Alain as well and this will give people a sense of the fact that there's a way to do very good business in that market.

Alain Lessard
Senior Vice President of Commercial Lines

We're -- basically, the retention we have and that's the good thing that we're experiencing the same retention on the AXA and the intact portfolio and if we look at our retention this year, premium wise compared to last year, the retention is up by slightly a point or a little bit around a point in terms of our retention. And we know that the impact on the retention on our growth is much more important than the new business because it gears directly to the portfolio. And on top of that, retention are risk that we've underwritten over the past that we know and for which we have all the information to make the right underwriting. So focusing on the retention is one way to grow our portfolio right now. And we're quite pleased with what we're seeing. The new business, like I mentioned, and like Charles mentioned, is very much difficult. Okay, it varies sector by sector. Some of the sector were basically doing a little bit better. But overall, there's an appetite in the Canadian market to grow the Commercial Line business and that translates in our competitors being very active in going for new business.

Charles Brindamour
Chief Executive Officer and Director

So no change from where we were before, and we're still trying to get rate increases on renewals. Third year in a row now of low single-digit rate increase, and this shows to a certain extent in the strong performance of that, of these 2 lines of business.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

And final question would be related to distribution income. It seems to become a little bit harder for us to model since the AXA acquisition made we think in the Q2 would have been a better run rate number, but now we've seen it come down substantially quarter-over-quarter maybe you can provide some comments to help us figure out how we should forecast that going forward?

Charles Brindamour
Chief Executive Officer and Director

Sure. This is a small line at which there is -- there tend to be a lot of volatility included in here is income from organizations where we don't fully control some of the timing of how they produce things. It's where we have partial ownership and they produce their own things. So there tends to be a little volatility in how the income is recognized. I would say if you look at the distribution revenues, the $23 million we reported last quarter is more indicative of an ongoing run rate. I think you should view that the $12 million a little bit of timing there as there was timing in Q1 when we reported the $32 million. And I would look at the $23 million in Q2 as more kind of what the current run rate is. Hopefully growing in the future as we continue to grow our distribution relationships.

Operator

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

Tom MacKinnon
BMO Capital Markets Equity Research

Just going back to some of the synergies that we talked, I think you had said that we had $100 million in after-tax synergies from the AXA deal. Can you -- you may have mentioned it in the call, but kind of where are we in terms of how much more incrementally to be realized from that? And then I thought you mentioned on the call, some of the annual synergies you would expect from the JEVCO deal as well.

Charles Brindamour
Chief Executive Officer and Director

Sure. So let me take that one. So, yes, we're -- and these are after-tax numbers. So we're looking for $100 million of after-tax on AXA. We still have that as a view. Our view is, we will be at $50 million at the end of the year. We're at $45 million run rate currently. The reason for the increase from the $45 million to the $50 million is 2 things. One, we will incur some occupancy savings as we move some people primarily in Montréal into the AXA offices at 2020 University. We can get some occupancy savings there. The other thing is on the claims side, we've been internalizing some of the claims expenses. It takes a while to actually realize those savings because the cases actually have to turnover to be handled internally, and we expect to receive some savings from that in Q4 as well. Then the other $50 million of savings will occur throughout next year from a continuation of that sort of thing, but primarily from system savings, once we have converted all of the business onto the Intact system, we can begin to shut down legal entities and actually turn off systems and that's where we get a big synergistic savings.

Charles Brindamour
Chief Executive Officer and Director

Yes. And I think next year also a meaningful upside coming on the loss adjustment expense side as well.

Mark A. Tullis
Vice Chairman

Correct.

Shubha Rahman Khan
National Bank Financial, Inc., Research Division

And the JEVCO?

Mark A. Tullis
Vice Chairman

Yes, we're looking at about $15 million ...

Tom MacKinnon
BMO Capital Markets Equity Research

5,0?

Mark A. Tullis
Vice Chairman

1,5. $15 million of after-tax savings. Again, we expect to achieve that run rate by the end of 2014. And again, it's the same sort of process we have to convert the business over to our systems and shut off the systems is where we get a lot of the savings there.

Charles Brindamour
Chief Executive Officer and Director

Yes. And we'll report on progress on the $15 million next quarter. Because as you know, we close in late Q3, early September.

Tom MacKinnon
BMO Capital Markets Equity Research

And is there anything you can say about supply chain benefits? I know that when you had an increase with respect to when you bought AXA, you had to end up on some more reinsurance. And again, you said that will be probably offset by increase in terms of earnings associated with supply chain benefits, I mean, what's in the pipe for that and how can we -- I suspect as you continue to get bigger, there's got to be some benefits from supply chain that's a -- is there any way can -- how are we supposed to think about that?

Charles Brindamour
Chief Executive Officer and Director

Well, I think that it's pretty clear that the supply chain benefit that come from applying our deals on the new claims on the AXA claims more than offset the additional cost of reinsurance, which was $15 million. And I would say that this was true the end of Q2, this is true at the end of Q3. Additional upside of course comes when you use your full size to negotiate supply-chain arrangement that will take place in the coming years. And my advice to better understand that is to come up at the investors day because we'll spend some time precisely on that topic to give a bit more clarity there, and talk about some of the levers that we intend to pull.

Operator

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

Mario Mendonca
Canaccord Genuity Limited, Research Division

You've released your backlog by 30 amount 30% Ontario and the backlog has been reduced across industry. Has there been any indication on the direction of the mediation or arbitration whether it would be more favorable to the industry or to the claimants?

Charles Brindamour
Chief Executive Officer and Director

The bulk of the backlog reduction that's taken place to date was on pre-reform claims. And therefore, with respect to reforms, per se, I expect that in the early part of 2013, we'll get a better sense from mediation output there.

Mark A. Tullis
Vice Chairman

That's true, the bulk of the mediations are pre-reform and in arbitration. There have been none that are post-reform as of yet.

Mario Mendonca
Canaccord Genuity Limited, Research Division

So in the very few, your message sounds like it's just too early to tell?

Charles Brindamour
Chief Executive Officer and Director

Well, we don't change our view based on what we've seen to date, Mario.

Mario Mendonca
Canaccord Genuity Limited, Research Division

I understand. Second question is, I've never heard you referred to non-cat weather-related losses before. You may have, I just don't recall hearing that. And maybe you can help me understand what do you mean by non-cat weather-related in Personal Auto? I'm not suggesting that -- sorry in Personal Property. I'm not suggesting that everything is weather-related in Personal Property. But wouldn't the vast majority be weather-related?

Charles Brindamour
Chief Executive Officer and Director

Yes. I think we're talking of weather occurrences where the cumulative loss is less than $7.5 million. Right? We define cat whether a natural occurrence exceeds $7.5 million.

Mark A. Tullis
Vice Chairman

So when there's an event that occurs, we set up a cat code in our system and we track it. We don't know until the claims come in, whether the event will actually generate claims over $7.5 million. If it does, we categorize it as cat. If it comes in at $5 million or $4 million or $6 million or whatever, it's not categorized as a cat, but it's still associated with an event.

Mario Mendonca
Canaccord Genuity Limited, Research Division

So, the trigger then is it has to be classified as an event first?

Charles Brindamour
Chief Executive Officer and Director

Yes. And an event would be what, just superheavy rainstorm, is there a hail or?

Charles Brindamour
Chief Executive Officer and Director

Hailstorm, that sort of event.

Mario Mendonca
Canaccord Genuity Limited, Research Division

Okay. And then finally, forgive me if you already answered this question. On integration expenses, that came in a little higher than I would have expected. Can you give us just some outlook for the next couple of quarters and how you expect integration expenses to play out?

Charles Brindamour
Chief Executive Officer and Director

Sure. On the AXA side, we've given guidance that it would come in more or less at the level of 1 year pretax savings. To date, we're approximately $129 million. I think we're looking at sort of coming in at the end of the year sort of in the $160 million range, perhaps a little more in next year, but that's sort of what we're looking at.

Mario Mendonca
Canaccord Genuity Limited, Research Division

And then JEVCO?

Charles Brindamour
Chief Executive Officer and Director

JEVCO, I think you could think in terms of a bit larger envelope than 1x the savings because some of the things we have to do like converting systems are the same -- take the same amount of expense. But we have fewer policies to put them over. So I think you would look at it a bit larger as a percentage of the cost savings there.

Operator

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

Bryan Brown
Macquarie Research

Just a couple of quarters, we've seen some of your competitors aggressively cut their rates in Ontario Auto. And I just wanted to know if you saw this as a concern?

Charles Brindamour
Chief Executive Officer and Director

Alain, do you want to comment on that?

Alain Lessard
Senior Vice President of Commercial Lines

Yes. Well, I think you're probably referring specifically to one player that has reduced rates by high single-digit. That player has done that over a number of quarters and that player in itself was reporting better results than the industry for the past 3, 4 years. So that's not a concern with respect to our competitivity potential in the future, because when we look at the industry as a whole, we think that the industry still has to continue to adjust by 5 to 10 points. So that doesn't create a concern for me at this stage.

Charles Brindamour
Chief Executive Officer and Director

Same here.

Bryan Brown
Macquarie Research

Okay. And just one last question in terms of expenses, the commissions and the general expenses were quite low this quarter and I just wanted to know your view on sustainability of the decrease?

Charles Brindamour
Chief Executive Officer and Director

Yes. That's good question. On the general expense side, I think it's a couple of things. So if you look at our year-to-date general expense ratio, it's in the 10.3 range compared with 11 last year and I would consider the difference between the 10.3 million and the 11 to be sustainable a little more than half of that due to synergies on account of the AXA business coming in. Some of it due to business mix with AXA creating deferred general expense levels. If you look at the quarter, it came in at 9.1 versus our year-to-date of 10.3. I would not consider that sustainable. I think if you look at the last few years, last year, 2, 3 quarters, our expense ratio was at 11. And Q3 came in at 10.4. And if you look at 2010, Q3 came in about 50 basis points lower than the full-year expense ratio. So there seems to be a bit of a pattern where we spend a little bit less maybe in the summer months than we do in the rest of the year. And so I think you saw some of that this year, plus maybe a bit of timing on top of that. On the commission side, again, I would view the quarter-by-quarter variations. There's been no change in the commission arrangements. We tend to have timing of CPC or contingent profit commission. So when we say we have a really good Q1 because of the weather, we tend to see a little bit more accrued when we see a little more weather related events in Q3, maybe a little less accrued there. So I wouldn't view that as a sustainable thing. It's more a bit related to the performance of the business and maybe a bit of timing.

Charles Brindamour
Chief Executive Officer and Director

Yes, I think what's sustainable in the improvement in the expense ratios is the synergies.

Operator

We have no further questions at this time.

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. today until Wednesday, November 14. A transcript will also be made available on our website. Please note that we'll be hosting our annual investor day in Toronto on November 20, and our fourth quarter and year-end results for 2012 will be released on February 6. That concludes our conference call. Thank you, and have a good day.

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